Annual Report 2007

# Developing the Company and
## Delivering on Our Goals

MEDCOENERGI

# Contents



PT Medco Energi Internasional Tbk will hereafter be referred to as "MedcoEnergi" or "the Company" and includes all operation and activities of subsidiaries and business units which conduct business on its behalf. These include: PT Medco E&P Indonesia (which directly or indirectly operates or supervises the operation of oil and gas working areas in Indonesia); Medco Energi Global Pte. Ltd. (which directly or indirectly supervises the operation of international oil and gas working areas); PT Medco Downstream Indonesia (which operates methanol plants, an LPG plants, fuel storage and distribution facilities, and future ethanol plants); PT Medco Power Indonesia (which operates and maintains power plants) and PT Apexindo Pratama Duta Tbk. (which operates drilling services). The words "joint venture" or "partner" are used to indicate business and other relationships involving cooperation with external parties on common activities or interests.

**Cover Story:**
MedcoEnergi is an integrated domestic energy company with international exploration and production. It is committed to developing and expanding its operations for maximum shareholder and stakeholder value. The main drivers behind MedcoEnergi's future development and growth rest upon the completion, within the next 3-5 years, of seven key projects in its current portfolio. The projects involve the successful exploitation of MedcoEnergi's proven strategic reserves and launch of renewable energy projects. The realization of these seven projects will secure MedcoEnergi's long-term growth and sustainability for many years to come.

**Above:** President Director, Mr. Hilmi Panigoro cradles a crystal ball symbolizing MedcoEnergi's commitment to delivery on the seven key development projects in the Company's current portfolio.

This Annual Report has been filed with the Indonesian Capital Market and Financial Institutions Supervisory Board (Bapepam-LK), PT Bursa Efek Indonesia (IDX) and the Lüxembourg Stock Exchange (LuxSE).

This Annual Report was prepared to comply with Article 66 Chapter IV 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 Rule No. I-A of the Bursa Efek Jakarta (Jakarta Stock Exchange - JSX) Regulation, and Article 28 Chapter XII of the LuxSE regulation. The contents of the Annual Report have been prepared in accordance with the requirement of Bapepam's Rule No. X.K.6, meanwhile, the Audited Consolidated Financial Statements have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) that are covered by Indonesian Statements of Financial Accounting Standard (PSAK) and the Bapepam Regulations. The Audited Consolidated Financial Statements, except for the consolidated statements of cash flows, have been prepared on an accrual basis using the historical concept, except for certain accounts, which are measured on the bases as described in the related accounting policies. The consolidated statements of cash flows have been prepared on the accrual basis using the direct method, which classifies cash flows into operating, investing and financing activities. The reporting currency used in the preparation of the consolidated financial statements is the United States Dollar (US Dollar or USD) . MedcoEnergi has made certain adjustments to prior years to conform with the 2007 presentation.

**Forward Looking Statement**

Except for the historical statements, this document may contain 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.

# Developing the Company and Delivering on Our Goals

MedcoEnergi's aim is to continue strengthening its domestic oil and gas exploration and production activities, diversifying its operations to develop a fully integrated domestic energy company with international exploration and production.

The main drivers behind MedcoEnergi's future development and growth rest upon the completion, within the next 3-5 years, of seven key development projects in its current portfolio. The seven key development projects include three gas monetization projects, one in Block A in Aceh Province, one in Lematang in South Sumatra and one in the Senoro-Toili blocks in Central Sulawesi, an Enhanced Oil Recovery (EOR) project in the Rimau block in South Sumatra, the development of oil and associated gas in Block 47 in Libya, the construction of the Sarulla geothermal project in North Sumatra and the operation of an ethanol plant in Lampung.

The execution and completion of these seven projects are not without challenges. Each project is unique with specific issues including the finalization of certain agreements, contract extensions, permits or financing, as well as technical challenges that impact delivery. MedcoEnergi is nevertheless pleased to devote coverage of these projects in this Annual Report, highlighting the status of each project and how the Company intends to develop the seven key development projects and realize value in the shortest time possible.

MedcoEnergi is committed to delivering on its goals to shareholders. The completion of these seven key development projects will not only benefit the Company's shareholders, but other stakeholders including local communities in which operations are conducted. The collateral benefits of these projects will be substantial for job creation, community development and economic growth. MedcoEnergi believes the realization of these seven key development projects will strengthen its position to deliver sustainable long-term value to its stakeholders.


## To Become the Energy Company of Choice

MedcoEnergi's Vision, Mission and Corporate Values

It is our **VISION** that MedcoEnergi becomes **The Energy Company of Choice** for our investors, our shareholders, our partners, our employees as well as for the public and the communities. This vision can only be attained if our **MISSION, to develop profitable investment portfolios from energy resources,** is carried out properly and responsibly.

MedcoEnergi's challenge is to realize this mission while at the same time ensuring that each project is executed on time, with the highest standards of good corporate governance and safety. Additionally, the Company is dedicated to environmental protection and preservation as well as the implementation of effective and sustainable programs for corporate social responsibility.

We will meet these challenges through a continuous commitment to a clearly defined set of **Corporate VALUES - Professional, Ethical, Open, and Innovative** - into the culture of MedcoEnergi. This is how MedcoEnergi maintains its sustainability.

# Long Term Strategy

MedcoEnergi's Strategy is to become the leading Indonesian energy company through the implementation of **seven broad-based strategic objectives,** which primarily **focus on oil and gas exploration and production activities.**

These seven broad-based strategic objectives are:

1. Replace and add reserves through exploration and acquisitions.
2. Increase production volumes through the development of reserves and create new markets for uncommitted natural gas.
3. Develop other energy resources and their related businesses to meet the world's growing demand for energy.
4. Maintain financial flexibility through prudent financial structures and cost control.
5. Build strategic alliances.
6. Foster prosperity with local communities and preserve the natural environment.
7. Continue practicing the highest standards of good corporate governance principles.

MEDCOENERGI

# Who is MedcoEnergi?

MedcoEnergi is an integrated energy company engaged in oil and gas exploration and production (E&P), downstream oil and gas activities, power generation and drilling services. Currently, MedcoEnergi employs approximately 3,000 people. It operates in areas around the world from Southeast Asia to the Middle East to North Africa and the United States of America. The Company began with drilling services in 1980 as Indonesia's first private sector drilling contractor. The Company's upstream activities began with the acquisition of Tesoro's exploration and production contracts in East Kalimantan (TAC and PSC) in 1992, and acquisition of PT Stanvac Indonesia from Exxon and Mobil Oil in 1995. A successful IPO in 1994 enabled MedcoEnergi to expand its activities.

In 1997, MedcoEnergi diversified into chemicals which utilized gas reserves from the Tarakan Block to produce methanol at a facility located in East Kalimantan.

In 2004, in an effort to add to the Company's proven oil and gas reserves, MedcoEnergi acquired 100% shares of Novus Petroleum Ltd, a publicly listed Australian oil-and-gas company with working interests in Australia, the United States of America (USA), the Middle East and Southeast Asia, including Indonesia. This enabled MedcoEnergi to expand its E&P activities internationally. In that same year, MedcoEnergi commenced the operations of an LPG plant. Simultaneously, MedcoEnergi began to enter the power generation business with the construction of a gas-fired power plant, Panaran I in Batam. It subsequently added other power investments and a large geothermal asset.

In 2006 and 2007, in an effort to expand the Company's downstream and chemical businesses, MedcoEnergi began constructing an ethanol plant in Lampung and acquired a fuel storage and distribution facility in North Jakarta.

Today, MedcoEnergi is a developing integrated domestic energy company with international E&P. It has working interests in 18 blocks in Indonesia and 16 blocks in the USA, Yemen, Cambodia, Libya and Tunisia as well as an E&P service contract in Oman. MedcoEnergi also owns and/or operates eight onshore and six offshore drilling rigs, a methanol plant, an LPG plant, a fuel storage and distribution facility; three power plants and an operation and maintenance service business for a state-owned coal-fired power plant.

As an integrated energy company, MedcoEnergi intends to secure the Company's long term growth and sustainability by further developing its diversified energy business portfolios, consistently and continuously enhancing value to stakeholders by ensuring that the Company undertakes business in a responsible and sustainable manner, adhering to global best practices in achieving triple bottom line results for financial, social and environmental progress.

## MedcoEnergi Business Units

### Oil and Gas E&P

MedcoEnergi holds working interests in various exploration and production blocks throughout Indonesia and overseas, producing more than 26.9 MMBOE oil and gas annually. The Company's operations in Indonesia span from Aceh province on the northwest tip of the archipelago to Papua on the eastern frontier. Internationally, MedcoEnergi continues to expand its operations, undertaking activities in the USA, Libya, Oman, Cambodia, Yemen and Tunisia.

### Downstream

MedcoEnergi currently operates three downstream facilities. It operates a Pertamina-owned methanol plant on Bunyu Island, East Kalimantan; it owns and operates an LPG plant at Musi Banyuasin, South Sumatra; and its owns and operates a fuel storage and distribution facility in North Jakarta. The latter project was initiated in 2007 in response to deregulation of the Indonesian refined fuel market. To cope with future energy challenges MedcoEnergi's downstream interests currently include the construction of an ethanol plant, in Lampung. The latter facility is expected to commence commercial operations by second semester 2008. It will be a key component of MedcoEnergi's renewable energy strategy.

### Power

MedcoEnergi established its subsidiary, PT Medco Power Indonesia in 2004. The unit currently operates three power plants in Batam Island (Panaran I, Panaran II and TM2500). It has a contract for the Operations and Maintenance (O&M) services of the state-owned power company's coal-fired power plant in Tanjung Jati, Central Java. Further developments include the construction and O&M of the Sarulla geothermal power plant in North Sumatra, gas to power projects, Independent Power Producers (IPP) projects, power project management and renewable resources projects.

### Drilling Services

MedcoEnergi manages its drilling services operations through its subsidiary, PT Apexindo Pratama Duta Tbk (Apexindo) bringing high standards of expertise and quality services to the oil and gas industry. Apexindo has rapidly evolved into a leading drilling contractor in Indonesia and Southeast Asia. Today, Apexindo owns and operates six offshore rigs (four swamp barge rigs and two jack-up rigs) and eight onshore rigs serving major oil companies throughout Indonesia.

# List of Assets

as of December 31, 2007

### Oil and Gas E&P

| | |
|---|---|
| Exploration blocks | 14 |
| Development blocks | 2 |
| Production blocks | 18 |
| Economic Interest | 1 |
| E&P Service Contract | 1 |

### Downstream

| | |
|---|---|
| Methanol Plant | 1 |
| LPG Plant | 1 |
| Fuel Storage and Distribution Facility | 1 |
| Ethanol Plant* | 1 |

* will be completed in second semester 2008

### Power

| | |
|---|---|
| Gas-fired Power Plant | 2 |
| Back up Power Plant | 1 |
| O&M Steam-fired Power Plant | 1 |

### Drilling Services

| | |
|---|---|
| Onshore Rigs | 8 |
| Offshore Rigs: | |
| Jack-up | 2 |
| Submersible Swampbarge | 4 |

# Operation Areas by Country

as of December 31, 2007

### Indonesia

| | |
|---|---|
| Exploration blocks | 6 |
| Development blocks | 1 |
| Production blocks | 11 |
| Economic Interest | 1 |
| Methanol Plant | 1 |
| LPG Plant | 1 |
| Fuel Storage and Distribution Facility | 1 |
| Ethanol Plant | 1 |
| Gas-fired Power Plant | 2 |
| Back up Power Plant | 1 |
| O&M Steam-fired Power Plant | 1 |
| Onshore Rigs | 8 |
| Offshore Rigs | 6 |

### US Gulf of Mexico

| | |
|---|---|
| Exploration blocks | 3 |
| Production blocks | 7 |

### Libya

| | |
|---|---|
| Exploration block | 1 |

### Yemen

| | |
|---|---|
| Exploration blocks | 2 |

### Oman

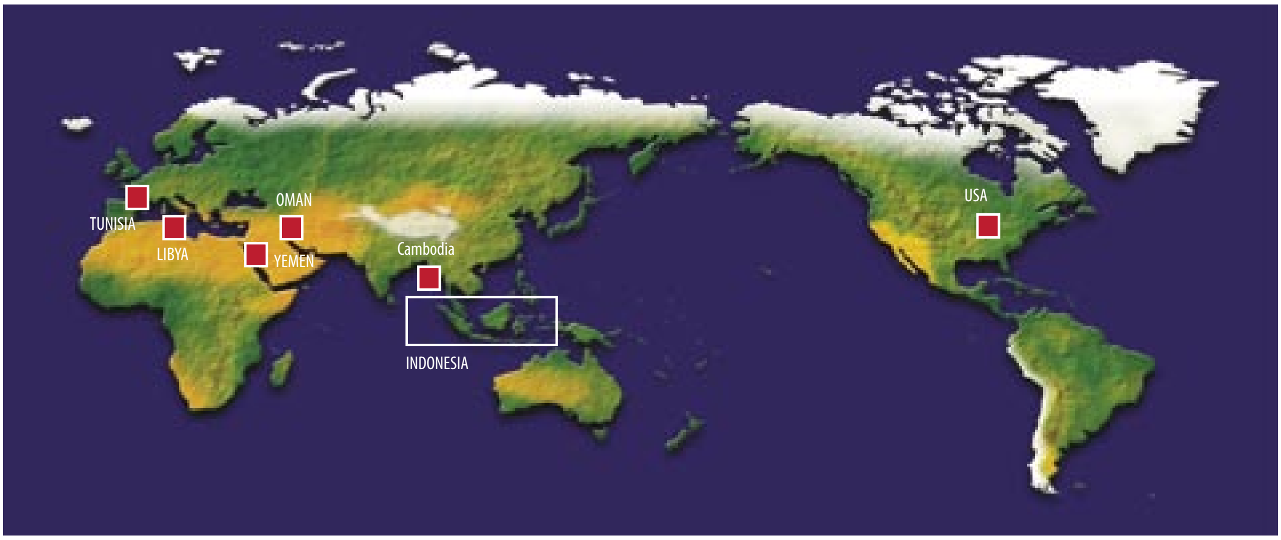
| | |
|---|---|
| E&P Service Contract | 1 |

### Tunisia

| | |
|---|---|
| Development block | 1 |

### Cambodia

| | |
|---|---|
| Exploration blocks | 2 |




as of December 31, 2007

# 2007 World Oil Highlights

In January 2007, the benchmark West Texas Intermediate oil price was quoted at USD 58.1 per barrel. It surged throughout the year almost doubling to USD 96.0 per barrel by December 2007. The average global oil price for 2007 was USD 74.9 per barrel. This represented an increase of 13% from USD 66.4 per barrel in 2006.

In the first week of November 2007, oil prices hit a record high of USD 98.6 per barrel, confirming the forecast of several analysts that oil prices would easily breach USD 100.0 per barrel.

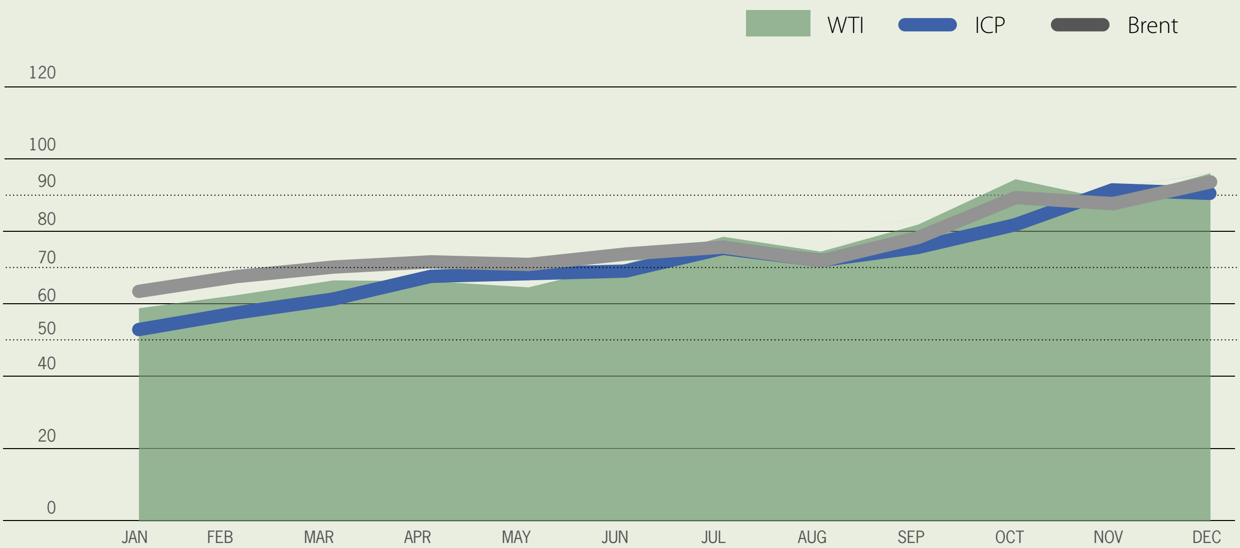
Increasing global oil prices are primarily due to escalating demand as a result of growing population and increased industrialization, particularly in the emerging economies, most noticeably in China and India. The problem is exacerbated by these nations' considerable fuel subsidizes.

This has led to conspicuous consumption with few incentives to conserve fuel. Concurrently global oil prices have climbed due to disruption of oil supplies. Political instability in major oil-producing regions including war in the Middle East and the nationalization of several oil and gas assets in South America, natural disasters and other extemporaneous events have reduced oil production and supply. According to current estimates, the world consumes 83 million barrels per day today compared to 71 million barrels a decade ago.

Petroleum prices will likely continue to escalate for the foreseeable future, before a gradual increase in global supply, and real efforts to reduce consumption lower the equilibrium price to a level which is more manageable.

**Oil Price 2007**

USD / Barrel



# Five Years Performance Highlights

## Financial Highlights

| | 2003[1] | 2004[2] | 2005[3] | 2006[5] | 2007 |
|---|---|---|---|---|---|
| **End of Year Exchange Rate** | | | | | |
| USD 1.00 - Balance Sheet | 8,465 | 9,290 | 9,830 | 9,020 | 9,419 |
| USD 1.00 - Income Statement | 8,611 | 8,917 | 9,705 | 9,166 | 9,137 |
| **(In Million USD )** | | | | | |
| **Balance Sheet** | | | | | |
| Cash and Cash Equivalents | 134.4 | 215.3 | 152.1 | 188.3 | 266.4 |
| Current Assets | 381.3 | 632.1 | 518.3 | 566.8 | 743.2 |
| Property & Equipment - Net | 252.3 | 272.0 | 321.7 | 469.5 | 506.6 |
| Oil & Gas Assets - Net | 312.3 | 480.6 | 534.5 | 577.7 | 686.0 |
| Other Assets | 62.5 | 87.5 | 160.8 | 227.5 | 211.7 |
| **Total Assets** | **1,008.4** | **1,472.2** | **1,535.2** | **1,841.6** | **2,147.5** |
| Current Liabilities | 126.7 | 297.1 | 236.7 | 250.9 | 377.6 |
| Non-Current Liabilities | 398.9 | 637.3 | 669.2 | 932.2 | 1,117.9 |
| Total Debts | 333.1 | 699.3 | 515.6 | 834.3[7] | 940.0 |
| **Total Liabilities** | **525.6** | **934.4** | **905.9** | **1,183.0** | **1,495.5** |
| Minority Interest | 30.9 | 35.9 | 95.2 | 121.8 | 126.5 |
| Retained Earnings | 196.9 | 252.9 | 294.9 | 298.2 | 287.0 |
| **Equity - Net** | **444.9** | **500.1** | **533.2** | **535.9** | **524.7** |
| **Income** | | | | | |
| **Sales and Other Operating Revenues** | **477.9** | **550.1** | **620.2** | **792.4** | **981.9** |
| Gross Profit | 212.3 | 253.5 | 329.4 | 287.5 | 368.3 |
| Income from Operations | 149.2 | 179.3 | 239.3 | 180.0 | 235.0 |
| **EBITDA** | **223.1** | **254.8** | **322.9** | **304.1** | **435.4** |
| Adjusted EBITDA[6] | 223.1 | 280.3 | 340.1 | 363.7[8] | 470.9[9] |
| Interest Expense | 22.4 | 37.7 | 53.0 | 46.5 | 71.4 |
| **Net Income** | **79.0** | **73.9** | **74.7** | **38.2** | **6.5** |
| Earnings Per Share [4] | 0.025 | 0.024 | 0.024 | 0.012 | 0.002 |
| **Cash Flow** | | | | | |
| **Net Cash Provided from Operating Activities** | **108.4** | **136.3** | **182.0** | **233.2** | **425.9** |
| **Capital** | | | | | |
| Capital Expenditures | 149.3 | 246.7 | 226.6 | 388.9 | 384.8 |
| Average Capital Employed | 647.6 | 993.1 | 1,138.4 | 1,223.3 | 1,680.3 |
| **(in %)** | | | | | |
| **Key Financial Indicators** | | | | | |
| Return on Assets | 7.8% | 5.0% | 4.9% | 2.1% | 0.3% |
| Return on Equity | 17.8% | 14.8% | 14.0% | 7.1% | 1.2% |
| Return on Average Capital Employed | 21.5% | 17.9% | 20.7% | 17.8% | 6.7% |
| Cash Ratio | 106.1% | 72.5% | 64.3% | 75.1% | 70.5% |
| Quick Ratio | 199.8% | 123.4% | 161.9% | 187.9% | 168.0% |
| Current Ratio | 300.9% | 212.8% | 218.9% | 226.0% | 196.8% |
| Current Liabilities to Total Assets Ratio | 12.6% | 20.2% | 15.4% | 13.6% | 17.6% |
| Long-term Liabilities to Total Assets Ratio | 39.6% | 43.3% | 43.6% | 50.6% | 52.1% |
| Total Liabilities to Stockholders' Equity Ratio | 118.1% | 186.9% | 169.9% | 220.8% | 285.0% |
| Debt to Equity Ratio | 74.9% | 134.8% | 96.7% | 155.7% | 179.1% |
| Net Debt to Equity Ratio | 44.7% | 96.8% | 54.3% | 102.6% | 109.9% |
| Debt to Capital Ratio | 42.8% | 58.3% | 49.2% | 60.9% | 64.2% |

(1) The numbers in 2003 have been restated due to the adjustment and reclassification of certain accounts
(2) The numbers in 2004 have been restated and reclassified due to the adoption of PSAK No. 24 and 38
(3) Several accounts in 2005 have been reclssified to conform with the presentation of accounts in 2006
(4) The computation of basic earnings per share is based on the weighted average number of shares on the respected years
(5) There have been reclassification on the figure of cash generated from operation and financing activities for 2006 to align with the presentation in 2007
(6) Adjusted EBITDA was including depreciation, depleciation and amortization from share of Joint Venture
(7) In the calculation of total debts for year 2006 was including payable under construction for Jack-up rig
(8) Adjusted EBITDA for year 2006 was also including provision for declining of value from Brantas Block
(9) Adjusted EBITDA for 2007 included provision for impairment of US assets

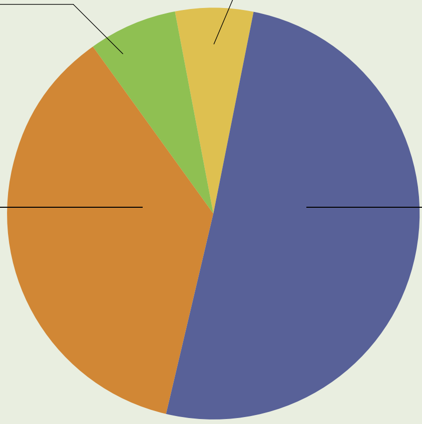
# Operational Highlights

| | | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| **OIL & GAS EXPLORATION & PRODUCTION** | | | | | | |
| **Proved Reserves**[1] | | | | | | |
| Proved Oil Reserves | (MMBO) | 113.9 | 94.3 | 117.0 | 104.7 | **99.1**[6] |
| Proved Gas Reserves | (BCF) | 271.0 | 382.3 | 327.6 | 253.2 | **285.7**[6] |
| **Lifting and Sales**[2] | | | | | | |
| Oil Lifting | (BOPD) | 66,820 | 57,538 | 53,345 | 56,367 | **50,411** |
| Gas Sales | (BBTUPD) | 87.87 | 192.38 | 132.23 | 127.15 | **117.5** |
| LPG Sales | (MTD) | - | 55.41 | 96.81 | 100.13 | **73.7** |
| **Average Realized Price** | | | | | | |
| Oil | (USD /BBL) | 29.33 | 36.93 | 53.68 | 63.98 | **72.5** |
| Gas | (USD /MMBTU) | 1.61 | 2.26 | 2.45 | 2.78 | **3.2** |
| LPG | (USD /MT) | - | 360 | 329 | 317 | **440.1** |
| **OIL & GAS DRILLING SERVICES** | | | | | | |
| **Utilization Rate**[3] | | | | | | |
| Onshore Rigs | (%) | 57 | 53 | 51 | 68 | **70** |
| Offshore Rigs - Swambarges | (%) | 78 | 100 | 100 | 100 | **100** |
| Offshore Rigs - Jack Up | (%) | - | - | 100 | 100 | **50**[4] |
| **Average Daily Revenue** | | | | | | |
| Onshore Rigs | (USD ) | 7,944 | 8,133 | 8,689 | 19,791 | **22,530** |
| Offshore Rigs - Swampbarges | (USD ) | 34,904 | 44,774 | 47,054 | 49,677 | **53,019** |
| Offshore Rigs - Jack Up | (USD ) | - | - | 52,994 | 71,221 | **76,211** |
| **DOWNSTREAM** | | | | | | |
| **Methanol** | | | | | | |
| Production - Metric Ton | (MT) | 265,451 | 236,574 | 198,689 | 137,061 | **114,176** |
| Sales - Metric Ton | (MT) | 261,829 | 240,650 | 199,738 | 137,046 | **117,033** |
| Average Price (FOB Bunyu) | (USD /MT) | 212.00 | 230.00 | 225.00 | 238.00 | **294** |
| **LPG** | | | | | | |
| Gas Processed | (MMCF) | - | 3,517 | 4,832 | 5,301 | **4,205** |
| LPG Production[5] | (Ton) | - | 27,269 | 36,054 | 36,510 | **26,803** |
| Condensate Production[5] | (Barrel) | - | 73,342 | 107,210 | 138,737 | **96,536** |
| Lean Gas Production[5] | (MMCF) | - | 3,796 | 2,499 | 2,710 | **2,979** |
| Processing Fee | (USD ) | | 5,735,000 | 9,510,555 | 9,199,506 | **7,240,000** |
| **Fuel Storage and Distribution**[7] | | | | | | |
| High Speed Diesel (HSD) Sales | (KL) | - | - | - | - | **47,120** |
| **POWER GENERATION** | | | | | | |
| Power Supply | (GWH) | - | 78.0 | 421.1 | 701.1 | **918.0** |

[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. The Numbers for each year (2003 - 2005) have been adjusted with the numbers stated on the Offering Circular issued on May 9, 2006 for the purpose of Convertible Bonds issuance.
[2] Gross lifting and sales represent the sum of the oil lifting and gas sales from each of the Company's block multiply with the Company's effective interest in such block.
[3] Based on 365 days.
[4] A new jack-up rig was delivered at the end of second quarter, the other jack-up rig was refurbished first quarter 2007. Both rigs have started on new contracts starting second half of 2007.
[5] All LPG, Condensate and Lean Gas production are delivered to and sold by the Indonesian E&P business unit.
[6] Adjusted reserves due to GCA Certification as of January 1, 2007.
[7] Operated in June 2007.

# Ownership Structure

as of December 31, 2007




## Public Shareholders List Below 5% Ownership

| Name of Shareholders | Number of Shareholders | Number of Shares | Percentage |
|---|---|---|---|
| Foreign Institutions | 186 | 679,604,071 | 20.39 |
| Local Institutions | 204 | 201,417,243 | 6.04 |
| Foreign Individuals | 54 | 1,165,500 | 0.03 |
| Local Individuals | 4.984 | 141,242,414 | 4.24 |
| Pension Funds | 96 | 31.251.500 | 0.94 |
| Mutual Funds | 82 | 82,163,000 | 2.47 |
| Foundations | 11 | 9,836,000 | 0.30 |
| Employees | 36 | 371,500 | 0.01 |
| Insurances | 35 | 69,592,716 | 2.09 |
| Cooperative | 1 | 5,000 | 0.0002 |

Commissioners and Directors who own MedcoEnergi shares from Public

| Name of Shareholders | Number of Share | Percentage |
|---|---|---|
| Sudono N. Suryohudoyo (Commissioner) | 8,500 | 0.0003% |
| Rashid I. Mangunkusumo (Director) | 155,000 | 0.0047% |

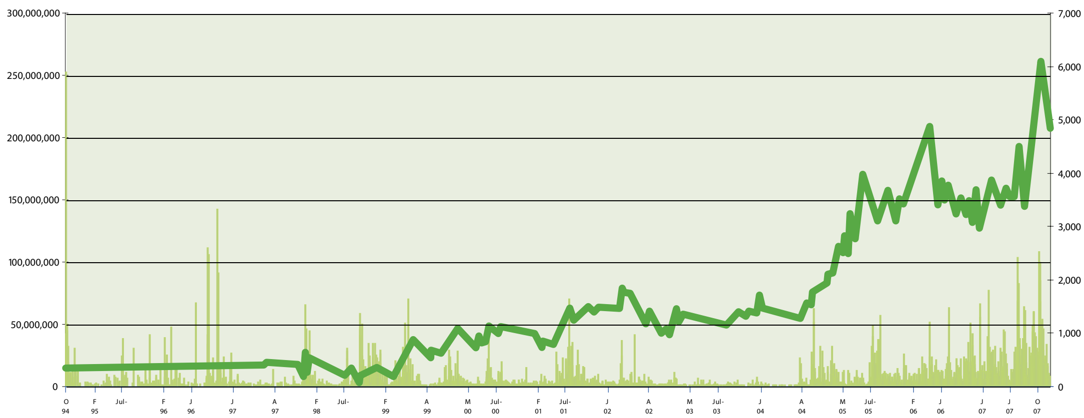
# Dividend Payment and Total Return to Shareholders

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Net income (USD ) | 78,998,971(1) | 73,850,132 | 74,697,259 | 38,170,368 | 6,544,508 |
| Net income per share (USD ) | 0.0254 | 0.0238 | 0.0240 | 0.0123 | 0.0021 |
| Dividends per share (USD )(2) | 0.0127 | 0.0064 | 0.0105 | 0.0112 | 0.0057 |
| Dividends per share growth (percent) | 9.9% | -49.7% | 64.1% | 6.7% | -49.1% |
| Number of outstanding shares | | | | | |
| Outstanding shares | 3,332,451,450 | 3,332,451,450 | 3,332,451,450 | 3,332,451,450 | 3,332,451,450 |
| Treasury Stocks | 228,198,500 | 226,597,000 | 223,597,000 | 223,597,000 | 223,597,000 |
| Free Float | 3,104,252,950 | 3,105,854,450 | 3,108,854,450 | 3,108,854,450 | 3,108,854,450 |
| Cash dividends paid | | | | | |
| Total payment (USD ) | 39,544,992(3) | 19,877,468 | 32,642,972 | 34,842,655 | 17,804,628 |
| To previous year net income (percent) | 54.7% | 25.2% | 44.2% | 46.6% | 46.6% |
| Total return to shareholders (percent)(4) | 14.0% | 44.1% | 58.4% | 17.9% | 40.4% |

(1) The net income for 2003 have been restated from previously USD 53,437,108 respectively
(2) Dividends Policy: Distribute 50% of net Income from previous year
(3) The dividends in 2003 were calculated and paid in IDR
(4) 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

# Shares Information

## MedcoEnergi Stock Performance from 1994 - 2007




### 2007 Share Performance

The world oil price in 2007 experienced a steep increase of 73.9% as reflected in the Indonesian Crude Price (ICP) of USD 53.6 dollars per barrel at the beginning of the year to USD 93.3 dollars per barrel by the end of the year. Accordingly, MedcoEnergi's share price generally tracked the increase in oil prices.

2007 also witnessed some setback in the Company's share price with the lingering effects of the Banjar Panji mudflow and delays in the Company's E&P projects. Additionally the fallout of the subprime crisis that hit the US housing market and affected world financial conditions, in turn impacted the Company's assets optimization plans for its international exploration and production assets and the disposal of its shareholding in PT Apexindo Duta Pratama Tbk.

MedcoEnergi's share price grew by 43.1% from IDR 3,600 at the beginning of the year to IDR 5,150 at the end of the year. Although the increase of MedcoEnergi's share price was quite strong, it was slightly below the growth of the Indonesian Composite Index which grew by 49.5% for the year. Nevertheless, MedcoEnergi had quite an active trading year with volume reaching 4.41 billion shares or a total value of USD 1.92 billion.

### Historical Listing

| Stock Exchange | Indonesia Stock Exchange (IDX) | | | | | Luxembourg Stock Exchange (LuxSE) | |
|---|---|---|---|---|---|---|---|
| Corporate Action | IPO | Bonus Shares | Stock Split | Right Issue | Stock Split | (GDRs) 144A[1)] | (GDRs) Reg S[1)] |
| Ratio | - | 10:7 | 1:2 | 10:11 | 1:5 | 50:1[2)] | 50:1[2)] |
| Number of Shares Outstanding | 101,400,000 | 172,380,000 | 344,760,000 | 666,490,290 | 3,332,451,450 | 39,100 | 249,000 |
| Par Value | 1,000 | 1,000 | 500 | 500 | 100 | - | - |
| Date | October 12, 1994 | July 18, 1996 | August 18, 1998 | December 2, 1999 | June 2, 2000 | August 3, 2005 | August 3, 2005 |

[1)] The shares listed in IDX are the underlying securities from the issuance of GDRs
[2)] 50 shares listed at the IDX was exchanged to 1 certificate of GDR listed at the LuxSE

### Market quotations for common stock (IDR)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| 1st Quarter | | | | | |
| High | 1,425 | 1,750 | 2,825 | 4,200 | 3,975 |
| Low | 1,150 | 1,304 | 2,075 | 3,400 | 2,925 |
| Closing | 1,325 | 1,450 | 2,450 | 4,150 | 3,575 |
| Trading Volume | 24,855,500 | 49,754,000 | 306,547,000 | 347,326,500 | 812,098,004 |
| 2nd Quarter | | | | | |
| High | 1,425 | 1,525 | 4,000 | 4,850 | 3,800 |
| Low | 1,125 | 1,300 | 2,525 | 3,400 | 3,400 |
| Closing | 1,200 | 1,350 | 3,775 | 3,725 | 3,525 |
| Trading Volume | 66,433,000 | 16,161,000 | 187,855,000 | 661,803,500 | 681,379,500 |
| 3rd Quarter | | | | | |
| High | 1,325 | 1,675 | 3,850 | 3,900 | 4,625 |
| Low | 1,125 | 1,250 | 3,025 | 3,200 | 3,225 |
| Closing | 1,275 | 1,525 | 3,625 | 3,475 | 4,150 |
| Trading Volume | 38,866,500 | 84,238,500 | 810,428,000 | 647,344,000 | 1,288,976,000 |
| 4th Quarter | | | | | |
| High | 1,475 | 2,175 | 3,700 | 3,675 | 6,400 |
| Low | 1,275 | 1,525 | 3,100 | 3,075 | 4,100 |
| Closing | 1,350 | 2,075 | 3,375 | 3,550 | 5,150 |
| Trading Volume | 38,005,500 | 316,872,500 | 250,276,000 | 749,709,000 | 1,636,745,500 |
| Exchange rate (1USD ) | 8,465 | 9,290 | 9,830 | 9,020 | 9,419 |
| Year end closing price (USD ) | 0.1595 | 0.2234 | 0.3433 | 0.3936 | 0.5468 |

# MedcoEnergi Group Bond Information

The USD 100 million Notes due in 2007 were issued by MEI Euro Finance Limited (MEFL) on March 19, 2002 and provide a coupon rate of 10.00% per annum payable semi-annually in arrears on March 19 and September 19 each year. On May 2003, USD 72.5 million of these Notes were exchanged for 144A bonds. The resultant conversion value of these bonds was a face value of USD 75.4 million. The remaining USD 27.5 million Notes were paid on March 19, 2007. The last interest payment on the Notes USD 1.375 million was paid on the same date. These Notes only had one interest payment in 2007.

MEFL also issued seven year USD 250 million 144A bonds on behalf of MedcoEnergi on May 22, 2003. The coupon rate of 8.75% per annum was payable semi-annually in arrears on May 22 and November 22 each year. The total amount of 144A bonds including the amount exchanged equals to USD 325.4 million. These 144A bonds will mature on May 22, 2010 but may be redeemed on May 22, 2008 in whole or in part.

The Company has IDR 1.35 trillion bonds due on July 12, 2009. These were issued by PT MedcoEnergi Internasional Tbk on October 12, 2004 and bear interest at a rate of 13.125% per annum payable quarterly in arrears on January 12, April 12, July 12, and October 12 each year.

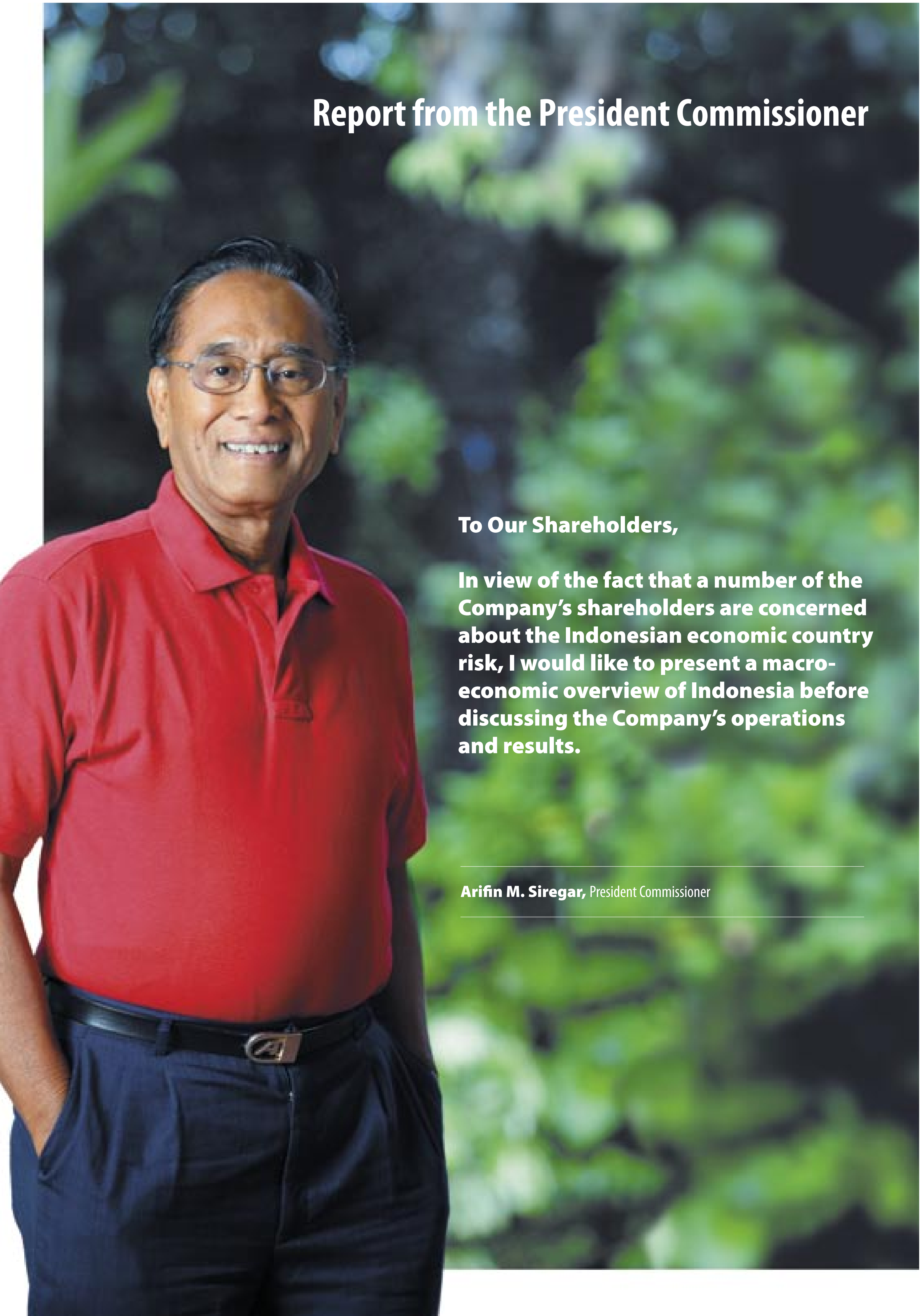
Apexindo issued IDR 750 billion bonds on April 8, 2005, due on April 8, 2010 at a rate of 12.25% per annum payable quarterly in arrears on January 8, April 8, July 8 and October 8 each year.

Medco CB Finance BV issued USD 176.9 million zero coupon guaranteed convertible bonds on May 9, 2006. Bondholders have the option to redeem all or some of their Bonds on May 12, 2009 at 123.82% of their principal amount. Unless previously redeemed, converted, transferred or otherwise cancelled, the issuer will redeem each Bond at 142.77% of its principal amount on May 12, 2011. The convertible bonds provide holders with the option to exchange bonds for shares of the Company at an initial conversion price of IDR 6,923.75 per share at the final maturity date.

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **USD 100 Million Eurobonds (MEI Euro Finance)(1)** | | | | | |
| Face Value | 27,500,000 (6) | 27,500,000 | 27,500,000 | 27,500,000 | 27,500,000 |
| Treasury Bond | (1,000,000) | (1,000,000) | (1,000,000) | (1,000,000) | (1,000,000) |
| Total Outstanding | 26,500,000 | 26,500,000 | 26,500,000 | 26,500,000 | 26,500,000 |
| Annual Interest Expense(7) | 5,609,722 | 2,750,000 | 2,750,000 | 2,750,000 | 1,325,000 |
| **144A Bonds (MEI Euro Finance)(2)(6)** | | | | | |
| Face Value | 325,411,000 | 325,411,000 | 325,411,000 | 325,411,000 | 325,411,000 |
| Treasury Bond | (69,863,000) | (69,863,000) | (69,863,000) | (74,863,000) | (87,863,000) |
| Total Outstanding | 255,548,000 | 255,548,000 | 255,548,000 | 250,548,000 | 237,548,000 |
| Annual Interest Expense | 17,242,283 | 28,473,463 | 28,473,463 | 28,473,463 | 28,473,463 |
| **IDR 1.35 Trillion (PT MedcoEnergi Internasional Tbk)(3)** | | | | | |
| Face Value | | 1,350,000,000,000 | 1,350,000,000,000 | 1,350,000,000,000 | 1,350,000,000,000 |
| Treasury Bond | | - | (165,000,000,000) | (168,000,000,000) | (168,000,000,000) |
| Total Outstanding | | 1,350,000,000,000 | 1,185,000,000,000 | 1,182,000,000,000 | 1,182,000,000,000 |
| Annual Interest Expense | | 82,687,500,000 | 177,187,500,000 | 177,187,500,000 | 177,187,500,000 |
| **IDR BONDS (PT Apexindo Pratama Duta Tbk)(4)** | | | | | |
| Face Value | | | 750,000,000,000 | 750,000,000,000 | 750,000,000,000 |
| Treasury Bond | | | (20,000,000,000) | (30,000,000,000) | (24,000,000,000) |
| Total Outstanding | | | 730,000,000,000 | 720,000,000,000 | 726,000,000,000 |
| Annual Interest Expense | | | 66,864,583,333 | 91,875,000,000 | 91,875,000,000 |
| **CONVERTIBLE BONDS (Medco CB Finance BV)(5)** | | | | | |
| Face Value | | | | 176,900,000 | 176,900,000 |
| Accrued Interest | | | | 8,221,000 | 21,326,352 |
| Total Outstanding | | | | 185,121,000 | 198,226,352 |
| **RATINGS** | | | | | |
| S&P | B+ | B+ | B+ | B+ | B+/negative outlook |
| Moody's | B3 | B2 | B2 | B2 | |
| Pefindo (MEI) | | AA- | AA- | AA- | |
| Pefindo (APEX) | | | A- | A- | |

(1) Coupon paid on March 19 and September 19.
(2) Coupon paid on May 22 and November 22.
(3) Coupon paid on January 12, April 12, July 12 and October 12.
(4) Coupon paid on January 8, April 8, July 8 and October 8.
(5) The redemption rate of 123,82% of the principal amount paid for redemption on May 11, 2009, or 142.77% for redemption on May 12, 2011.
(6) USD 75.411.000 Eurobond was converted to 144A bond through the Conversion Offer Program in May 2003.
(7) The annual interest expense calculation is based in total outstanding bonds.

# Report from the President Commissioner



**To Our Shareholders,**

**In view of the fact that a number of the Company's shareholders are concerned about the Indonesian economic country risk, I would like to present a macro-economic overview of Indonesia before discussing the Company's operations and results.**

**Arifin M. Siregar,** President Commissioner

## Economic Overview

The Indonesian economic fundamentals, which started improving in the last quarter of 2006, continued showing significant progress in 2007. During 2007 economic activities were conducted under comparatively stable monetary conditions. The 2007 Consumer Price Index (CPI) went up by the same percentage, i.e. 6.6%, as in 2006 following a sharp increase of 17.1% in 2005. A substantial portion of the consumer price increase was experienced only during the last few months of 2007.

Gross Domestic Product (GDP) grew in real terms by 6.3% compared with 5.48% in 2006. It is interesting to point out that since the 1997 financial crisis, 2007 was the first year in which GDP showed growth in excess of 6%. Total exports of USD 118.9 billion increased by 15% compared with 2006 and was the main factor leading to a balance of payment surplus of 3.1% of GDP. Official foreign exchange reserves continued to grow and were as high as USD 56.9 billion at the end of the year. The rupiah exchange rate showed a comparatively narrow range of fluctuations which facilitated the business community in preparing plans of action. The Bank Indonesia interest rate, which reached a peak of 12.75% in October 2005 was continuously lowered and stood at 8% at the end of 2007. Commercial banks' rupiah lending rates ranged between 11% and 13%.

On the one hand, continued price increases of oil and certain export commodities had, a positive impact on the Indonesian balance of payments and domestic activity; but on the other hand, such increases put, a heavy pressure on domestic consumer prices the burden of which was felt especially by low-income groups of the population. To mitigate this burden, the government has taken a number of measures, including lowering taxes and providing subsidies on certain essential consumer goods aimed at limiting the impact of the price increases.

It is important to note that although there was still a general feeling that the government could do much more to improve the business and investment climate, a slight improvement has transpired in the perception of some groups of businessmen about the prospects of the Indonesian economy for the coming years. This is especially true for those involved in the export of commodities and certain mining products. This was reflected, by among other things, increases in both approved and realized investment by domestic as well as foreign businesses

## Operations and Results

Despite a decline in the production of oil and gas, MedcoEnergi's sales and other operating revenue of USD 981.9 million in 2007 showed an increase of 24% over 2006. Earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) of USD 435.4 million were also higher (43%) than in the previous year. These results can mainly be attributed to increased oil prices, continued efficiency of the domestic oil and gas business as well as the improved performance of drilling activities.

The division of domestic exploration and production (MEPI) reported a net income of USD 139.7 million (before eliminations) and was the largest contributor to MedcoEnergi's EBITDA and net income, followed by the drilling division (Apexindo), which achieved a net income of USD 31.1 million.

The Company, however, experienced an impairment on US assets. The related impact on depletion resulting from this impairment - a loss on the sale of US assets as well as dry-hole costs in the US - and other international expenses contributed to a loss of USD 115.6 million from Medco Energi Global. The Company's net income in 2007 therefore declined to USD 6.5 million from USD 38.2 million in the previous year.

Based on the lessons learnt primarily from the disappointing US activities, MedcoEnergi decided in the latter part of 2007 to improve and strengthen its capabilities in the following areas:

- capital allocation amongst business segments and geographical areas;
- capital stewardship and project management;
- assessment of investment opportunities, particularly for exploration;
- corporate oversight over major projects;
- organizational development; and
- comprehensive peer review of reserves.

To achieve these objectives, the Board of Directors (BoD) – in close cooperation and consultation with the Board of Commissioners (BoC) – started taking a number of steps in 2007 to strengthen the role of the existing committees, particularly those concerned with risk management, Good Corporate Governance (GCG) and auditing. The BoD committed to the timely provision of relevant data and input to the BoC, which chaired the committees. This enabled the committees to better assess the opportunities and risks particularly as they related to preparation and implementation of ongoing as well as future projects and programs.

The role of the committees has become all the more important in view of the increasing speed of expansion of the Company both domestically and abroad. Moreover, in the process of expansion, new alliances will continue to be established. These will allow the Company to share risks and obtain technology and management expertise while reducing financing requirements. The increasing complexity of conducting business requires the Company adjust certain processes and procedures. The BoC has welcomed the BoD's decision to introduce Integrated Program Management for six key initiatives in order to improve management performance. The Company's senior managers are consequently committed to the development and execution of certain processes and procedures which have been designed to provide a strong platform for the development of MedcoEnergi's human resources and organization.

During 2007, the Risk Management Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee have effectively assisted the BoC by providing recommendations on various issues. A complete review of the Committees' activities is outlined under the GCG Section of this Annual Report.

The BoC was also pleased with the BoD's commitment to make special efforts aimed at making GCG an integrated part of the culture of MedcoEnergi. The BoD established in 2007, a GCG Committee and a Task Force designed to further supervise, define and develop GCG practices in the Company. The revised GCG guidelines will clearly define major shareholders' rights and responsibilities as well as the policies and procedures of MedcoEnergi's business processes.

Another encouraging development is reflected in the strong commitment of the BoD to further develop and maintain best practices in areas of Safety, Health and Environment (SHE) as well as Corporate Social Responsibility (CSR). The BoD also continued pay special attention to recruiting and developing human resources so as to fulfill the requirements of expanding and intensifying the Company's activities.

The BoC welcomed the intention of the BoD to complete a number of asset optimization programs in 2008. These programs involve the sale of a number of domestic exploration and production interests; a strategic minority divestment in Medco Power Indonesia; a minority and/or full divestment in Apexindo; a strategic divestment in Medco Ethanol and a minority divestment in Medco Energi Global. The BoC shares the view of the BoD that the optimization programs will strengthen the Company's financial position and operations and improve the Company's risk profile and corporate governance. Furthermore, these asset optimization programs will make it possible for key human resources to be redeployed to the seven key development projects which underpin the future growth of the Company.

The seven key development projects which are expected to transform the Company and create substantial additional value to shareholders over the next five years, are gas monetization projects in Block A, Lematang, and Senoro-Toili blocks, an Enhanced Oil Recovery (EOR) project in Rimau block, development of Block 47 in Libya, construction of the Sarulla geothermal project in North Sumatra, and operation of an ethanol plant in Lampung.

The BoD has reaffirmed that the Company's strategy is to strengthen its oil and gas exploration and production and continue growing the business within the energy chain by leveraging synergies from its oil and gas exploration and production, downstream activities, and power assets as well as the MedcoEnergi brand name. The BoD refined, in 2007, the Company's supporting strategies. These are set out in the Report of the President Director in this Annual Report.

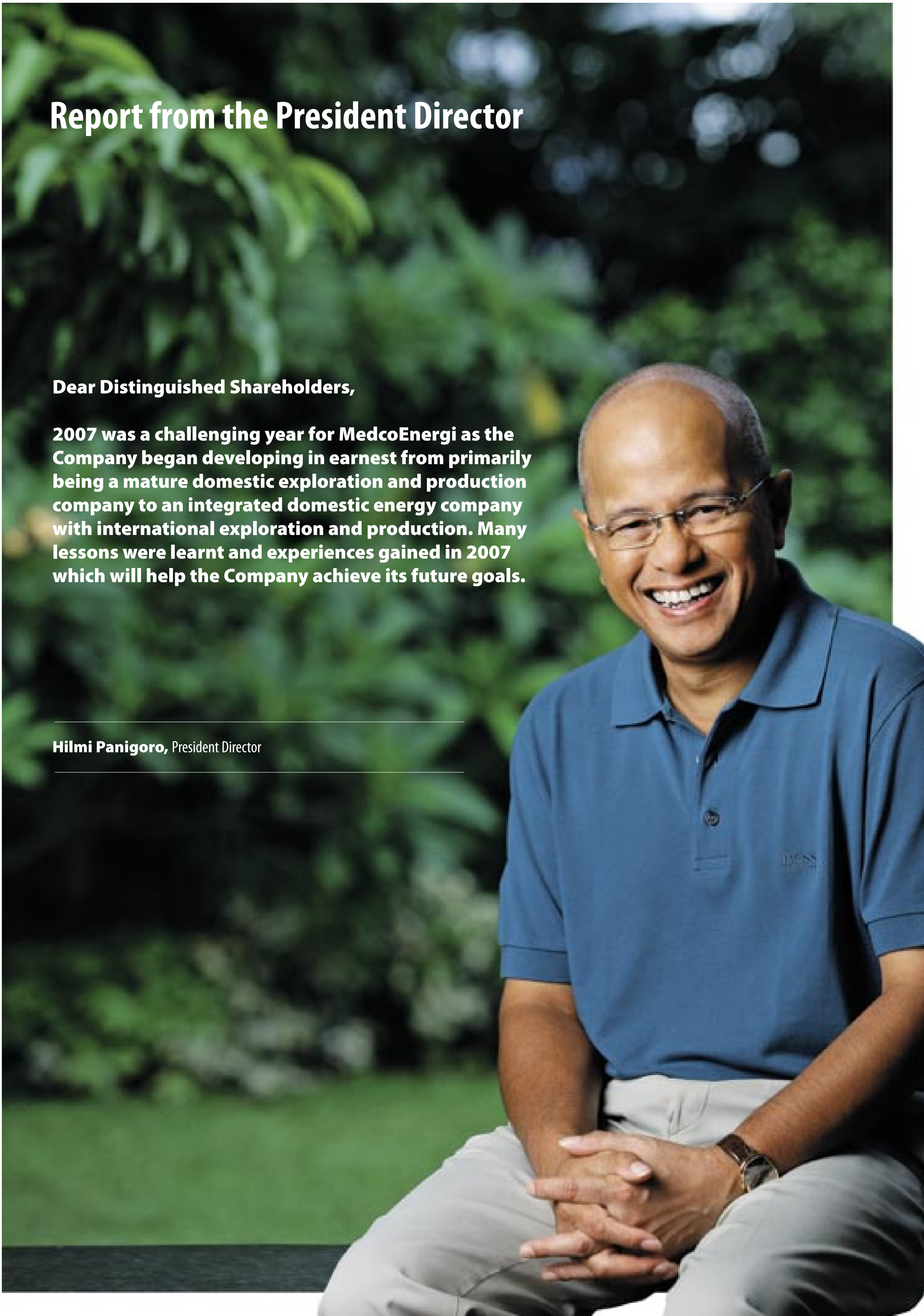
Over the course of 2007 the BoC reviewed the implementation of several existing programs and projects. It also studied new plans, projects and activities to be undertaken during 2007 and in the coming years. While the new programs and projects were generally well prepared, the execution of some of the ongoing programs and projects should be improved significantly. The future results of the Company depend to a very high degree on the successful implementation of certain future programs and projects.

The strong commitment on the part of the BoD to improve the preparation and execution of programs and projects in 2008 and beyond, has given rise to an expectation of improved performance of MedcoEnergi in the months and years to come following the disappointing results of 2007.

On behalf of the members of the BoC, I would like to convey my thanks to all shareholders for your confidence in our continued leadership of MedcoEnergi. With your support MedcoEnergi will be in a position to grow and improve its results so as to provide more benefit to all of the Company's shareholders and stakeholders in the coming years. Allow me also to take the liberty to extend, on behalf of the shareholders and Commissioners, our appreciation to the Directors, Management Team and all employees of MedcoEnergi for the efforts they have made to improve the performance of the Company.

Jakarta, April 30, 2008

**Arifin M. Siregar**
President Commissioner



# Report from the President Director

**Dear Distinguished Shareholders,**

**2007 was a challenging year for MedcoEnergi as the Company began developing in earnest from primarily being a mature domestic exploration and production company to an integrated domestic energy company with international exploration and production. Many lessons were learnt and experiences gained in 2007 which will help the Company achieve its future goals.**

**Hilmi Panigoro,** President Director

I am confident that proper plans, controls and measures are or will be in place to deliver significant value to shareholders in the near future despite our 2007 results. MedcoEnergi has refined its supporting strategies and achieved a number of goals in 2007 which should benefit shareholders in the near future.

MedcoEnergi remains committed to further developing and maintaining best practices in the areas of Safety, Health and Environment (SHE) and Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG). MedcoEnergi also continues to believe that organizational development is a key factor in developing the Company.

The development of MedcoEnergi and realization of significant value primarily relies upon asset optimization programs and the completion of seven key development projects. MedcoEnergi is committed to these programs and developments and to realize the value in the shortest time possible.

## Financial and Operating Performance

Continuing strength in commodity prices and drilling activities offset by decreases in production volumes supported total sales and other operating revenues of USD 981.9 million in 2007 (2006: USD 792.4 million).

Earnings Before Interest, Tax and Depreciation, Depletion, and Amortization (EBITDA) were USD 435.4 million (2006: USD 304.1 million) demonstrating the Company's strong ability to service its long term debts.

Net Income for the year was USD 6.5 million (2006: USD 38.2 million) reflecting an impairment on US assets of USD 25.9 million and related impact of increased depletion expense of USD 30.7 million and a loss on the sale of US assets of USD 20.1 million, coupled with an increase in overall costs.

In late 2007, MedcoEnergi contracted Gaffney Cline & Associates (GCA) to undertake a reserve certification on its US assets. The results of this review determined that an impairment existed related to its East Cameron assets. The GCA report provided a more accurate picture of current reserves, which was significantly less than those represented in prior years. Previous reserve estimates were based on third party reports but were prepared using a less rigorous methodology and without the benefit of several years of production history.

Net cash provided from operating activities was USD 425.9 million (2006: USD 233.2 million). Cash and cash equivalents at 31 December 2007 was USD 266.4 million (2006: USD 188.3 million).

At year end 2007, the Company had 199.9 million barrels of proven and probable reserves. The Company's average lifting rate for 2007 was 70.5 MBOEPD (2006: 78.1 MBOEPD). Average realized prices of USD 72.5 per barrel for oil and USD 3.2 per MMBTU for gas were achieved over the year (2006: USD 64.0 per barrel for oil and USD 2.8 per MMBTU for gas).

## Strategy

MedcoEnergi's aim is to strengthen its oil and gas exploration and production (E&P) activities and continue growing the business within the energy chain by leveraging synergies within MedcoEnergi companies as well as from the MedcoEnergi brand name.

Annually, as part of its corporate planning process, MedcoEnergi reviews the industry, political and economic conditions and refines its supporting strategies related to its seven broad based strategic objectives.

In 2007, MedcoEnergi refined the following supporting strategies related to its seven broad-based strategic objectives in an effort to clarify for management and shareholders the direction which the Company is to pursue. Specifically, MedcoEnergi intends to:

- primarily be an E&P company expanding activities not only domestically but internationally as well. Furthermore, the Company believes that, given the current environment, new reserves are best acquired through exploration. The Company will, however remain opportunistic to the acquisition of reserves;
- rebalance the Company's E&P exposure from predominantly an Indonesian asset base to an international base;
- leverage the Company's brand name and capitalize on deregulation of the downstream market in Indonesia and invest selectively in the downstream sector, focusing initially on less capital intensive areas such as fuel storage and distribution;
- capitalize on the growing but underdeveloped Indonesian power sector and international captive power opportunities focusing on small IPP projects, primarily gas to power utilizing the Company's gas reserves, captive power in the domestic heavy industry sector and renewables being a key focus;
- restructure into four subholding companies; MedcoEnergi Global holding all international E&P assets, Medco Downstream Indonesia holding all downstream assets, Medco Power Indonesia holding all power assets and MedcoEnergi E&P Indonesia acting as a management holding company for its Indonesian E&P assets. This new structure will provide a better platform to manage, operate and assess MedcoEnergi's businesses and provide additional financing options and flexibility;
- continue building strategic alliances, especially for non – E&P activities within Indonesia and E&P activities outside of Indonesia.

Credible partners will be selected with the same level of professional integrity and ethics. Through strategic alliances, MedcoEnergi expects to be able to share risks, obtain technology and management expertise, whilst reducing its financing requirements; and continue integrating its various businesses to create synergies and stakeholders value.

## Achievements

Although in 2007, the Company reported net income of USD 6.5 million, several goals were achieved which will provide significant future value.

In line with MedcoEnergi's long term strategy to increase production volume through creating new markets for uncommitted gas, the Company has signed four new and two amended Gas Sales Agreements (GSAs) to monetize its gas reserves in Lematang, Block A, Tarakan, Tuban, Rimau and the South and Central Sumatra blocks.

To fulfill MedcoEnergi's strategy to increase reserves through exploration and acquisitions; the Company, with its partner Verenex, has been very successful in exploring Block 47 in Libya with six discoveries out of six attempts with aggregated flow test rates of gross 75,000 BOPD. Additionally, MedcoEnergi has been able to acquire several new exploration assets in Tunisia, Yemen, Cambodia and the US.

MedcoEnergi's drilling subsidiary Apexindo had its best year in terms of revenues and net income with record breaking day rates that were primarily attributable to the delivery of a new jackup rig which was accompanied by new contracts.

To increase production volume through reserves development, a pilot project for Enhance Oil Recovery (EOR) was started in the Rimau Block.

On the downstream side, construction of MedcoEnergi's ethanol plant continued with completion slated for the second semester of 2008. The Company has also ventured into several businesses such as petroleum commodity trading, fuel storage, distribution and transportation. A joint venture company, PT Donggi-Senoro LNG (DSLNG) was established to hold MedcoEnergi's minority interest in a liquefaction plant and related facilities.

On the Power side, MedcoEnergi's venture into green energy continued by the signing of a Heads of Agreement with the Company's partners for its Sarulla geothermal project. MedcoEnergi also signed a joint venture agreement to build a 25 MW Biomass cogeneration Power Plant in Singapore.

In addition to its achievements in 2007, MedcoEnergi identified a number of areas in which improvement is required as the Company further develops as an integrated domestic energy company with international exploration and production. In particular, the Company intends to improve and strengthen its capabilities in the following areas:

- capital allocation amongst business segments and geographical areas;
- capital stewardship and project management over projects;
- assessment of investment opportunities especially exploration;
- corporate oversight over major projects;
- organizational development; and
- comprehensive peer review over reserves.

## Safety, Health & Environment (SHE) and Corporate Social Responsibility (CSR)

Safety is MedcoEnergi's key focus. The Company does not compromise its operational activities, and always strives to meet the highest standards. In 2007, MedcoEnergi was proud to report that its producing assets in Tarakan, Rimau and Sanga-Sanga, the methanol plant in Bunyu, the LPG plant in Kaji, the power plants in Batam received No Loss time Accident Awards from the Government. In addition to receiving the standard government requirements and approvals, MedcoEnergi is always careful to calculate any impacts that might be detrimental to the environment surrounding its operations.

MedcoEnergi is fully aware of its broad responsibilities to the communities in which it operates. For many years, MedcoEnergi has invested substantial resources in creating sustainable and long-term CSR programs in the areas of education, economic empowerment, spiritual life, and humanitarian relief. MedcoEnergi takes pride in its long list of past CSR efforts, and looks forward to being an integral part of its communities for many years to come.

## Good Corporate Governance (GCG)

MedcoEnergi continues to encourage all the management and employees of the Company to undertake business in accordance with its corporate values; professional, ethical, open and innovative. The Company's objective is to make GCG an integrated culture in MedcoEnergi.

MedcoEnergi established a GCG Committee and Task Force in 2007. I was personally involved in leading the team to further define and develop GCG practices in the Company. Some of the initiatives are to revise the Company's existing GCG Guidelines and Code of Conduct and develop an interactive electronic GCG learning program for all management and employees of MedcoEnergi. The revised GCG Guidelines will capture major stakeholders' rights and responsibilities as well as the policies and procedures in the Company's business processes. MedcoEnergi expects to accomplish these initiatives in 2008.

## Organizational Development

MedcoEnergi continues in its aim to become a high performance organization. In 2007, the Company introduced Integrated Program Management with a number of key initiatives to improve its management performance. This program enlists the Company's most senior managers to develop and implement certain processes and procedures which will provide a strong platform for the development of its human capital and organization. This program will be undertaken over the next 12-24 months. The program is outlined in more detail under the Corporate Planning and Human Resources sections.

## Forward Plans

In 2008, MedcoEnergi intends to complete a number of asset optimization programs. These programs involve the sale of a number domestic E&P interests, a strategic minority divestment in Medco Power Indonesia, a minority and/or full divestment in Apexindo, a strategic minority divestment in Medco Ethanol and a minority divestment in MedcoEnergi Global.

MedcoEnergi believes these programs will strengthen the Company's financial position and operations and improve its risk profile and corporate governance in 2008 and beyond. The detailed objectives of these programs are outlined in the Corporate Growth section and in the respective section on each of its business units.

MedcoEnergi's strategy to utilize limited or non-recourse financing at the project level and limit corporate borrowing coupled with proceeds from the asset optimization programs should favorably impact financing needs and costs in 2008 and beyond.

The asset optimization programs will also allow key human resources to be redeployed to the Company's seven key development projects which underpin its future growth.

MedcoEnergi has seven key development projects which will further develop the Company and create substantial shareholder value over the next 5 years. These are Senoro LNG, Rimau EOR, Block A and, Lematang gas, Sarulla geothermal, Block 47 in Libya and ethanol in Lampung.

In 2008, the Company plans to achieve the following milestones related to these seven key development projects:

- finalize a Gas Sales Agreement and award the Engineering, Procurement and Construction Contract on the Senoro LNG project which will allow the recognition of significant gas reserves;
- finalize the PSC extension for Block A gas development which will allow the recognition of significant gas reserves;
- complete the Rimau EOR pilot project which will provide a further basis to determine the additional reserves which could be recovered;
- execute the Lematang gas project development to ensure first semester 2009 operation;
- reach a final investment decision for the Sarulla geothermal project which will provide certainty to investors on value;
- advance the Libya discovery to a stage which will provide a clear picture to investors as to the size of reserves associated with this discovery and future cashflows; and
- complete construction and commercially operate the Company's ethanol plant by second semester 2008.

MedcoEnergi is committed to delivering these projects over the next five years and believes they represent significant future value to shareholders. Meanwhile, the Company will continue to create value from its existing assets, future opportunities and new ventures.

Once the asset optimization programs are completed, MedcoEnergi's existing and development assets combined with its refined strategy and strong balance sheet, will put the Company in an excellent position to deliver significant future shareholder value.

Last but not least, I would like to introduce a new advisor to the BoD, Mr. Alwi Shihab, who joined in March 2007. His main role is providing advice to BoD in developing the international oil and gas market. On the other hand, I would like to extend the Company's deepest appreciation to Mr. Ismail Saleh, who resigned in 2007, Mr. Ismail Saleh provided advice to the BoD regarding business conduct and compliance with Indonesian business law and regulations.

In closing, on behalf of the Board of Directors of PT MedcoEnergi Internasional Tbk, I would like to extend our highest appreciation to the management and employees of MedcoEnergi Group for their teamwork, commitment and passion. We also would like to convey our gratitude to our distinguished shareholders for your trust and confidence in us to manage this valued business group.

Jakarta, April 30, 2008

**Hilmi Panigoro**
President Director

# Corporate Governance


The implementation of Good Corporate Governance (GCG) principles; transparency, accountability, responsibility, independence and fairness forms an integral part of MedcoEnergi's day to day activities. MedcoEnergi believes that in order to sustain its business it is very important to execute work plans with these principles. MedcoEnergi aims to reflect these principles in the Company's own corporate values - professional, ethical, open and innovative.

Every member of the Board of Commissioners (BoC) and Board of Directors (BoD) in MedcoEnergi is fully aware of their responsibility to serve as GCG role models for the organization. Additionally, the Company's majority shareholder is committed to supporting GCG practices across the entire corporate culture of MedcoEnergi.

BoD always ensure that MedcoEnergi acts in compliance with Company Law No. 40 Year of 2007, the Indonesian Capital Market Law No. 8 Year of 1995, Articles of Association (AoA) of the Company, the Regulations of the Indonesian Capital Market and Financial Institutions Supervisory Board (Bapepam-LK), the Regulations of the Indonesian Stock Exchange (IDX) and the Regulations of the Luxembourg Stock Exchange (LuxSE), and other laws and regulations applicable to MedcoEnergi's businesses. Additionally the Directors also adopt the Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance and the Indonesian General Guidelines of Good Corporate Governance.

The three major bodies belonging to the Company's GCG are the shareholders, through the General Meeting of Shareholders (GMS), the BoC, and the BoD. Each component has different roles and responsibilities in relation to GCG.

## General Meeting of Shareholders (GMS)

As at year-end 2007, MedcoEnergi recorded 3,332,451,450 shareholders, for the Company's listing on the IDX.

The shareholders control the Company through a GMS. Those with valid voting rights have the right to attend and exercise their voting rights at the GMS. Shareholders who are unable to attend the GMS may assign a representative through a written proxy.

MedcoEnergi ensures that the Annual GMS is held no later than five months from the closing of the books or by the end of May each year. In 2007, the Annual GMS was held on May 28, 2007.

In compliance with the Company's AoA, the BoC appointed Mr. Arifin M. Siregar, President Commissioner, to chair the Annual GMS. The Annual GMS was attended by 65.73% of the total shareholders.

## The Annual GMS approved the following resolutions and adopted the following decisions:

1. A total of 96.24% of the represented shares in the Annual GMS resolved and adopted to:
   a. Accept in good faith the Directors Report concerning the Company's performance for the year ended December 31, 2006, and approved the Balance Sheet and Income Statements of the Company and its subsidiaries for the year ending December 31, 2006, which were audited by Public Accountant Purwantono, Sarwoko & Sandjaja as stated in their letter No. RPC 6949 dated April 4, 2007, with an "Unqualified" opinion; and
   b. Grant the full release and discharge (acquit et de charge) to members of the BoC and the BoD from their responsibilities with respect to the supervision and management of the Company during fiscal year 2006, provided that such actions have been fully reflected in the Consolidated Balance Sheet and Income Statements of the Company.

2. A total of 100% of the represented shares in the Annual GMS resolved and adopted to:
   a. Utilize the Net Income for the year ended December 31, 2006, in the amount of USD 38,170,368 for a Cash Dividend payment in the amount of USD 19,085,184 or equivalent to USD 0.0057 per share which will be distributed to 3,332,451,450 shares; and record the remaining amount of the 2006 Net Income as Retained Earnings; and
   b. Grant the authority to the BoD to take any necessary actions in distributing the aforementioned dividend payments to each shareholder; including determining and announcing in daily newspapers the timetable and procedures of such cash dividend payments.

3. A total of 100% of the represented shares in the Annual GMS resolved and adopted to:
   a. Grant authority to the Commissioners and Directors to appoint for the Company and its subsidiaries one of the Public Accountants registered with Bapepam-LK, which is affiliated to one of the worldwide Public Accountants, which will audit the Balance Sheet, Income Statement and any other parts of the Consolidated Financial Statements for the one-year period ending December 31, 2007, and determine the fee of such a Public Accountant.

4. A total of 100% of the represented shares in the Annual GMS resolved and adopted to:
   a. Allocate a maximum aggregate amount of USD 5,800,000 (five million eight hundred thousand US Dollars) (inclusive of tax) for the salaries and benefits of the Commissioners and Directors for the period January 1, 2007 to December 31, 2007 and ratify the salaries that have been paid for the month of January to April 2007; and
   b. Grant authority to the Remuneration Committee through the Commissioners to determine the allocation of bonuses, salaries and benefits to each member of Commissioners and Directors.

## The Board of Commissioners (BoC)

**Composition.** Pursuant to Article 14 of the Company's AoA, the BoC of MedcoEnergi shall consist of at least 3 members. The members of the BoC are appointed by the GMS for a five year term and can be reappointed for another term. The GMS has the right, however, to dismiss the members of the BoC at any time before the end of their term of office in the event the members of the BoC are deemed unfit to perform their duty pursuant to the AoA, and/or due to the resolutions of the GMS.

The current BoC consists of 5 members, each with 5-year terms of office from year 2003 to 2008. Three of the members of the BoC are Independent Commissioners. This exceeds the required number of Independent Commissioners stipulated under Circular Letter of Bapepam-LK No. SE-03/PM/2000 and JSX Rule No. I-A, which requires at least 30% of the BOC composition be independent commissioners.

**Duties, Roles and Responsibilities.** The main duties of MedcoEnergi's BoC, are to oversee the policies of the BoD in directing the Company's management and to provide advice to the BoD.

To enable the BoC to exercise their duties effectively, the BoC has established an Audit Committee, a Risk Management Committee, a Remuneration Committee, a Nomination Committee and more recently a GCG Committee. The roles and functions of each committee are reported below together with the activities which they have executed over the past year.

As approved by the Annual GMS and in accordance with the Company's remuneration policy, the BoC is responsible for distributing the remuneration of the BoC and the BoD. The following table summarizes the actual distribution of remuneration to the BoC and the BoD in 2007 compared to 2006:

**BoC and BoD Remuneration (in million USD)**

| | Salaries & Benefits | | Bonus | | Tax | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| BoC | 0.7 | 0.9 | 1.0 | 1.1 | 0.7 | 1.0 | 2.4 | 3.0 |
| BoD | 0.8 | 0.9 | 1.3 | 1.1 | 1.1 | 0.9 | 3.2 | 2.9 |
| | 1.5 | 1.8 | 2.3 | 2.2 | 1.8 | 1.9 | 5.6 | 5.9 |

**Meetings.** The BoC must hold a meeting at least once every two months or at anytime when it is deemed necessary by the President Commissioner or when it is requested by 2 other members of the BoC.

The meetings of the BoC are lawful and entitled to make lawful and binding decisions only if attended by more than 50% of the members of the BoC. At any meeting, each BoC member is entitled to one vote and to make one proxy vote. The meeting is also attended by the President Director. In the year 2007, the BoC conducted 5 meetings.

## The Board of Directors (BoD)

**Composition.** The BoD shall consist of at least 3 members. The members of the BoD are appointed by the GMS for a five year term and can be reappointed for another term. The GMS has the right, however, to dismiss the members of the BoD at any time before the end of their term of office in the event that the members of the BoD are deemed unfit to perform their duty pursuant to the AoA, and/or due to the resolutions of the GMS.

Currently, the BoD of the Company comprises 4 members: the President Director, the Growth Director, the Planning Director and the Finance Director. The term of office for the current 4 members is from year 2003 to 2008.

**Duties, Roles and Responsibilities.** The BoD is fully responsible for managing MedcoEnergi for the interests and the objectives of the Company. The BoD is also responsible to represent MedcoEnergi both in and outside a court of law in accordance with the provisions in the Company's AoA.

Each member of the BoD, however, holds different duties in managing MedcoEnergi. The President Director is responsible for strictly and effectively managing the Company and implementing MedcoEnergi's internal control system and succession planning program.

The Finance Director is responsible for ensuring that all of the Company's financial resources are managed properly and effectively, and all transactions are recorded in accordance with applicable accounting standards in Indonesia.

The Corporate Planning Director is responsible for developing and integrating the long-term, mid-term and short-term strategic planning of MedcoEnergi and its business units, reviewing the performance of MedcoEnergi and its business units, and assessing any potential risks which might arise from the implementation of those strategies.

The Corporate Growth Director is responsible for ensuring the growth of the Company is in line with the established strategic plan by pursuing any potential business opportunities in Indonesia and internationally and selecting the most valuable portfolio investments.

**Meetings.** The BoD shall convene a meeting once a month or at any time it is deemed necessary by the President Director or based on proposal(s) by one or more members of the BoD.

A meeting of the BoD shall be deemed valid and entitled to adopt binding resolutions if attended by at least more than 50% of the total members of the BoD. In the year 2007, the BoD conducted 27 meetings.

## Joint Boards

**Meetings.** Besides the BoC meetings and the BoD meetings, MedcoEnergi also recognizes the importance of Joint Board meetings. The objective of these meetings is to enable the BoC to gain a clear picture and directly monitor the latest developments regarding MedcoEnergi and its business units and also provide input as needed.

The BoC and the BoD shall convene a bi-monthly Joint Board meeting or at any time it is deemed necessary by either members of the BoC or the BoD. The meeting shall be attended by the members of the BoC and the BoD of MedcoEnergi and the President Directors of the Business Units. The meeting is deemed valid and entitled to adopt binding resolutions if attended by at least more than 50% of the total members of the BoC and the BoD. The Chairperson of meetings shall be the President Director of MedcoEnergi or another member of the BoD of MedcoEnergi.

In 2007, the BoC and BoD conducted 4 Joint Board meetings where the members of the BoD of MedcoEnergi and President Directors of the Business Units updated the operational status of their respective business units.

## The Committees

**The Audit Committee.** The Audit Committee's main responsibilities are to assist the BoC to assess the financial statement reports prepared by the BoD, as well as to identify any non-compliance issues with applicable laws, rules, and regulations within the business of MedcoEnergi.

The Audit Committee consists of 5 members. Three of the members are Independent Commissioners, and the other 2 members are external members. The Committee is chaired by one of the Independent Commissioners and is assisted by the Internal Audit Head of MedcoEnergi Corporate.

The Committee reviews the Company's quarterly and annual consolidated financial statements to provide assurance to the BoC that the consolidated financial statements have been prepared in accordance with Indonesian Financial Accounting Standards (PSAK) and that all information has been fully and accurately disclosed prior to issuance. This review also assists in identifying and solving any potential issues with the BoD prior to the issuance of such consolidated financial statements.

Based on the Audit Committee's assurance, the BoC approves the issuance of the consolidated financial statements. The Audit Committee also reviews the past performance of the Public Accounting Firm which audits the previous year's consolidated financial statements.

In 2007, the Audit Committee of MedcoEnergi conducted 9 meetings. The Audit Committee reviewed and ensured the following:

**Attendance of Board of Commissioners and Directors Meeting**

| Name | Position | BoC Meeting | BoD Meeting | Joint Board |
|---|---|---|---|---|
| Arifin M. Siregar | President Commissioner (Independent) | 100% | | 100% |
| Sudono N. Suryohudoyo | Commissioner (Independent) | 100% | | 100% |
| Gustiaman Deru | Commissioner (Independent) | 60% | | 50% |
| Yani Rodyat | Commissioner | 100% | | 100% |
| Retno Dewi Arifin | Commissioner | 80% | | 100% |
| | | | | |
| Hilmi Panigoro | President Director | | 100% | 80% |
| D. Cyril Noerhadi | Finance Director | | 90% | 75% |
| Darmoyo Doyoatmojo | Corporate Planning Director | | 100% | 100% |
| Rashid I. Mangunkusumo | Corporate Growth Director | | 70% | 75% |

Members of the Board Commissioners, shown here full compliment, listen attentively to a briefing by the President Director (center and gesturing). MedcoEnergi's BoC are kept closely apprised of developments at MedcoEnergi and actively supervises the direction taken by the Company.

1. Disclosures of Financial Information in the consolidated financial statements to be issued have properly included:
   a. The Financial Statements of MedcoEnergi and its subsidiaries wherein MedcoEnergi has direct or indirect ownership interest of more than 50%.
   b. The inter-company balances and transactions to reflect the financial position and the results of operations of MedcoEnergi and its subsidiaries as one business entity.
   c. The estimated oil and gas proven and probable reserves for certain working areas as certified by Gaffney, Cline & Associates Pte. Ltd. (GCA), an independent energy consultant or in-house qualified petroleum engineers. The reserve estimates for 2007 Financial Statements were primarily calculated by using last year's reserve estimates plus reserve additions, less current year production and impairments. Management believes that the reserve estimates are reasonable estimates based on available geologic and engineering data.
   d. All other required disclosures and information.

2. Independence and Objectivity of the Public Accountant. In performing the audit of MedcoEnergi's consolidated financial statements for the year ended December 31, 2007, the Public Accountant made several presentations and held discussions with the Management requesting clarification on several issues related to the accounts. The Management has responded accordingly. The Audit Committee was also invited to all of these presentations and discussions. The Public Accountant made separate presentations to the Audit Committee as required.

   Based on their performance, the Committee is of the opinion that the Public Accountant conducted a thorough, independent and prudent audit of MedcoEnergi's consolidated financial statements.

3. The Effectiveness of the Company's Internal Controls. The Committee has reviewed the implementation of the internal audit plan, program and reports for the year 2007 and found them to be satisfactory and reflecting improved effective internal controls within the MedcoEnergi organization.

4. Audit Findings of the Corporate Internal Auditor. The Internal Audit activities covered most of the business units using an audit methodology of Business Process Risk Assessments (BPRA). All the audit findings have been reported to the Directors of Business Units, President Director and the Audit Committee.

5. The Company's Compliance with the Laws, Rules and Regulations of Capital Market and Other Agencies. The Management of MedcoEnergi is continuing its effort to implement GCG and compliance programs under Bapepam-LK, IDX and other Government of Indonesia's rules and regulations.

6. Complaints Reported from the Shareholders or Other Stakeholders. The Audit Committee reviewed a number of legal or other complaints reported from various parties as follows:
   a. Indonesian Forum for the Environment (WALHI)'s lawsuit on the environmental impact resulting from the Banjar Panji mudflow incident;
   b. Rahman Fajriansyah's lawsuit relating to JOB Tuban;
   c. Sembakung TAC Arbitration against Synergy; and
   d. Government and Joint Venture audit claims.

7. The Disbursement of Boards' Compensation Packages: The Chairman of the Remuneration Committee reported to the Audit Committee that the Boards' compensation packages for the year 2007 were proposed and approved in the Annual GMS dated May 28, 2007.

   In aggregate, for the year 2007, the gross remuneration packages for Commissioners and Directors totaled USD 5.6 million compared to USD 5.8 million budgeted for the year.

8. Based on the Results for the above reviews, the Committee is of the opinion that it is not aware that:
   a. The consolidated financial statements for the year ended December 31, 2007 which were prepared by the Directors of MedcoEnergi are not in accordance with the PSAK or other regulations stipulated by Bapepam-LK or under the PSC, PSC-JOB and TAC for subsidiaries that are involved in oil and gas business;
   b. The audit of MedcoEnergi's consolidated financial statements for the year ended December 31, 2007 by the Public Accounting Firm of Purwantono, Sarwoko & Sandjaja is not independent and is not objective as a Public Accountant statement;
   c. The implementation of internal controls in MedcoEnergi has not been effective;
   d. The adoption of GCG policies and programs by the Directors do not comply with the regulations of Bapepam-LK and other Government of Indonesia's laws, rules and regulations;
   e. The Boards' compensation packages have been disbursed improperly.

**The Risk Management Committee.** The responsibility of the Risk Management Committee (RMC) is essentially to assist the BoC to ensure that a thorough assessment has been made of all existing and potential business risks and to provide recommendations on the necessary course of actions to mitigate those risks. In addition, the Committee monitored the implementation of risk management practices related to MedcoEnergi's activities.

These assessments assist the BoC to review all potential business risks and strategic corporate actions with independent and fair judgment.

The Committee consists of 3 Commissioners, 2 BoD members, the Head of Corporate Internal Audit and the Head of Legal Counsel. The Committee is chaired by a Commissioner and is assisted by the Risk Management Head of MedcoEnergi Corporate.

### Attendance of Committee Meeting

| Name | Audit Committee Meeting | | Risk Management Committee Meeting | | Nomination Committe Meeting | | Remuneration Committee Meeting | |
|---|---|---|---|---|---|---|---|---|
| Sudono N. Suryohudoyo (IC) | C | 100% | M | 88% | | | C | 100% |
| Arifin M. Siregar (IC) | M | 89% | C | 88% | M | 100% | | |
| Gustiaman Deru (IC) | M | 11% | | | M | 100% | | |
| Djoko Sutardjo | M | 100% | | | | | | |
| Zulfikri Abubakar | M | 44% | | | | | | |
| Robertus Wijang | S | 100% | M | 75% | | | | |
| Yani Rodyat | | | M | 19% | C | 100% | M | 100% |
| Darmoyo Doyoatmojo | | | M | 100% | M | 100% | M | 100% |
| D. Cyril Noerhadi | | | M | 81% | | | M | 100% |
| Siendy K. Wisandana | | | M | 75% | | | | |
| Muhariyanto | | | S | 100% | | | | |
| Rashid I. Mangunkusumo | | | | | M | 100% | M | 100% |
| Retno Dewi Arifin | | | | | | | M | 100% |
| Sapta P. Yadi | | | | | S | 100% | | |
| Retno Perdanakusuma | | | | | | | S | 100% |

Notes:
C : Chairperson of the Committee
M : Member of the Committee
S : Secretary of the Committee
IC: Independent Commissioner

In 2007, the Committee conducted sixteen (16) meetings with a 75% attendance rate of the members to review potential risks on twenty four (24) major corporate actions to be undertaken by the Company as well as to monitor ongoing activities.

The activities or transactions reviewed by the Committee in 2007 were as follows:

1. Acquisition of a fuel storage & distribution facility in North Jakarta;
2. Divestment of shares in PT Medco E&P Brantas Indonesia;
3. Proposal to acquire exploration Block 12 in Cambodia;
4. Purchase and sale of a working interest in the Bawean Block;
5. Purchase of 10% shares from YPK-PLN in a Batam power plant;
6. Monitor and update risk assessments of previous projects proposed to the RMC;
7. Proposal to purchase a gas metering system for a power plant;
8. Bidding for a Sengkang power project;
9. Purchase of Trada's shares;
10. Proposal to acquire a TAC block;
11. Construction and operation of a fuel storage and distribution facilities in strategic locations;
12. Construction progress on the Lampung ethanol plant;
13. Review of MedcoEnergi's insurance coverage;
14. Divestment in certain assets of Medco E&P and Medco Power;
15. Farm-out of the Bengara and Simenggaris blocks;
16. Acquisition of working interest in the Langsa TAC;
17. Divestment in the Sarulla geothermal project;
18. Progress on the Senoro LNG project;
19. Proposal to acquire an exploration block in Libya;
20. EPC contract for a gas turbine generator in North Sumatra;
21. Acquisition of a biomass power plant project in Singapore;
22. Acquisition of shares in a power project in South Sumatera;
23. Withdrawal from a power plant project; and
24. Divestment of Apexindo shares.

Despite progress made in 2007, the Committee is of the opinion that MedcoEnergi still needs to further improve efforts to identify and mitigate potential risks on major investments/transactions as well as existing business activities. This should help MedcoEnergi to improve the Company's future performance and maintain its sustainability.

**The Nomination Committee.** The Nomination Committee is established to assist the BoC in ensuring an independent decision making process is undertaken in relation to the selection and nomination of the BoD and the BoC members of MedcoEnergi, which includes evaluating the performance of the BoCs and the BoDs of the Company and its subsidiaries.

The members of the Committee consist of 3 Commissioners and 2 Directors. The Committee is chaired by a Commissioner. The Committee is assisted by a secretary who is the Corporate Head of Human Resources of MedcoEnergi Corporate.

The Committee, on a regular basis, reviews performance records, individual data and other inputs of each individual either sitting in the BoC or the BoD within MedcoEnergi. Succession plans for each incumbent on the Boards are established by the Committee and proposed to the BoC to monitor their development by the Company or respective subsidiary. The Committee maintains and reviews information pertaining to high potential individuals in the Company to be considered when a succession plan is established.

In 2007, the Committee conducted four meetings made the following resolutions and adopted the following decisions:

1. Appointed the VP HR Corporate as the Secretary to the Committee;
2. Appointment of Directors should be agreed and carried out through a Nomination Committee and resolved in a Board Resolution;
3. The BoC proposed that there is no change in the MEI BoD composition in 2007 through Annual GMS approval; and
4. Proposed nomination of BoC and BoD for 15 subsidiaries.

MedcoEnergi undertakes a public expose to report 9 month results as part of the Company's comprehensive disclosure policies and regular communications with stakeholders.


**The Remuneration Committee.** The Remuneration Committee is responsible for assisting the BoC to formulate a remuneration policy and evaluate the remuneration of the BoC and the BoD of MedcoEnergi.

The Committee's members consist of 3 Commissioners and 3 Directors. The Committee is chaired by a Commissioner. The Committee is assisted by the Office of the Secretary of the BoC and the BoD of MedcoEnergi Corporate in administering remuneration and ensuring the distribution process of the remuneration is in compliance with Remuneration Policy and remuneration budget approved by the General Meeting of Shareholders.

The Committee prepared the remuneration budget for the BoC and the BoD based on the Company's overall performance and the performance of the BoC and the BoD.

To ensure competitiveness at the remuneration level, every two years the Committee evaluates and performs a benchmarking of the Boards' remuneration against those of companies of comparable size and complexity. This is also conducted for budgeting purposes.

In 2007, the Committee held 4 meetings. 100% of members attended all 4 of the meetings. The following matters were discussed during the meetings:

1. Reviewed Boards Compensation and allowances, and approved the total amount of the salary of the BoD and BoC to be presented in the annual report. In the meeting, Hay Group presented the market conditions and compared MEI Boards salary position with other Asia Pacific Boards.
2. Reviewed and recommended the 2007 budget for salary and allowances, including 2006 Company Performance Bonus, for MEI Boards to be approved by the BoC and forwarded to the forthcoming Annual GMS. The Committee also reviewed and recommended the Remuneration budget for the Boards of Subsidiaries.
3. Carried out the delegation of authority given by the Shareholders to the BoC, e.g. to determine and disseminate the 2007 salaries and 2006 Bonus payments for MEI Boards.
4. Reviewed Subsidiaries Boards salaries and allowances and recommended salary range and benefits for one new Subsidiary Director.

In 2007, the gross total amount of remuneration which was distributed to the BoC and the BoD was USD 5.6 million compared to a budget of USD 5.8 million as approved in the Annual GMS on May 28, 2007.

**GCG Committee.** The GCG Committee was established in 2007 to assist the BoC in further supervising and ensuring the consistent implementation of GCG practices, corporate values and sustainable CSR programs in MedcoEnergi.

The Committee consists of 3 Commissioners, 2 Directors and 4 President Directors from the business units. The Committee is chaired by the President Commissioner, who is an independent Commissioner, and is assisted by the Corporate Secretary of MedcoEnergi Corporate.

In 2007, no official GCG Committee meetings were conducted. Informal meetings, amongst various groups and people were held to finalize the Committee charter and plans for 2008. A task force was also established to assist the Committee.

## Supporting Functions

**Corporate Secretary.** In MedcoEnergi the responsibilities of the Corporate Secretary group are as follows:

1. Monitor compliance with the AoA, the Company Law, and the Capital Market Law and related regulations, and coordinate and promote compliance with the highest standards of GCG practices; and
2. Coordinate and maintain communications with the Company's external and internal stakeholders, and implement sustainable CSR programs; and
3. Coordinate and administer the BoC and the BoD activities, internally and externally.

The BoD of MedcoEnergi delegates the function and role of Corporate Secretary to a Corporate Secretary Group.

As a company with different types of business units, MedcoEnergi shall ensure that each business unit complies with prevailing laws and regulations applicable, such as the Indonesian Oil and Gas Law, the Indonesian Investment Law, the Indonesian Electricity Law (etc). Coordination between each business unit and corporate is always maintained to ensure compliance with all applicable laws and regulations.

In 2007, MedcoEnergi continued to provide accurate reporting of its annual and quarterly Consolidated Financial Statements in accordance with the PSAK's and guidelines from Bapepam-LK, the Regulations of the IDX and the Regulations of the LuxSX, and other laws and regulations applicable to MedcoEnergi's businesses. The annual and second quarter Consolidated Financial Statements were also announced in newspapers one day after the filings as required by Bapepam-LK.

In 2007, MedcoEnergi issued 51 disclosure reports to Bapepam-LK and the IDX regarding its important and material corporate actions. For transparency purposes, these reports were also published on the Company's website.

To improve GCG practice in MedcoEnergi, the Corporate Secretary Group has begun to revise the GCG guidelines and Code of Conduct and to develop a GCG electronic learning system. These will be completed in the third quarter of 2008 and will be applied throughout MedcoEnergi.

The new laws on Limited Corporation, which were issued by the Government under UUPT No. 40 in August 2007, have been enacted requiring the Company to amend its AoA. In 2008, the Company will propose the amendments to its AoA for shareholders approval at the Annual GMS.

**Strengthen Communication With Stakeholders**

In ensuring easy access of information for stakeholders, MedcoEnergi continuously updates the Company's website at www.medcoenergi.com. This website provides comprehensive information pertaining to the Company's operations, financial performance, and other information useful for the shareholders and other stakeholders. The Company's intranet portal is utilized by Company staff for disseminating information internally.

In 2007, the Company continued to establish and coordinate communication with its stakeholders. The Corporate Secretary facilitated several press conferences and distributed press releases from the BoD to provide information to the mass media. The Company also began voluntarily preparing and filing a quarterly Operating and Financial Performance Report with Bapepam-LK and the IDX in the second quarter of 2007.

Additionally to provide a better picture of how MedcoEnergi maintains sustainability of its business, the Company began voluntarily issuing a Sustainability Report in 2007 which covered the economic, social and environmental impact of MedcoEnergi. For communities surrounding MedcoEnergi's operation areas, the Company provided several forms of assistance through CSR programs. These activities are described in the Corporate Social Responsibility section in this annual report and in the Company's Sustainability Report.

In addition to being regularly distributed to Shareholders MedcoEnergi's Operating and Financial Performance Report, the Sustainability Report and associated press releases were published on the Company's website.

**Investor Relations.** Investor Relations (IR) is the main gateway through which investors receive information on the performance and developments of the Company. Currently the Company has several investment instruments available for investors; these are bonds, convertible bonds and equity. IR's day to day function is to share information that has been gathered, with investors. Additionally IR maintains close relationships with analysts both from the buy and sell side. In some circumstances IR may provide updates to ratings agencies. In all instances IR's role is to support the BoD in conveying the Company's past performance and present and future strategies.

To perform its duties IR maintains a comprehensive database and close relationships with stakeholders. These are premium channels in disseminating information on the Company's recent developments effectively and efficiently. A case in point is through the Company's website Content Management System that allows IR to update the Company's internet content. Another medium is IR presentation materials which are compiled using data from various departments within the Company i.e. Finance, Accounting, Planning and operating subsidiaries. These presentations are published on the Company's website.

In 2007, IR held regular meetings with securities analysts on a quarterly basis, following the issuance of the Company's quarterly Financial Reports. These quarterly meetings provided a forum to discuss the Company's financial performance and other operating issues. In 2007, IR also participated in seven investment conferences including three non-deal road-shows. It regularly held one-on-one meetings with domestic and international investors held at the Company premises. The number of meetings performed by IR with investors, potential investors and analysts throughout 2007 exceeded 325. The geographical distribution of the Company's shareholders did not change substantially in 2007. Holders of MedcoEnergi's debt instruments and equity continue to be evenly represented by investors from Asia, Europe and the USA.

**Internal Control System and Monitoring.** As part of its commitment to practice the highest standards of GCG principles, MedcoEnergi has implemented a strong Internal Control System in all aspects of its business operations. The framework for the Internal Control System was introduced by the Committee of Sponsoring Organization (COSO). This framework allows Directors to evaluate and improve the effectiveness of risk management controls and governance processes, ensuring that they are in line with the Company's business environment and the operations of its business units.

The Corporate Internal Audit Group has been assigned to monitor and improve the Internal Control System within MedcoEnergi and its business units. To carry out its duty effectively across all of the Company's interests, the Corporate Internal Audit is assisted by an Internal Audit Group in each business unit.

The Corporate Internal Auditor is responsible for monitoring and reporting to the President Director, the Directors of business units and the Audit Committee of MedcoEnergi the actual performance of identification and management of risks in business units. Moreover, the Corporate Internal Audit Group is also responsible to support the business units in assessing, controlling and monitoring business risks. In this regard, the Corporate Internal Audit Group conducts regular reviews of the improvement and enhancement of the internal control procedures which are appropriate to each business unit's changing situation, environment and risks. The Corporate Internal Audit Group is obliged to prepare an annual audit plan and schedule to ensure that reasonable business risks are covered and monitored through audited performance. These plans and schedules must be approved by the President Director and Audit Committee.

In 2007, the Corporate Internal Audit Group audited the Internal Control Systems of MedcoEnergi's business units working in oil and gas (local and foreign), methanol and power. As part of their annual regular audit plan, an audit on the internal control system in the Financial Management and Comptroller group of MedcoEnergi's corporate office was performed as well. The results of the audits and recommendations have been reported to the President Director, Directors of Business Units and the Audit Committee for further action. Each business unit is committed to implementing the agreed management action plans as recommended.

The Corporate Internal Audit Group also recommended continuous improvements in MedcoEnergi's Delegation of Authority Guidelines (DOAG) to anticipate several changes in the new functional management structure. The BoD believes that improvement in the DOAG will enable them to effectively delegate authority to management, resulting in practical and clear accountability.

The BoD is confident that with a prudent Internal Control System, it can ensure the creation of optimal and cost effective work performance. The BoD can also ensure that personnel at all levels recognize the importance of regularly and continuously complying with all internal control policies and processes applicable to MedcoEnergi.

**Corporate Legal Counsel.** In accordance with GCG principles and to ensure compliance with all laws and regulations, MedcoEnergi's Corporate Legal Counsel handles all legal and regulatory matters which the Company is involved in or must comply with.

The following is an overview of the major cases in which MedcoEnergi is involved:

Indonesian Forum for the Environment (WALHI)'s lawsuit on environmental impact resulting from the Banjar Panji mudflow incident.
This lawsuit was filed by the Indonesian Forum for the Environment (WALHI) in February 2007, in the South Jakarta District Court. The lawsuit nominates 12 (twelve) parties (including MedcoEnergi together hereinafter referred to as the "Defendants"). WALHI accused the Defendants of being in violation of Article 38 of Law Number 23 Year 1997 on the Environment.

In December 2007, the South Jakarta District Court issued an unfavorable ruling against WAHLI's claims. In response, WALHI filed an appeal to the DKI Jakarta High Court in January 2008. As of the date of the financial statements, the DKI Jakarta High Court has not issued its decision on WALHI's appeal.

Rahman Fajriansyah's lawsuit relating to JOB Tuban
This lawsuit was filed in February 2007 by Rahman Fajriansyah against eleven parties including the Company (together referred to as the "Defendants") in the Gresik District Court. Rahman Fajriansyah was acting on behalf of 255 people (together referred to as the "Plaintiffs") who live near or around the Tuban JOB field operations (whereby the Company is a partner in the JOB), and claimed that a blow-out resulting from the exploration, exploitation and production test of the Lenggowangi-1 well resulted in both material and immaterial damages.

Rahman Fajriansyah accused the Defendants of violating Articles 5, 6 and 7 of Law Number 23 Year 1997 on the Environment, whereby the Plaintiffs demanded that the Defendants should pay a certain amount of compensation for damages.

In July 2007 the Gresik District Court ruled unfavorably against the Plaintiffs. The Gresik District Court decision is legally binding. However in January 2008, the Plaintiffs submitted a Review Request over the Court Gresik Decision whereby as a matter of law such Review Request could only be submitted over a decision made by the Supreme Court.

Although management is of the view that the decisions are legally binding for the above two legal actions, management is unable to assess the ultimate outcome of the litigation. Nevertheless, in line with the initial favorable results for the Company over the initial proceedings, management continues to believe that the claims are without merit, and as such the Company has not made any provision for the claims.

Arbitration against Synergy
In 2005 the Company entered into a Share Purchase and Sale Agreement (SPSA) with Synergy Petroleum Limited (Synergy) for the acquisition of all issued shares of Perkasa Equatorial Sembakung Ltd. (PESL), which held 100% participation interest in a Technical Assistance Contract for Sembakung field (the Sembakung TAC). The SSPA provided that Synergy should indemnify the Company from certain third parties' claims made subsequent to the acquisition that related to the financial matters and operations of the Sembakung TAC during the periods prior to the acquisition closing date.

Subsequent to the acquisition, claims totaling USD 1.9 million were made by third parties. The Company, in good faith, made payments of the foregoing amounts, and in light of the indemnification as provided in the SSPA, requested reimbursements for Synergy. However, Synergy failed and/or refused to meet the Company's request. In response to the refusal, the Company in October 2007 initiated an arbitration proceeding to claim the amount against Synergy to the Singapore International Arbitration Center (SIAC) in Singapore (the Arbitrator). Synergy has since submitted its response to the Arbitrator refuting the Company's claim.

The arbitration process is still ongoing, and a final decision by the Arbitrator has not yet been issued or known. Nevertheless, the Company believes that the case has merit, and that it will eventually manage to claim the amount through this arbitration.

# Human Resources and Infrastructure

**"Planning, monitoring and evaluating human resources and infrastructure to deliver maximum value to shareholders."**

## Human Resources (HR)

It is the role of HR to plan for, monitor, and evaluate various human resource needs, including people, processes and systems to support the Company's growth plans and future performance.

### Goals and Objectives

Focus on manpower and talent management:

1. Implement a performance-based HR management system;
2. Optimize global HR policies and procedures;
3. Utilize a global HR database;
4. Prioritize leadership development for the management level;
5. Disseminate knowledge management at all levels of personnel within the MedcoEnergi Group; and
6. Computerize HR processes.

### 2007 Achievements and Performance

MedcoEnergi acknowledges the importance of applying the best systems to manage employee performance. In 2007, MedcoEnergi implemented a HR Performance Management System (PMS) to improve the existing individual performance management elements and to align them with the Company's business objectives. MedcoEnergi Corporate is now reviewing all HR policies and procedures in the Company to ensure consistent corporate-wide practices. Unique industry and common market practices will, however, be maintained by each business unit to maintain their competitiveness.

An integrated HR information system infrastructure is a must for MedcoEnergi to ensure better HR Management within the Company. For this purpose, through a technology scouting strategy, managed under the Integrated Program Management system and integrated with the HR system is now being developed for all business units within the Company. This will help effectively manage all HR functions such as hiring, retaining, developing and motivating employees. Additionally, all HR transactional processes within MedcoEnergi are currently being computerized. This system is supported by the SAP system and was implemented in January 2008.

During 2007, several talent management initiatives were undertaken. Initiatives similar to these will continue to be executed in the coming years through the Integrated Program Management system. Potential assessments of all managerial level employees have been conducted by reputable consultants and the results have been used to map talent and leadership quality within MedcoEnergi. Succession Action, Competency Development, Hire & Engage and Leadership Development Programs are among initiatives now being pursued for the Company's growth.

MedcoEnergi has also adopted Knowledge Management (KM), as one of its key corporate initiatives. KM policies and procedures will be developed and adjusted from time to time to respond to the changing business requirements. Governance and infrastructure development will be the main activities carried out by MedcoEnergi Corporate together with all business units in the coming years. This will ensure the effectiveness of KM processes and build KM competencies. All KM activities have been initiated on a corporate-wide basis since 2007. Understanding the importance of KM on overall corporate performance, decisions to prioritize KM functions were formalized at the MedcoEnergi Convention in March 2008.

Within the subsidiaries, initiatives are being taken to anticipate the scarcity in attracting Petrotechnical Professionals in PT Medco E&P Indonesia (MEPI) and Drillers in Apexindo. In 2007, MedcoEnergi hired 59 engineers through GET-5 (Graduate Engineering Trainees) program, and plan to conduct GET-6 for a similar level of recruitment in 2008. This program is especially designed to accelerate and close the gap in middle management. Additionally, in 2007 a retention program has also been developed to retain the Company's best petrotechnical engineers. In line with these programs, MedcoEnergi has introduced a "Medco Special Program" which emphasizes the early retirement program for non-technical staff. A total of 75 employees have participated in this program.

To assist management in monitoring and improving the human side of organization effectiveness, every two years, MedcoEnergi conducts an Employee Opinion Survey (EOS). Based on the result of the EOS 2005-2007, management has implemented initiatives to improve the Company's organizational effectiveness. Improved communications systems, employee retention programs and benefits adjustments have been some of those initiatives. In 2008, MedcoEnergi plans to conduct its 3rd round of EOS programs.

**2007 MedcoEnergi's Directors and Employees**

| | MEI | MEPI | MDI | MPI | APD | MEG | Total | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | 2007 | 2006 |
| Board of Directors | 4 | 4 | 3 | 3 | 3 | 3 | 20 | 21 |
| Executives* | 31 | 107 | 14 | 18 | 19 | 12 | 201 | 171 |
| Supervisor Level | 0 | 241 | 40 | 39 | 288 | 27 | 635 | 285 |
| Staffs | 54 | 405 | 69 | 220 | 54 | 71 | 873 | 959 |
| Non-Staffs | 6 | 396 | 254 | 0 | 17 | 20 | 693 | 672 |
| Expatriates | 9 | 0 | 0 | 3 | 101 | 54 | 167 | 112 |
| Direct Contract (all level) | 17 | 262 | 59 | 17 | 18 | 8 | 381 | 428 |
| **Total** | 117 | 1,411 | 436 | 297 | 500 | 195 | 2,956 | 2,648 |

* (VP / Manager)

Note:
MEI - MedcoEnergi Internasional
MEPI - Medco E&P Indonesia
MDI - Medco Downstream Indonesia
MPI - Medco Power Indonesia
APD - Apexindo Pratama Duta
MEG - MedcoEnergi Global

### Forward Plans

PMS was effectively implemented in January 2008 and improvements in the evaluation process for 2008 performance are expected by early 2009.

The initiative to standardize HR policies and procedures began in early 2007 and is expected to be completed in 2009. MedcoEnergi also expects to see improvements in its HR processes by developing its use of SAP from 2008 onward. SAP directly supports HR processes.

In 2008, personnal assessments will also be conducted down to lower staff levels in order to map talent and leadership qualities within MedcoEnergi.

Moving forward, Communities of Practice (CoP) of KM will be established to discuss relevant topics, enriching and broadening employee knowledge in support of their jobs.

## Information Technology

It is the role of Information Technology to plan for, develop, run, monitor, and evaluate various systems to support the Company's operational and financial activities.

In 2007, MedcoEnergi's Information Technology Group focused on rolling out the company's ERP system, SAP, to various business units which are not yet on this platform. This included among others, Medco Power Indonesia, Medco Sarana Kalibaru, Medco Ethanol Lampung and System Vibro Indonesia. MedcoEnergi will continue to rollout SAP in 2008 to other business units in the group to ensure proper financial controls and consolidations at the corporate level are implemented.

Backup communication including redundant links have recently been put into place connecting major operational areas in Indonesia to the main data center in Jakarta. This will ensure that employees in remote areas have improved access to the central data repository.

In supporting the company's expansion globally, additional data centers for international E&P operations have been setup in Singapore with back-up facilities in Jakarta. These are interconnected with high speed MPLS communications. Interconnection for the new International offices will continue to be setup in 2008, including those in France and those in support of operations in Yemen.

### Moving Towards a Knowledge-Based Organization

With its initiative to develop an electronic library containing all existing and future knowledge base of MedcoEnergi, the Company is in fact capitalizing on the various IT systems which have been put into place over the past few years. As more systems become integrated, employees will gain greater access to comprehensive information covering the entire scope of MedcoEnergi's performance and operations. The pace of MedcoEnergi's transformation into a knowledge-based organization is expected to experience a marked acceleration over the coming years.

# Corporate Planning

**"Ensuring business goals and objectives are on the right track to achieving maximum value for shareholders."**

**(Left):** MedcoEnergi's founding father, Arifin Panigoro (far right), together with Commissioners and Directors of MedcoEnergi at the MBO Meeting in November 2007.

## Role

The Corporate Planning Director is responsible for developing and integrating the long-term, mid-term and short-term strategic planning of MedcoEnergi. In addition to reviewing the performance of MedcoEnergi the Corporate Planning Director assesses any potential risks which might arise from the implementation of those strategies.

## Goals and Objectives

1. Refine the Company's goals and strategies to ensure they are matched with capabilities.
2. Ensure the Company's business strategies are properly implemented.
3. Continually evaluate the Company's business for improvements.
4. Use technology and systems to measure the Company's Key Performance Indicators.
5. Assess potential risks which might arise from implementation of strategies and business plans.

## 2007 Achievements and Performance

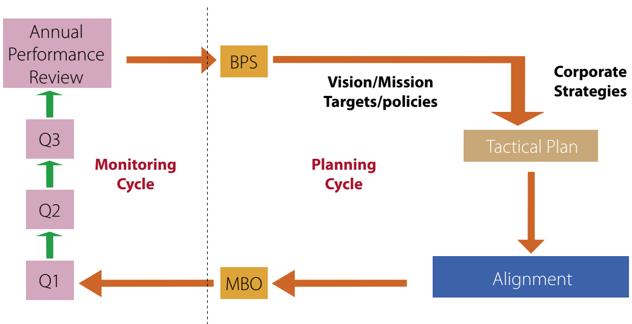
### Integrated Planning and Performance Management

In 2007, MedcoEnergi continued utilization of an Financial Integrated Planning and Performance Management System over its Planning and Monitoring Cycles.

The Planning Cycle, involves an evaluation of the business strategy implemented during the previous year, and the refinement of strategic directions for the following year in the Board Priority Setting (BPS) meeting. The BPS meeting is conducted annually, usually in May. The results of the BPS meeting are then incorporated into Annual Plan and Budget for the Company and its subsidiaries. The results from BPS also feed directly into the Management By Objectives (MBO) planning session. In the MBO session, the management of the Company and its subsidiaries commit to delivering the following year's targets. The targets are defined objectively and realistically against the Company's existing resources, current conditions, potential challenges and forward risks. The MBO meeting is normally conducted annually, usually in October.

The Monitoring Cycle, on the other hand, is conducted through quarterly review sessions. These sessions review the actual performance of the Company against the Annual Plan and Budget and formulate corrective actions in order to meet agreed targets.

**Corporate Business Planning Process**




### Key Performance Indicators (KPI's)

In setting KPI's, MedcoEnergi considers many factors to ensure supporting functions and business units deliver performance and create value. The Company, however, recognizes that over the course of a year it may encounter obstacles to achieving its KPI's. Factors such as delays in approval of permits and/or execution of agreements are just a few examples of obstacles which are beyond the Company's control. MedcoEnergi uses its best endeavor to set realistic and attainable KPI's by looking at its human resources, systems and business processes. This helps the responsible parties within the Company to remain committed to executing actions most appropriate to meeting the targets. Should obstacles to KPI targets persist, mechanisms within MedcoEnergi's Integrated Planning and Performance Management such as the MBO are used to formulate corrective strategies.

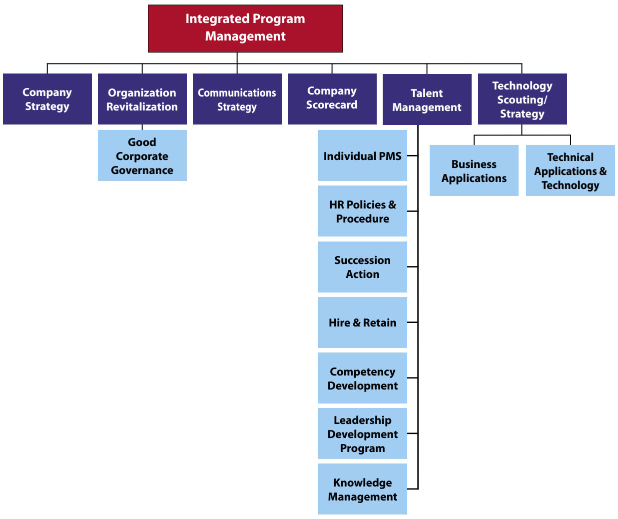
MedcoEnergi measures many indicators but most important is total shareholders' return. The Company is also continuing to explore the implementation of Economic Value Added (EVA) to measure the performance of the supporting functions and business units. In early 2008, Corporate Planning also installed software to help formulate planning scenarios and simulations. This software interfaces with the Company's main, SAP system.

### Integrated Program Management (IPM)

Recognizing the potential growth from MedcoEnergi's seven key development projects, in August of 2007 MedcoEnergi took a significant step to initiate fundamental development in the organization. A company diagnostic identified the focus areas for improvements needed to support the Company's growth and promote a high performance culture. From the diagnostic results, MedcoEnergi devised a comprehensive set of plans for corporate improvement.

In December 2007 Medco launched its Integrated Program Management (IPM). IPM consists of six key areas of the organization. The initiatives cover critical areas including strategy, processes, people and technology. By implementing these initiatives, MedcoEnergi confidently aims to:

- sharpen the Company's strategies and communications;
- drive the Company's strategies to measurable performance management at both the business unit and employee level.
- revitalize the Company's organization and business processes;
- promote Good Corporate Governance practices;
- provide a clear vision of technology positioning; and
- build a foundation for human resource development through a comprehensive talent management program.




These initiatives are an excellent vehicle for the best talent in MedcoEnergi to contribute improvement ideas, collaborate and optimize synergies across the Company. Intensive involvement from MedcoEnergi's top management and extraordinary teamwork in this program has also demonstrated a strong commitment of the organization to excellence.

**Capital Expenditure Budget and Realization**

MedcoEnergi has budgeted capital expenditures totaling USD 385.9 million for 2008 compared to USD 473.8 million in 2007. Our 2007 capital expenditures were budgeted to support the Company's oil and gas exploration and production, drilling operations, downstream operations, power generation business and other activities. In terms of the actual capital expenditures, a total of USD 384.8 million was spent in 2007. This was 25% below budget and primarily reflected delays in finalizing certain agreements, permits or financing, as well as technical challenges associated with the Company's seven key development projects.

### Capital Expenditure (million USD)

| Activities | 2007 | | 2008 |
|---|---|---|---|
| | Budget | Realization | Budget |
| Exploration and Production | 358.2 | 312.6 | 355.1 |
| Drilling | 13.6 | 47.6 | 5.2 |
| Downstream | 36.8 | 21.7 | 9.6 |
| Power | 4.1 | 2.9 | 11.2 |
| Others | 61.1 | - | 4.8 |
| **Total** | 473.8 | 384.8 | 385.9 |

## Risk Management

The operations and financial performance of MedcoEnergi are subject to various risks, which are not necessarily within the control of the Company's BoD. MedcoEnergi classifies risks into four areas when assessing any potential effects which might arise from the implementation of strategies and business plans. These are as follows:

### Operational Risks

MedcoEnergi's business units are comprised of four different areas. These are exploration and production, drilling services, downstream, and power. Each business unit is exposed to different risks. As it is the business units of oil and gas exploration & production and drilling services, which represent the main contributors to MedcoEnergi's revenues, the Company is much more exposed to the operational risks of those business units.

1. **Oil and Gas**

   Exploration Risks. Exploration is a high-risk activity. An unsuccessful exploration project subjects the Company to cover the expense of all the exploration capital expenditure within the period that it occurs, without receiving a return on the investment in the form of additional reserves for medium- and long-term exploitation.

   Reserve Estimate Risk. There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the Company's control. In general, estimates of economically recoverable oil and gas reserves are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by Government agencies, and future operating costs, all of which may vary considerably from actual results. These estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. In 2007, the Company based its reserve estimates on information from Gaffney, Cline & Associates, MedcoEnergi engineers or on estimates by operators of certain blocks.

   Concentration of Assets. As of January 2008, approximately 41.3% of the Company's total proven crude oil reserves were attributed to the Rimau PSC Block. This area contributed approximately 38.6% of the Company's total oil production in 2007. The concentration of the MedcoEnergi's crude oil reserves in the Rimau PSC contract area, escalates the Company's level of risk exposure. Any events that adversely affect the development or production of crude oil in this limited geographic area, such as catastrophic damage to pipelines or reservoir structures would represent a serious setback to company interests.

2. **Drilling Services**

   Contract Drilling. The Contract drilling business has historically been volatile particularly in the onshore drilling operation, as contracts are usually short-term. Contracts for offshore drilling, however, are usually long-term. The supply and demand for contract drilling operations is highly affected by the movement of oil prices. During a high price environment, oil companies tend to spend more capital expenditure for development and exploration drilling. The demand for drilling rigs and the revenue rates will therefore also be high. Conversely, the opposite scenario will happen when oil prices are low. Drilling contracts are usually awarded through a highly competitive bidding process in which price is the main factor for selection. Contracts may be extended but there is no guarantee that the terms of the contract extension will be the same or even suited to the Company's expectations.

### Financial Risks

As MedcoEnergi's oil and gas E&P and drilling services business units are the largest contributor to its revenues, they require the largest capital expenditures. Consequently these areas of operation are subject to a greater financial risk.

1. **Oil Price Volatility**
   The Company's revenues are highly exposed to the volatility of oil price. The Company sells its production crude at prices based on the Indonesian Crude Price – Sumatra Light Crude/Minas (ICP-SLC) -with certain premiums or discounts depending on the quality of crude production. Meanwhile, gas production is sold based on long-term contracts at fixed prices. The movement of crude oil price in 2007 was highly volatile, ranging from USD 58/BBL to over USD 96/BBL. This movement is affected by the global economic and political conditions, and influenced by the activities of the Organization of Petroleum Exporting Countries (OPEC). The value of the Company's oil and gas reserves, revenues, income, cash flows and funding availability are greatly affected by oil price movement.

2. **Capital Requirements**
   Oil and gas are non-renewable resources. Consequently, to ensure the continuous operation in the long run, the Company has to continuously add to its oil and gas reserves. The Company will increase its oil and gas reserves through acquisition, exploration and development. Each of these activities require significant capital investment. The Company expects certain oil and gas projects currently under development to significantly increase its cash flow. If such projects do not increase production as quickly as expected, or, if following such increases, revenue subsequently declines, the Company may have a limited source of cash to expend the capital necessary to undertake or complete the programs. There is no certainty that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements. The inability of the Company to access sufficient capital for its operations and future expansion could have a material adverse effect on the Company's financial conditions directly impacting results of its operations or future prospects.

## Political and Government Risks

Various actions and policies that may be undertaken by the Government affect the Company's businesses. These include uncertainties regarding the implementation of the regional autonomy law, responses to war and terrorist acts, renegotiation or nullification of existing concessions and contracts, taxation policies and foreign exchange restrictions, changing political conditions, international monetary fluctuations and currency controls. Additionally, there have been some political and ethnic disturbances during past years regarding demands for regional autonomy, which would indirectly affect the Company.

## Social and Environmental Risks

The Company's business units are governed by several laws and regulations which relate to the exploration, development and production of oil and gas, as well as to environmental impact and safety. The disposal of oil and gas may potentially pollute the air, land and water. The potential environmental hazards may jeopardize the state or other related third parties whereby the Company should compensate accordingly.

From time to time, the Company continues to identify, assess and mitigate the risks pertaining to its major assets and operational facilities, such as oil and gas fields, drilling rigs, central warehouse facilities and office buildings. Following the assessments of those risks, MedcoEnergi, where possible, purchases insurance policies to cover the Company's major assets and operational facilities in all of its business units.

In 2007 the Company insured assets and operational facilities valued at USD 1.26 billion. Through this initiative, MedcoEnergi benefited from enhanced protection and coverage against the occurrence of potential risks such as fire and explosion, machinery breakdown, well blow outs, natural disasters etc.

Additionally, the Company also continues to identify, assess and mitigate the risks associated with any investments, divestments and existing assets operation.

MedcoEnergi is confident that, by strengthening its corporate culture and building capabilities in risk management, the Company will be able to effectively monitor and mitigate risks associated with all aspects of the Company's operations. This will ultimately  protect and grow shareholder value.

## Forward Plans

To respond to upcoming challenges and uncertainties, MedcoEnergi has set certain long term goals. The Company, however, is currently reviewing such goals to match its capabilities with industry and macroeconomic conditions. MedcoEnergi will continue to review some of its supporting strategies in order to support its long-term goals.  Also the Company will set KPI's to be more realistic given the rapid change in the business environment. The Company plans to review these matters as part of the BPS meeting in May 2008.

MedcoEnergi will review the business processes between the Company's corporate functions and the subsidiaries as well as identify the accountable and responsible parties to harmonize and improve processes. MedcoEnergi will continue to implement Integrated Program Management.

MedcoEnergi will utilize its existing expertise and experience to support the Company's seven key development projects. There will be more uncertainties ahead such as the fluctuation in the oil price, deregulation, financial liquidity and many more factors which MedcoEnergi will try to anticipate. This will result in the best planning for each of the Company's major decisions..

# Corporate Finance, Tax and Accounting

**"Maintaining prudent financial, tax and accounting management to deliver maximum value to stakeholders".**

## Role

The Finance Director is responsible for ensuring that all of MedcoEnergi's financial resources are managed properly and effectively, and all transactions are recorded in accordance with applicable accounting standards and tax laws.

## Goals and Objectives

Corporate Finance, Tax and Accounting's main goals and objectives are to:

1. Maintain sound and prudent financial management for MedcoEnergi's sustainability;
2. Maintain a capital structure at optimal gearing (debt to equity ratio);
3. Exercise capital allocation discipline;
4. Manage MedcoEnergi's operations in a tax efficient and compliant manner;
5. Prepare timely and accurate financial information.

## 2007 Achievements and Performance

**Corporate Finance**

The following are MedcoEnergi's Corporate Finance strategies to ensure sound and prudent financial management:

1. Increase project financing and manage corporate financing;
2. Maintain financing flexibility for future expansion in line with corporate strategic plans;
3. Manage the Company's debt maturity profile and maintain a balance between short-term and long-term debt;
4. Establish a strong cash position;
5. Establish stand by bank facilities;
6. Reduce currency mismatch risk, increase financing flexibility, limit any restrictive covenants and obtain competitive cost of funds on new or existing debt;
7. Implement GCG practices in all financial processes and decisions.

The most challenging role of Corporate Finance is to maintain cost effective funds and good financial management to support MedcoEnergi's future growth. Three main aspects are taken into consideration prior to making any funding decision. These are size, tenor and flexibility.

MedcoEnergi approached the year 2007 with the strategic vision of a centralized financial management policy and a mission to soften the Company's financial restrictions. MedcoEnergi conducted fund raisings and negotiations at the Company's corporate level, with funding going directly to projects or subsidiaries, to reduce risks. MedcoEnergi also planned covenants relief programs for bonds through a consent solicitation.

The main driver for the Company's USD and IDR bonds' (collectively referred to as bonds) covenants relief programs was to relax its financial restrictions. This included maintaining a Debt Equity Ratio (DER) of 1.75X. The purpose was not solely to be able to incur more debt, but also to finance existing operations as well as new attractive and potential projects. Since the financial restriction was held at the corporate level, MedcoEnergi's subsidiaries' operations and growth were adversely affected.

The intended purpose of the consent solicitation programs included changing the financial maintenance ratio (DER) to an incurrence test such as a EBITDA to Debt ratio which accommodates higher financing flexibility and capacity. MedcoEnergi could not, however, realize the consent solicitation program due to its uneconomic cost.

Nonetheless, 2007 was a dynamic year that allowed MedcoEnergi to use alternative methods that were less costly and more efficient to deploy in addressing the Company's financing restrictions. MedcoEnergi opted for non to limited recourse financing as one alternative funding method considering its low-cost funding structure. MedcoEnergi also communicated with banks on funding of the Company's major projects such as Senoro for which MedcoEnergi landed structured financing based through an off-taker with an Export Credit Agency.

Taking into account the complexities of project financing in the Indonesian oil and gas industry, MedcoEnergi was pleased to be able to secure project financing from a National Bank to develop the Singa Field in the Company's Lematang Block by securitizing the supply of gas to the state electricity firm PT Perusahaan Listrik Negara (PLN).

By the end of December 2007, the Company did not meet its financial ratio requirement under its USD and IDR bonds regulations to maintain a DER of 1.75X. Subsequently, MedcoEnergi released a 2.5% of its shares in Apexindo from the Company's 51.4% shares on March 27, 2008, reducing its ownership to 48.8%. This transaction resulted in the deconsolidation of Apexindo from MedcoEnergi's financial statements prospectively, and a reduction of USD 190 million in debt. This action remedied the Company's compliance with the covenant requirements. This transaction was also in-line with MedcoEnergi's commitment to eventually divest its entire shares in Apexindo.

MedcoEnergi also secured a total of USD 290 million of banking facilities from three banks, namely Bank Mandiri, Bank Negara Indonesia and Sumitomo Mitsui Banking Corporation, to provide cash for a put option under the USD 144A bond for exercise in May 2008. Should the put option not be exercised by bond holders, the Company may use the proceeds to repay loans or for other general corporate purposes. As MedcoEnergi is approaching the call date for the put option, the Company, on 28 March 2008, withdrew USD 95 million under a facility from Bank Mandiri.

As MedcoEnergi's functional and reporting currency is in USD, the Company was regularly exposed to foreign exchange and interest rate risks. These exposures were derived from the Company's IDR bond coupon payments and IDR operating costs. In 2007, MedcoEnergi Corporate hedged its foreign exchange and interest rate exposures conservatively. Foreign exchange exposure was hedged using short dated hedging such as target saving option to minimize risk. For the IDR bond principal and interest, the Company continued to hedge 50% of its exposure using cross currency swaps in long-term and short-term tenors with plain vanilla structures. MedcoEnergi implemented these hedging methods after an in-depth analysis and careful selection of the available hedging options that addressed the Company's requirement and risk appetite. For MedcoEnergi's cash management, the Company

**(Right):** MedcoEnergi staff in discussion to prepare the Company's 2007 Financial Report prior to publication.

placed uncommitted funds in principal protected deposits with investment grade banks.

**Tax**

The majority of MedcoEnergi's taxes are incurred in Indonesia, however, it also has some non-Indonesian taxes to administer. In Indonesia, the Company is subject to two separate tax regimes; a specific oil and gas tax regime for its E&P business and a second general tax regime for all of its other businesses.

Oil & Gas Tax Regime

The taxation regime for Indonesian oil and gas companies is regulated under Minister of Finance (MoF) Decree No 267 and MoF Circular Letter No. S-4432, which created the so called "Uniformity Principle". Under the Uniformity Principle gross income, deductible expenses and fiscal net income are the same, whether for tax or for purposes of calculating the Company's rights and obligations under a Production Sharing Contract (PSC) with the Government of Indonesia. Hence, what is "cost recoverable is tax deductible". Once fiscal income is determined, a tax rate of 44%, 48% or 56% is applied depending on the generation of the PSC or other cooperation contract.

Over the past few years, the long standing application of the Uniformity Principle has begun to be questioned by the Indonesian Tax Office (ITO). MedcoEnergi believes that the existing PSC contract and regulations support the application of the Uniformity Principle. The Company believes that if any tax changes related to the Uniformity Principles are to be made by the ITO that they will be on a prospective basis applicable to new PSC contracts.

General Tax Regime

Companies are, by law, taxed on worldwide income. Credit for overseas tax is available unilaterally. Income (including capital gains) of a business enterprise is aggregated on a single entity basis for income tax purposes. Deductions on a single entity basis are allowed for costs incurred in earning income. Tax consolidation of entities is not permitted. The headline rate of corporate tax is 30%.

The Indonesian tax regime, like many other developing countries is evolving as its business environment becomes more mature and sophisticated. New laws and interpretations of existing laws are being adopted by the ITO. New tax treaties and facilities are also being adopted. With this type of environment, tax disputes arise as well as tax planning opportunities. MedcoEnergi constantly monitors tax developments and changes. If disputes arise, the Company reviews each dispute and takes the appropriate and necessary tax objections and appeals processes as provided under the tax laws.

Management carefully reviews its tax positions, current and deferred on a regular basis, and adjusts its provisions accordingly based on any new facts or circumstances.

As MedcoEnergi expands internationally, it is taking measures to ensure full compliance with taxes outside Indonesia. As the Company grows, steps will be taken by its in-house tax group to build its knowledge and understanding of international tax matters. Initially, external international tax advisors will be utilized to support in-house tax personnel.

**Accounting**

To prepare its financial statements, MedcoEnergi adopts Indonesian Generally Accepted Accounting Principles as promulgated by Indonesian Financial Accounting Standards (PSAK). These principles are outlined in detail in the accompanying audited financial statements. The Company must also comply with accounting guidance issued by the Indonesian Capital Markets and Financial Institutions Supervisory Board (Bapepam-LK).

During 2007, the Company, in an effort to promote greater transparency in its financial statements and comply with Bapepam-LK regulations, made three new significant disclosures in its 2007 financial statements. The Company disclosed the following additional information:

- Movements in oil and gas properties by block;
- Disclosure of deferred exploration costs by block; and
- Disclosure of reserves by individual oil and gas blocks.

Under a PSC, the Company's books and records are subject to audit by the Government of Indonesia. In the past few years, the Government auditors have become aggressive and began challenging long-standing cost recovery accounting practices.

Accordingly, a number of claims have been made by Government auditors. With the increase in oil prices and growing demand by governments' worldwide for a greater share of profits under production sharing contracts, it is likely that aggressive claims will continue. The Company complies with all aspects of its PSC contracts, and will rigorously dispute any claims made by the Government auditors if strong defensible positions exist to do so.

## Forward Plans

**Corporate Finance**

MedcoEnergi will continue with its plan to divest the Company's ownership shares in Apexindo which proceeds will be used for the Company's seven key development projects and other activities; and also divest some minority stakes to strategic investors in MedcoEnergi's sub-holding companies and other interests in the business units to obtain technology, expertise and financing as well as to mitigate risks. These divestments will strengthen MedcoEnergi's balance sheet position.

MedcoEnergi also intends to undertake a share buyback program for a maximum amount of 3.29% outstanding shares (the Company currently holds 6.71% of treasury stock). MedcoEnergi has allocated USD 80 million for the program using excess funds available after paying normal operating and capital expenditures and financing costs. The purpose of this program is to increase earning's per share and return on shareholders equity.

Going forward MedcoEnergi envisions maintaining a centralized financial management policy while at the same time ensure funding that is cost efficient and flexible to promote the Company's future growth. With regards to the current local market condition regarding USD liquidity issues as well as the global market conditions arising from the effects of the sub-prime mortgage crisis in the United States, MedcoEnergi wishes to retain a certain level of exposure in the capital market. The Company may explore the capital markets in 2008 for the purpose of liability management.

In 2008, MedcoEnergi will retain a similar strategy to gain optimum yield for the its financial investments using increasingly diverse investment alternatives, and consistently hedging the Company's foreign exchange and interest rate exposures using conservative options.

In short, MedcoEnergi will strive to maintain financing flexibility for future expansion in line with the Company's business strategy.

**Tax**

A new Tax Administrative Law was enacted on 1 January 2008 which primarily impacts the tax dispute resolution process. Under this new law, a Company does not have to pay the full amount of a tax assessment if a tax objection or appeal is filed. However, if the tax appeal is rejected, the tax assessment shall be settled with an additional administrative penalty of up to 100%. The other significant change under this law is that a shorter statute of limitation period (from 10 to 5 years) will be applied.

A draft income tax law is currently being proposed to the Indonesian Parliament. Some significant features of the proposed law are:

- Introduction of a general anti-avoidance concept to secure a tax advantage on related offshore transactions;
- Reduction of corporate income tax rate, gradually from 30% to 25%, and reduction of employee income tax gradually from 35% to 30%; and
- Taxation on the transfer of an oil and gas interest.

Furthermore, a recent Government Regulation (GR) was issued. GR 81/2007 stipulates a 5% reduction in corporate income tax for publicly listed companies which meet certain criteria. MedcoEnergi is currently reviewing all of these tax developments and assessing the potential impact, if any on its 2008 financial statement.

MedcoEnergi will continue to monitor tax developments and comply with all tax laws with the aim of minimizing tax exposures and efficiently managing the Company's tax positions.

**Accounting**

A number of new or revised accounting principles were recently issued with an effective date beginning on or after January 1, 2008 or 2009 related to financial instruments, fixed assets, investment properties and leases. The Company is presently evaluating these revised accounting principles and will implement/adopt if they are applicable to the company in preparing its consolidated financial statements in the coming years.

MedcoEnergi will continue to monitor and comply with PSAK and Bapepam-LK regulations and file all financial information in a timely and accurate manner. The Company will also seek to enhance its financial reporting in an effort to be more transparent to all stakeholders.

# Corporate Growth


**"Monitoring the performance of existing assets and evaluating potential new assets and projects to deliver maximum value to shareholders."**

## Role

The Corporate Growth Director is responsible for ensuring the growth of the Company is in line with established strategic plans by pursuing any potential business opportunities in Indonesia and globally, and selecting the most valuable portfolio investments.

## Goals and Objectives

MedcoEnergi's main goals and objectives for Corporate Growth are:

- To monitor the performance of the existing asset portfolio and assess ways to enhance or create maximum value;
- To evaluate potential assets available for acquisition which compliment or add additional value to the Company's asset portfolio; and
- To evaluate "Greenfield" projects and assess whether such new investments provide the required rate of return.

In reviewing existing asset performance, the acquisitions of assets or new Greenfield projects, MedcoEnergi also calculates the risks involved to ensure maximum value is achieved.

## 2007 Achievements and Performance

In 2007, the Company began in earnest developing from being a mature domestic E&P Company to becoming an integrated domestic energy company with international E&P. MedcoEnergi Corporate Growth and subsidiaries also refined supporting strategies for its seven broad based strategic objectives to clarify the direction the Company is to pursue as outlined in the table below.

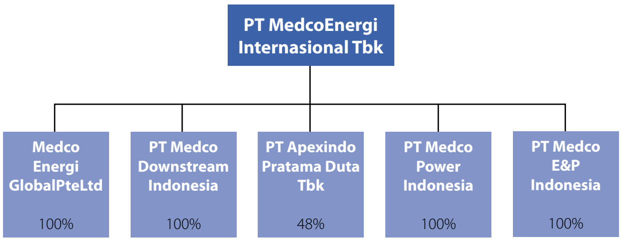
| Main Strategies | Supporting Strategies | Achievements in 2007 |
|---|---|---|
| Replace and add reserves through exploration and acquisitions. | 1. Continue expanding E&P activities not only in Indonesia but Internationally. Given the current environment, new reserves are best acquired through exploration but the Company will remain opportunistic for the acquisition of reserves.<br>2. Rebalance the Company's E&P exposure from predominantly an Indonesian E&P company to a more balanced company with assets in Indonesia and Internationally. | 1. Acquired a 25% working interest in Block A, Aceh Province.<br>2. Acquired a 52.84% working interest in West Delta 52 Block in USA.<br>3. Acquired a 40% participating interest of Anaguid Block in Tunisia.<br>4. Acquired 100% working interest in Brazos 451 Block.<br>5. Acquired an additional 9% working interest in Main Pass Block 64 and 65 and 7% working interest in Main Pass 57 in USA.<br>6. Signed a Petroleum Agreement with the Royal Cambodia Government to carry out exploration and exploitation activities for block 12 in Cambodia.<br>7. Acquired a 50% share in Medco Moeco Langsa.<br>8. Successful exploration in Libya. |
| Increase production volumes through the development of reserves and creating new markets for uncommitted natural gas. | 1. Optimize crude production.<br>2. Gas Monetization especially with other MedcoEnergi entities.<br>3. Improved operational integrity and efficiency. | 1. Started a pilot EOR project in the Rimau Block.<br>2. Signed several GSAs for:<br>a. Lematang Block to PLN for a total volume of 129.0 TBTU.<br>b. SCS Block to Pusri for a total volume of 178.2 TBTU.<br>c. Rimau Block to Pertamina.<br>d. Tuban Block to Gasuma Corporindo for total volume of 13.1 TBTU.<br>e. Block A to PIM for total volume of 223.0 TBTU.<br>f. Tarakan Block to Pertamina for total volume of 5.4 TBTU. |
| Develop other energy resources and their related businesses to meet the world's growing demand for energy. | 1. Leverage the MedcoEnergi brand name and capitalize on deregulation of the downstream market in Indonesia, investing selectively, focusing initially on less capital intensive areas such as fuel distribution and trading;<br>2. Capitalize on the growing but underdeveloped power sector in Indonesia and international captive power opportunities through the Company's E&P business, domestic IPP projects, primarily gas to power utilizing the Company's gas reserves, captive power in the domestic heavy industry sector and renewables are among projects now considered to be part of MedcoEnergi's key focus. | 1. Constructed an ethanol plant in Lampung with multi-feedstock targeting 10,000 BOEPD of biofuels within the next five years.<br>2. Completed project documents for the Sarulla geothermal project in December 2007.<br>3. Purchased a 28.375% shareholding in PT Trada International, a company engaged in oil and gas trading and transportation in August 1, 2007,<br>4. Completed the acquisition of 100% shares of a fuel storage and distribution facility (Medco Sarana Kalibaru) in North Jakarta.<br>5. Signed a joint venture agreement to develop a 35 MW biomass power plant in Singapore.<br>6. Acquired a minority interest in the Senoro LNG joint venture company, PT DSLNG. |
| Maintain financial flexibility with a prudent financial structure and cost control. | 1. Restructure into four sub-holding companies; MedcoEnergi Global holding all international E&P assets, Medco Downstream Indonesia holding all downstream assets, Medco Power Indonesia holding all power assets and MedcoEnergi E&P Indonesia acting as a management holding company for its Indonesian E&P assets.<br>2. This new structure will provide a better platform to manage, operate and assess MedcoEnergi's businesses and provide additional financing options and flexibility. | 1. Completed a sub-holding company structure for Medco Energi Global in 2007.<br>2. Began establishing a sub-holding company structure for Medco Downstream Indonesia in December 2007.<br>3. Divested 32% working interest in Brantas Block, East Java to Prakarsa Group to mitigate risks in Banjar Panji mudflows. |
| Build strategic alliances. | 1. Continue building strategic alliances, especially for non – E&P activities within Indonesia and E&P activities internationally. Credible partners will be selected with the same level of professional integrity and ethics.<br>2. Through strategic alliances, MedcoEnergi expects to be able to share risks, obtain technology, management and expertise, whilst reducing its financing requirements. | 1. Sold 35% participating interest in Bawean PSC Block in East Java to Kuwait Energy. MedcoEnergi maintains a 65% interest.<br>2. Sold a 21% interest in the Simenggaris PSC Block, East Kalimantan to Salamander Energy (Simenggaris) Ltd. MedcoEnergi maintains a 41.5% interest after this sale.<br>3. Sold a 60% interest in Nunukan Block, East Kalimantan to Anadarko Indonesia Nunukan Company. MedcoEnergi maintains a 40% interest.<br>4. Sold 21.25% interest in Block E, Cambodia to Lundin BV. MedcoEnergi maintain a 41.25% interest<br>5. Developed Strategic Partnerships with Kuwait Energy, Salamander, Lundin, Kyushu, Itochu, Mitsubishi, Anadarko and others. |
| Foster prosperity with local communities and preserve the natural environment. | 1. Develop CSR programs with the main objectives to:<br>a. Provide access to improved qualities of educational and spiritual lives;<br>b. Assist in upgrading infrastructure to improve quality of educational and spiritual lives; and<br>c. Reduce poverty and unemployment rates by empowering small businesses.<br>2. Maintain high standard of total safety, health and environment aspects in out operations. | 1. Received a Social Empowerment Award from the Coordinating Ministry of Peoples Welfare (Menko Kesra) in 2007.<br>2. Adopted ISRS7 in Indonesia oil and gas operation, in methanol plant and in LPG plant.<br>3. Received LTA award from the Government for Apexindo, Tarakan and Rimau E&P assets, Bunyu Methanol plant, and Kaji LPG plant, Panaran I and Panaran II power plants. |
| Continue practicing the highest standards of corporate governance principles. | Promote GCG principles in the business process. | 1. Revised the GCG Guidelines and Code of Conducts to be completed in 2008.<br>2. Developing a GCG electronic learning system for all management and employees. |

### Group Restructuring

In late 2007, the Corporate Growth Group initiated a plan for an investment holding structure for MedcoEnergi Corporate. Under this restructuring, MedcoEnergi has already established sub-holding company structures for its international E&P and drilling assets. It will complete sub-holding company structures for its power and downstream assets in 2008.

Due to tax and other regulatory matters, the Company's domestic E&P assets will continue to be owned by MedcoEnergi Corporate and continue to be operated by the management sub-holding company, PT Medco E&P Indonesia (MEPI).

### The planned structure of holding and sub-holding companies




The new structure will promote a better platform to analyze, operate and assess business units and provide additional financing options and flexibility.

### Asset Optimization Programs

Subsequent to the 2007 year end, the Company's BoD undertook the following asset optimization programs:

- Initiated the sale of MedcoEnergi's entire interest in the Kakap, Langsa, and Tuban PSC blocks; the sale of 30% non operating interest in the Bawean PSC (out of total interest of 100%); a 15% non-operating interest in the Rimau PSC (out of the total interest 95%); and a 23% interest in the Lematang PSC (out of the total interest 74.12%).
  The sale of these interests represented approximately 39 MMBOE or 19.3% of MedcoEnergi's 2P reserves at December 31, 2007.
- Initiated the sale of a minority interest in PT Medco Power Indonesia, a sub-holding company of MedcoEnergi's power business.
- Initiated the sale of a minority interest in PT Medco Ethanol Lampung, a sub-holding of the MedcoEnergi's ethanol business.
- Resolved to continue the sale of a minority interest in Medco Energy Global Pte Ltd, a sub-holding of the MedcoEnergi's international exploration and production business.

The objectives of these asset optimization programs are to:

- Promote better risk management by reducing operational and financial risks;
- Promote further transparency and accountability;
- Acquire management expertise or technology from partners;
- Leverage off current high market valuations to monetize mature assets with limited upside and new undeveloped assets to fund future projects/operations;
- Reshape MedcoEnergi's asset portfolio to obtain a position which is not reliant on mature assets and related cash flows;
- Improve MedcoEnergi's cash position and strengthen the Company's balance sheet position to reduce reliance on debt and maintain resources for new opportunities;
- Increase MEI stock price by demonstrating the value of its assets through limited realized asset sales.

On March 26, 2008, the Company sold a 2.5% interest of Apexindo through a registered Indonesia Stock Exchange (IDX) security firm. This transaction was part of the Company's commitment to divest its entire share ownership in Apexindo and will continue with its plan to dispose of its remaining shares in Apexindo.

### Replacing and Adding Reserves

MedcoEnergi's main strategies to add and replace oil and gas reserves as well as to maintain financial flexibility with a prudent financial structure and cost control are the reasons the Company made acquisitions and divestments in 2007.

On January 23, 2007, MedcoEnergi acquired an additional 25% stake in Block A, Nanggroe Aceh Darussalam from ConocoPhillips' (Aceh) Ltd which had a 50% working interest in the block. Previously, MedcoEnergi purchased a 16.67% interest in Block A from ExxonMobil Block A Investment Ltd which was the holder of the other 50% working interest in the Block. After this transaction, MedcoEnergi's total effective interest in Block A is 41.67% and acts as operator.

On March 16, 2007, MedcoEnergi divested its 32% working interest in the Brantas Block, East Java to Prakarsa Group to mitigate risks related to the Banjar Panji mudflow.

In March 2007, MedcoEnergi acquired a non-operating working interest of 52.84% in the West Delta 52 Block located in the Gulf of Mexico. The operator of this Block is Red Willow Offshore LLC with a 47.16% working interest.

In May 2007, MedcoEnergi acquired a 49.99% share of HCM Investment Services Ltd in Camar Bawean Petroleum Ltd (CBPL) which owns a 65% working interest in Bawean PSC Block. The transaction gives MedcoEnergi a 100% of the shares in CBPL. MedcoEnergi sold a 35% participating interest in the Bawean PSC Block in East Java to Kuwait Energy in June 2007. At the time of the publication of this Annual Report, this divestment has not been completed, pending fulfillment of certain conditions precedent. After the conditions precedent are fulfilled, MedcoEnergi's total effective interest will be 65% in the Bawean PSC.

In June 2007, MedcoEnergi sold a 21% interest in the Simenggaris PSC Block, East Kalimantan, to Salamander Energy (Simenggaris) Ltd. MedcoEnergi's total effective interest in this block is 41.5%.

MedcoEnergi acquired a 40% equity participating interest in the Convention, Permit and Joint Operating Agreement relating to the Anaguid Block in Tunisia from Anadarko Tunisia Anaguid Company effective on June 12, 2007.

In June 2007, MedcoEnergi acquired a 100% interest in the Brazos 451 Block.

MedcoEnergi divested a 60% interest in Nunukan Block, East Kalimantan to Anadarko Indonesia Nunukan Company (AINC) in July and December 2007. MedcoEnergi maintains a 40% interest in this Block and AINC became the operator..

MedcoEnergi divested its 21.25% participating interest in Block E in Cambodia to Lundin Cambodia BV, an affiliated company of Lundin Petroleum AB effective on July 2, 2007. After the divestment, MedcoEnergi has a 41.25% working interest and acts as operator. The Block is located offshore in waters belonging to the Kingdom of Cambodia.

MedcoEnergi acquired an additional 9% working interest in Main Pass Block 64/65, and a 7% working interest in Main Pass Block 57 from Challenger Minerals. After this transaction, MedcoEnergi's effective interest is 75% in Main Pass Blocks 64/65 and 7% in Block 57. The effective date of this transaction was August 1, 2007.

In September 2007, MedcoEnergi together with its partner, JHL Limited, signed a Petroleum Agreement with the Royal Government of Cambodia to carry out exploration and exploitation activities for Block 12 in Cambodia where MedcoEnergi acts as operator.

In November 2007, MedcoEnergi acquired a 50% share in Medco Moeco Langsa Limited (MML) from Mitsui Oil Exploration Co Ltd (Moeco) through a Share, Transfer, Release and Indemnification Agreement with MOECO. Subsequent to this transfer, MedcoEnergi owns all of the shares of MML and changed MML's name to Medco E&P Langsa Limited. MedcoEnergi also executed a farm out of 25% of the Bengara PSC to Salamander Energy for a carry of future exploration cost of US 6.5 million.

**Developing reserves and creating markets for uncommitted gas**

To increase production volume through reserve development, a pilot project for Enhanced Oil Recovery project was started in the Rimau Block in 2007.

In March 2007, MedcoEnergi through PT Medco E&P Indonesia (MEPI) signed a Gas Sales Agreement (GSA) Extension with PT Perusahaan Listrik Negara (Persero) (PLN) related to the Lematang Block for 9 years with a total volume of 129.0 TBTU and total contract value of USD 866.3 million. On average, the gas to be delivered will be 48.6 BBTUPD with an estimated average price of USD 3.586 per MMBTU.

In August 2007 MedcoEnergi signed a GSA with Pupuk Sriwijaya from South Central Sumatra for 10 years with total gas volume of 178.2 TBTU at a price of USD 3.00/MMBTU with 2.5% price escalation.

In October 2007 MedcoEnergi signed a GSA with PT Gasuma Corporindo from the Tuban JOB block for seven years with total gas volume of 13.1 TBTU.

MedcoEnergi, through PT Medco E&P Malaka, signed a GSA with PT Pupuk Iskandar Muda on December 10, 2007 to supply gas from Block A in Nanggroe Aceh Darussalam for seven years commencing in 2010 with a total gas volume of 223.0 TBTU, with an average gas price of USD 5.00/MMBTU.

Additionally MedcoEnergi also signed 3 GSAs on April 14, 2008 to deliver gas to:

1. PT PLN (Persero) from Block A for 17 years with a total volume of 85.0 TBTU at a price of USD 5.30 per MMBTU with 3% per year escalation; and
2. PT PLN (Persero) for Keramasan and Java from South Central Sumatra Block for 5 years with total volume of 71.6 TBTU at a price of USD 4.17 per MMBTU.
3. PT Petrokimia Gresik from Tuban JOB block for 3 years with total volume of 6.0 TBTU.

The Company will also consider entering the pipeline business as part of its plan to monetize uncommitted gas. Any investment in a pipeline asset will be shared with an experienced partner.

**Developing downstream business**

With the deregulation of the Indonesian downstream sector and leveraging the MedcoEnergi brand name, the Company believes there will be a number of downstream opportunities to realize value for shareholders. MedcoEnergi does not, however, have significant downstream experience yet and recognizes that parts of the downstream energy chain can be capital intensive. Accordingly, the Company has chosen to invest in the fuel storage and distribution sector which is a low cost entry point and will allow the Company to move up or down the downstream energy chain at a later date. MedcoEnergi does not intend to participate as a majority investor in any large capital intensive downstream projects but would participate as a minority investor.

In line with this strategy, MedcoEnergi in January 2007 completed the acquisition of 100% shares in PT Usaha Kita Makmur Bersama, a fuel storage and distribution plant, located in North Jakarta. The plant began its commercial operation in May 2007 and changed its name to PT Medco Sarana Kalibaru.

MedcoEnergi also purchased 28.375% shares of PT Trada International (Trada) on August 1, 2007, through a wholly owned subsidiary, PT Medco Sarana Balaraja. Trada is a company with core businesses in trading and offshore shipping transportation for oil and gas companies.

In December 2007, MedcoEnergi signed a Shareholders Agreement with Mitsubishi and Pertamina to establish a limited liability Company under the name of PT Donggi Senoro LNG (DSNLG), which has been designated as the company to construct and operate an LNG plant with gas from the Senoro field. MedcoEnergi owns a 20% share of DSNLG.

**Penetrating into the renewable energy business and developing power**

**Ethanol.** Given the size of its agriculture sector, Indonesia has a vast potential for biofuels. To capitalize on this potential and respond to the world's growing demand for energy, MedcoEnergi began constructing an ethanol plant in Lampung in 2006. This plant is capable of producing ethanol from cassava derived starch and sugarcane molasses. The Company estimates the plant will be completed in the second semester of 2008. This will be a significant milestone for MedcoEnergi as it embarks into the renewable energy sector. MedcoEnergi is targeting 10,000 BOEPD of biofuels within the next five years.

**Power.** In April 2007, MedcoEnergi acquired an additional 10% share in PT Mitra Energi Batam (MEB), a combined cycle power plant, from YPK PLN. After this acquisition, MedcoEnergi owns 64% of the shares in MEB.

**Geothermal.** Geothermal resources offers renewable and sustainable energy because the hot water used in the geothermal process can be re-injected into the ground to produce more steam. Indonesia has large potential in geothermal resources. Together with its consortium, MedcoEnergi has been awarded rights to build and operate the Sarulla geothermal project in North Sumatra, Indonesia. In December 2007, MedcoEnergi completed several project documents including a Deed of Assignment (DOA) with PLN, whereby PLN assigned and transferred the rights and obligations under the Joint Operating Contract (JOC) and Energy Sales Contract (ESC) to the Consortium, The Amendment to the JOC with PT Pertamina Geothermal Energy (PGE), and the Amendment to the ESC with PLN.

**Biomass.** In November 2007, MedcoEnergi signed a subscription agreement for the acquisition of the majority shares in Biofuel Power Pte, Ltd ("BP") which was established to undertake the development and construction of a 25 MW biomass power plant and facilities in Singapore. The subscription agreement, however, is still subject to certain conditions precedent.

**Building Strategic Alliances**

Before MedcoEnergi decides to respond to good opportunities, it always ensures that the Company has made a comprehensive risk calculation. One of the Company's risk mitigating measures is to build strategic alliances with credible partners. MedcoEnergi believes strategic partners need to:

- have a similar philosophy particularly in regard to Safety, Health and the Environment;
- have similar vision in valuing assets;
- bring in new expertise;
- contribute technology;
- have financial strength; and
- be equal in size.

During 2007, MedcoEnergi developed strategic partnerships with Kuwait Energy, Lundin, Kyushu, Mitsubishi, Salamander, Anadarko and others.

## Forward Plans

In 2008, MedcoEnergi hopes to complete the following corporate growth initiatives:

1. Complete the asset optimization programs;
2. Complete the restructuring of the Company into four sub holding companies;
3. Improve its existing processes over the review of exploration opportunities;
4. Improve corporate oversight over the seven key development projects;
5. Rigorously assess all existing assets and new investment opportunities;
6. Implement stricter capital allocation amongst business segments and geographical areas; and
7. Improve capital stewardship and project management over projects.

There are seven key development projects which underpin the future growth of the Company, certain milestone have been set for 2008. They are as follows:

1. Finalize the GSA and award the Engineering, Procurement and Contract on the Senoro LNG project which will allow the recognition of significant gas reserves;
2. Finalize the PSC extension for Block A gas development which will allow the recognition of significant gas reserves;
3. Complete the Rimau EOR pilot project which will provide further basis to determine the additional reserves which could be recovered;
4. Execute the Lematang gas project development to ensure first semester 2009 operation;
5. Reach a final investment decision for the Sarulla geothermal project which will provide certainty to investors on value;
6. Advance the Libya discovery to a stage which will provide a clear picture to investors as to the size of reserves associated with this discovery and future cash flows; and
7. Complete construction of the ethanol plant and start production in second semester 2008.

If these milestones can be met, a number of the Company's strategies will be achieved and significant shareholder value will be created.

In regards to MedcoEnergi's E&P business, the Company will continue to assess existing assets performance with an aim to enhancing value through various options. The Company will continue to undertake exploration activities and consider acquisitions, where appropriate.

In the power sector, MedcoEnergi will continue to selectively invest in power generation opportunities especially "green projects" or projects which monetize the Company's stranded gas.

In the downstream sector, MedcoEnergi will continue to selectively invest in the fuel storage and distribution sector or sectors which are integrated into the Company's E&P activities. MedcoEnergi will also consider minority investments in large capital intensive sectors within the downstream energy chain including any downstream "green" projects.

# Operations Review


**"MedcoEnergi is focusing on completing seven key development projects that are in the pipeline starting in 2008 through to 2012 while optimizing existing assets which will create significant shareholder value."**

**Operational & Financial Highlights**

| | | 2007 | | 2006 | | Variance (%) | |
|---|---|---|---|---|---|---|---|
| | | Indonesia | Int'l | Indonesia | Int'l | Indonesia | Int'l |
| Net oil and gas sales | mio USD | 624.1 | 24.4 | 544.1 | 24.2 | 15 | 1 |
| Total oil production | MMBO | 18.4 | 0.1 | 19.8 | 0.1 | -7 | -4 |
| Total oil lifted | MMBO | 18.3 | 0.1 | 20.5 | 0.1 | -11 | 24 |
| Total gas production | BCF | 46.4 | 2.6 | 53.2 | 2.4 | -13 | 6 |
| Total gas sales | BCF | 39.4 | 3.5 | 44.0 | 2.4 | -11 | 48 |
| LPG Sales | MT | 37,563.0 | - | 36,510.0 | - | 3 | - |
| Remaining Proved Oil and Gas Reserves | MMBOE | 143.0 | 4.9 | 140.0 | 8.0 | 2 | -38 |
| 3-Year Average Reserves Replacement Ratio | % | 135 | - | 102 | - | 34 | - |
| Capital Expenditures | mio USD | 176.2 | 136.4 | 163.2 | 72.8 | 29 | 124 |

# 1 Oil and Gas Exploration and Production

Although MedcoEnergi remains committed to developing its Indonesian operations, the Company intends to continue exploring and developing its operations internationally in an effort to diversify its E&P portfolio. MedcoEnergi believes that given the current environment, new reserves are best added through exploration however, the Company will remain opportunistic to the acquisition of reserves. The E&P businesses will continue to be MedcoEnergi's primary focus and serve as a foundation on which to continue building an integrated energy company, creating synergies with its non E&P business units.

MedcoEnergi is confident that by combining its major E&P projects in the pipeline such as Block A, Senoro-Toili, Lematang, Rimau EOR and Block 47 with its existing exploration portfolio and strategy, significant reserves will be added in the near future.

MedcoEnergi's total oil and gas production was derived from 11 and 7 producing assets from its Indonesian and International working areas respectively. In 2007, MedcoEnergi's total oil and gas production was 18.5 MMBO and 49.0 BCF respectively and the total oil and gas sales were 18.4 MMBO and 42.9 TBTU. As at December 31, 2007, The Company booked 199.9 million barrels of proven and probable reserves.

## Indonesian E&P

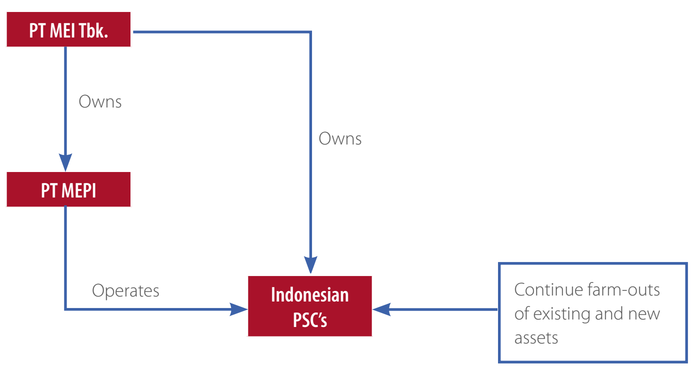
### Background

MedcoEnergi's oil and gas E&P business began with the acquisition of Tesoro's E&P contracts in East Kalimantan in 1992 and followed by another acquisition of Stanvac Indonesia's shares in 1995. In 2004, in an effort to add proven oil and gas reserves, MedcoEnergi acquired Novus Petroleum Ltd., a publicly listed Australian company with assets in the United States of America, the Middle East and Southeast Asia including Indonesia.

Prior to 2007, MedcoEnergi, the holding company, held all of its oil and gas assets directly. In 2007, MedcoEnergi established a legal subholding for its international assets, MedcoEnergi Global. For regulatory purposes, the domestic E&P operations will remain held by the company and managed by PT Medco E&P Indonesia (MEPI).

Today, MedcoEnergi's Indonesian oil & gas E&P operations consists of 19 assets; 11 producing, 1 developing, 6 exploration blocks and 1 economic interest.

**The existing business structure**



To ensure sustainability of its Indonesian E&P business, MedcoEnergi continues to implement the strategies outlined in the accompanying table:

| Main Strategies | Supporting Strategies | Achievements in 2007 |
|---|---|---|
| Replace and add reserves through exploration and acquisitions. | 1. Maximize contributions to the reserves replacement ratio.<br>2. Focus on asset value creation.<br>3. Optimize exploration opportunities. | 1. Negotiated Contract extensions for SCS, Block A, TAC Kalimantan and Bawean with the Government of Indonesia; now awaiting the Government's response.<br>2. Kaju discovery with estimated reserve of 4.3 MMBO.<br>3. Booked Gas Reserves from 2P to 1P amounting to 178.2 BCF from the executed GSA to PUSRI from South & Central Sumatra Block and 95.9 BCF from the executed GSA to PLN from Lematang Block.<br>4. Acquired an additional working interest in Block A, Aceh Province<br>5. Three years Reserve Replacement Ratio of 135% reached target > 1. |
| Increase production volumes through the development of reserves and creating new markets for uncommitted natural gas. | 1. Optimize crude production.<br>2. Gas Monetization.<br>3. Improve operation integrity and efficiency. | 1. Initiated EOR project in Rimau block with the expectation of increasing potential reserve by 81 MMBO.<br>2. Implemented a water flood program, drilled 54 development wells in Rimau Block.<br>3. Developed Fariz field in South-Central Sumatra.<br>4. Aggressive development drilling to optimize oil and gas production<br>5. Signed several GSAs from the Tarakan, Lematang, SCS, Rimau, Block A and Tuban blocks.<br>6. Continued performing field optimization in SCS, Tarakan and Sembakung Block. |
| Build strategic alliances and maintain financial flexibility with prudent financial structures and cost control. | Optimize balance of commitment and risk levels. | 1. Divested 32% working interest in Brantas Block, East Java to Prakarsa Group to mitigate risks in Banjar Panji mudflow.<br>2. Sold 35% participating interest in Bawean PSC Block in East Java to Kuwait Energy. MedcoEnergi maintains a 65% interest.<br>3. Sold 21% interest in the Simenggaris PSC Block, East Kalimantan to Salamander Energy (Simenggaris) Ltd. MedcoEnergi maintains a 41.5% interest after this sale.<br>4. Sold a 60% interest in Nunukan Block, East Kalimantan to Anadarko Indonesia Nunukan Company. MedcoEnergi maintains a 40% interest. |
| Foster prosperity with local communities and preserve the natural environment. | Ensure Safety, Health and Environment (SHE) excellent performance. | 1. Adopted the International Safety Rating System version 7 (ISRS7) and started performing Alpha Assessments on all assets.<br>2. Received "No Lost Time Accident" awards from the Government for several assets including Tarakan and Rimau blocks. Other blocks are in the process of achieving No Loss Time Accident Targets.<br>3. Community Development focusing on the following :<br>• Construction of infrastructure such as, education facilities, mosques, clean water pipelines, electricity network etc.<br>• Economic empowerment in agriculture, fishery and plantation.<br>• Pilot project of bio-gas reactor implementation.<br>• Student scholarships.<br>• Health support to local communities.<br>• Environmental sanitation.<br>• Assistance to affected natural disaster areas. |
| Continue practicing the highest standard of corporate governance principles. | Improve organization capabilities and standard business process. | 1. Dissolved JOB Madura Organization.<br>2. Rationalized TAC Langsa Organization.<br>3. Developed Block A Organization.<br>4. Implemented Mutual Agreement Termination in certain Assets.<br>5. Successfully obtained awards from both the Government of Indonesia and institutional bodies.<br>6. Continued Improving business processes, Supply Chain Management and Shared Services. |

## 2007 Achievements and Performance

**Production**

During 2007, MedcoEnergi's total oil & gas production was 50.44 MBOPD and 127.16 BBTUD from 11 producing blocks namely SCS, Lematang, Rimau, East Kalimantan TAC, East Kalimantan PSC, Sembakung, Langsa, Kakap, Bawean, Senoro-Toili and Tuban. The Rimau Block was the biggest contributor to total production.

**Reserves**

As E&P is MedcoEnergi's primary business, it is very important for the Company to maintain and add to its oil and gas reserves. This may be achieved through successful exploration and production of reserves in its existing blocks, contract extensions or acquisition of assets. MedcoEnergi calculates its oil, natural gas and condensate reserves using generally accepted petroleum engineering principles.

The 2P reserves from MedcoEnergi's Indonesian working areas as of December 31, 2007 were 192.6 MMBOE compared to 221.1 MMBOE as of January 1, 2007. The decrease resulted primarily from production in Rimau and SCS Blocks. The Company, however, has several projects, primarily Senoro, Block A, Bangkanai and Simenggaris if certain conditions are met in 2008, 1P and 2P reserves will increase by 191.0 MMBOE. Significant reserves may be added in years 2010-2012 related to the Rimau EOR project.

Gaffney, Cline & Associates annually certifies the total volume of hydrocarbon reserves in MedcoEnergi's major operating blocks. All other reserves from non-operated or small operated blocks are estimated by in-house qualified petroleum engineers.

## Exploration Activities

In 2007, MedcoEnergi drilled 13 wildcat and delineation wells in Rimau, SCS, Tarakan, Tuban, Kakap, Merangin, Simenggaris and Bengara Blocks. The Company carried out 2D and 3D seismic activities in Rimau and SCS Blocks. MedcoEnergi had a domestic exploration success ratio of 26% in 2007.

### 2007 Implementation of Drilling Program in Indonesian Working Areas

| Block | Development Wells | | | Exploration Wells | | |
|---|---|---|---|---|---|---|
| | 2007 Plan | 2007 Actual | 2008 Plan | 2007 Plan | 2007 Actual | 2008 Plan |
| Rimau | 67 | 35 | 38 | - | 2 | 3 |
| SCS | 8 | 6 | 15 | 4 | 3 | 7 |
| Tarakan | 4 | 4 | 3 | 1 | 1 | 1 |
| Langsa | 2 | 1 | - | - | - | - |
| Sembakung | 10 | 3 | 9 | - | - | - |
| Tuban* | 2 | 2 | 2 | 2 | 2 | 6 |
| Kakap* | 1 | 1 | - | 1 | 1 | - |
| Block A | - | - | 4 | - | - | - |
| Tomori | 1 | 2 | 4 | - | - | 1 |
| Lematang | 1 | - | 2 | 1 | - | - |
| Merangin | - | - | - | 2 | 1 | 1 |
| Nunukan* | - | - | - | - | - | 1 |
| Simenggaris | - | - | - | 2 | 2 | - |
| Bengara | - | - | - | 1 | 1 | 1 |
| Bangkanai* | - | - | 1 | - | - | 1 |
| Yapen* | - | - | - | - | - | - |
| New Ventures | - | - | 9 | - | - | 1 |
| **Total** | 96 | **54** | **87** | **14** | **13** | **23** |

*Non-operated interests

## Development

**Lematang.** The approval from the Minister of Mines and Energy on the Plan of Development (POD) in Lematang Block was received in July 2006. By year end 2007, the Company had completed the land acquisition process for plant facilities, flow lines and pipeline right of ways. Land clearing and site preparation are now in progress. MedcoEnergi is targeting the completion of facilities in 2009.

**Block A.** BPMIGAS has approved the POD of Block A in December 2007. MedcoEnergi is currently finalizing the Front End Engineering and Design (FEED) and soon will tender the Engineering, Procurement and Contract (EPC) Tender. Land clearing and site preparation has commenced. The Company has negotiated a contract extension and is awaiting a response from the Government.

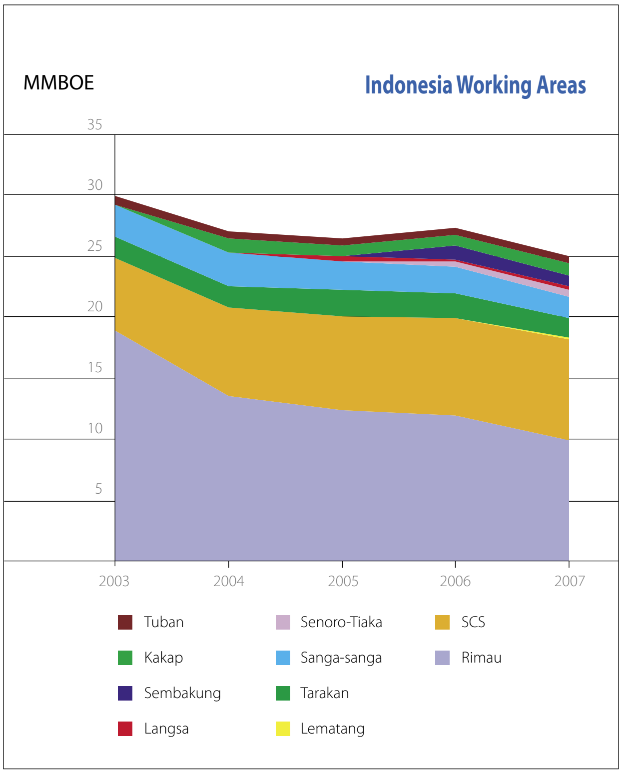
**Senoro.** MedcoEnergi received a formal approval from BP Migas to develop the Senoro gas field in May 2005. During 2007, the Company has managed to clear the site. MedcoEnergi will continue to develop the field in 2008 by drilling four development wells, re-completing one well and constructing production related facilities. The Company plans to complete the LNG facilities in the first quarter of 2012 in order to start production in the second quarter of 2012.

### Replace and Add Reserves

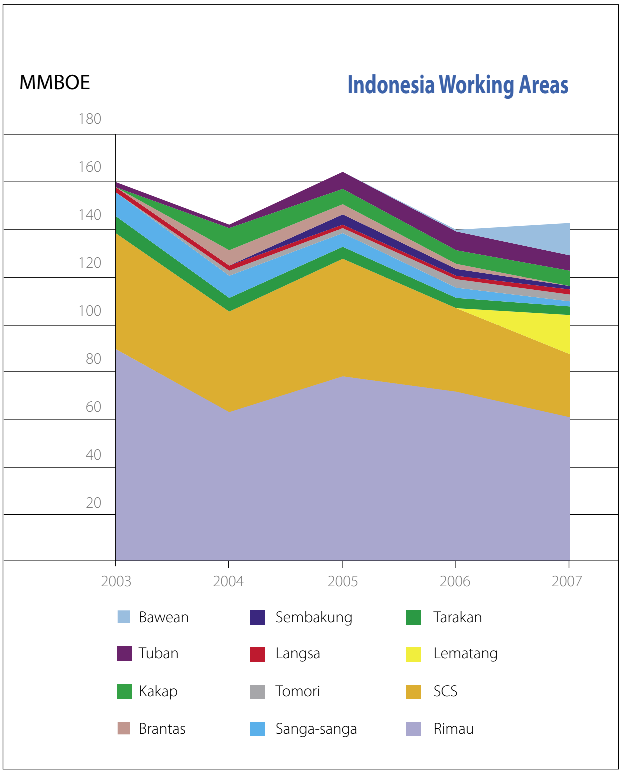
MedcoEnergi's main strategy is to add and replace oil and gas reserves as well as to maintain financial flexibility with a prudent financial structure and cost control. These are the reasons the Company made acquisitions and divestments in 2007.

On January 23, 2007, MedcoEnergi acquired an additional 25% working interest in Block A, Aceh Province from ConocoPhillips (Aceh) Ltd which held a 50% of working interest in the Block. Previously, MedcoEnergi purchased a 16.67% interest in this Block from ExxonMobil Block A Investment Ltd which was the holder of the other 50% of working interest in the Block. After this purchase MedcoEnergi's total effective interest in Block A is 41.67%.

### Total Oil & Gas Production in the Last 5 Years




### The Estimated 1P Reserves for the Last 5 years



(Left)Technicians at Rimau PSC, Kaji field plan for the Enhanced Oil Recovery (EOR) pilot project.

On March 16, 2007, MedcoEnergi divested its 32% working interest in the Brantas Block, East Java to Prakarsa Group to mitigate risks related to the Banjar Panji mudflow.

In May 2007, MedcoEnergi acquired a 49.99% share of HCM Investment Services Ltd in Camar Bawean Petroleum Ltd (CBPL) which owns a 65% working interest in Bawean PSC Block. The transaction gives MedcoEnergi 100% of the shares in CBPL. MedcoEnergi sold a 35% participating interest in the Bawean PSC Block in East Java to Kuwait Energy in June 2007. At the time of the publication of this Annual Report, this divestment has not been completed, pending fulfillment of certain conditions precedent. After the conditions precedent are fulfilled, MedcoEnergi's total effective interest will be 65% in the Bawean PSC.

In June 2007, MedcoEnergi sold a 21% interest in the Simenggaris PSC Block, East Kalimantan, to Salamander Energy (Simenggaris) Ltd. MedcoEnergi's effective interest is 41.5% after this sale.

MedcoEnergi divested a 60% interest in the Nunukan Block, East Kalimantan to Anadarko Indonesia Nunukan Company (AINC) in July and December 2007. MedcoEnergi's retained a 40% interest in this Block and AINC became the operator.

In November 2007, MedcoEnergi acquired a 50% share in Medco Moeco Langsa Limited (MML) from Mitsui Oil Exploration Co Ltd (Moeco) through a Share, Transfer, Release and Indemnification Agreement with MOECO. Subsequent to this transfer, MedcoEnergi owns all of the shares of MML and changed MML's name to Medco E&P Langsa Limited.

**Committed Gas**

In 2007, MedcoEnergi signed 6 Gas Sales Agreements (GSAs) with various parties to supply gas from the Company's producing blocks. More recently, on April 14, 2008, MedcoEnergi signed three additional GSAs. All these contracts are outlined in the table below.

**Relinquishments**

Previously, MedcoEnergi held a 65% working interest in Madura Block. The exploration contract has expired however, and the Company had to relinquish the block. In May 2007, MedcoEnergi submitted a relinquishment proposal to BPMIGAS and has fulfilled all required obligations with regard to this action.

## Forward Plans

MedcoEnergi intends to finalize negotiations with BPMigas to extend the SCS PSC, East Kalimantan TAC, Bawean PSC and Block A PSC in 2008.

The Company plans to finalize the GSA from Senoro Block to deliver gas to the Donggi Senoro LNG plant. The Company is aiming to complete the required documents and to be able to make its Final Investment Decision (FID) in 2008.

To share risks and to get strategic partners into its major blocks, MedcoEnergi has reviewed the Company's assets and plans to optimize its portfolio by releasing some of its interests in 2008 as follows:

- Execute the farm out of 25% in the Bengara PSC to Salamander Energy for a carry of future exploration costs of USD 6.5 million.
- Initiate the sale of MedcoEnergi's entire interest in the Kakap, Langsa, and Tuban PSC blocks, the sale of 30% non operating interest in the Bawean PSC (out of total interest of 65%), a 15% non-operating interest in the Rimau PSC (out of the total interest of 95%), and a 23% interest in the Lematang PSC (out of the total interest of 74.12%). The sale of these interests represents approximately 39 MMBOE or 19.3% of MedcoEnergi's 2P reserves at December 31, 2007.

MedcoEnergi initiated the Rimau EOR pilot program in 2007 and plans to start phase I operations in 2010. The Company expects to see the results from this initial program in 2012.

To leverage the Company's E&P assets, MedcoEnergi will continue to strengthen synergies for business opportunities within its downstream and power business units. MedcoEnergi will also continue to review proposals for new ventures to strengthen its position as the leading national oil and gas E&P company.

### 2007 Executed GSA's

| No | Buyer | Type | Off Taker | Originating Block | DCQ (BBTUD) | Volume | Contract Period | Signing Date |
|---|---|---|---|---|---|---|---|---|
| 1 | PT PLN (Persero) | New GSA | PT PLN (Persero) | Lematang PSC | 46.6 | 129.0 TBTU | 9 years | 21-Mar-07 |
| 2 | PT Pupuk Sriwidjaja | New GSA | Pabrik Pupuk Pusri | South Central Sumatra PSC | 45.0 | 178.2 TBTU | 1/1/2008 - 31/12/2018 | 7-Aug-07 |
| 3 | PT Pertamina (Persero) | Amendment | Pertamina | Rimau PSC | as it is | - | 1/5/2005 - 31/4/2009 | 24-Sep-07 |
| 4 | PT Gasuma Corporindo | New GSA JOB TUBAN | PT ADS (Pembangkit Listrik) | Tuban Block | 6.0 | 13.1 TBTU | 1/10/2008 - 30/9/2014 | 1-Oct-07 |
| 5 | PT Pupuk Iskandar Muda | New GSA | Pabrik Pupuk Iskandar Muda | Block A PSC | 110.0 | 223.0 TBTU | Q4 2010 to Q4 2019 | 10-Dec-07 |
| 6 | PT Pertamina (Persero) | Amendment | Kilang Methanol Bunyu (MMB) | Tarakan PSC | 15.0 | 5.4 TBTU | 7/2/2007 - 31/3/2008 | 10-Dec-07 |

### 2008 Executed GSA's*

| No | Buyer | Type | Off Taker | Originating Block | DCQ (BBTUD) | Volume | Contract Period | Signing Date |
|---|---|---|---|---|---|---|---|---|
| 1 | PT PLN (Persero) | New GSA | PT PLN (Persero) | Block A PSC | 15.0 | 85 TBTU | 2010 - 2026 | 14-Apr-07 |
| 2 | PT PLN (Persero) | New GSA | PT PLN (Persero) | South Central Sumatera PSC | 37.3 | 71.61 TBTU | 2008 - 2013 | 14-Apr-07 |
| 3 | PT Petrokimia Gresik | New GSA | PT Petrokimia Gresik | Tuban Block | 5.0 | 6 TBTU | 2009 - 2011 | 14-Apr-07 |

*These contracts were recently executed on April 14, 2008

## 2007 INDONESIAN 1P RESERVES ESTIMATION (iN MBOE)

| Indonesia Assets | Beginning balance (adjusted) * 1-Jan-07 | Addition or revision FY07 | Sale of Assets FY07 | Production FY07 | Ending balance 31- Dec-07 |
|---|---|---|---|---|---|
| Rimau[1] | 71,412 | - | - | 10,384 | 61,028 |
| Kampar/S.S. Extension[1] | 35,088 | - | - | 8,327 | 26,761 |
| Lematang | | | | | |
| (Harimau and Singa Field)[3] | 13 | 16,362 | - | 73 | 16,302 |
| Sanga-Sanga/ Samboja/ Tarakan[2] | 4,113 | - | - | 1,891 | 2,222 |
| Tarakan[1] | 4,946 | - | - | 1,722 | 3,224 |
| Sembakung[1] | 2,701 | - | - | 1,025 | 1,675 |
| Senoro Toili (Tiaka Field)[1] | 3,748 | - | - | 604 | 3,144 |
| Langsa[2] | 1,069 | 1,069 | - | 213 | 1,925 |
| Tuban[4] | 7,567 | - | - | 618 | 6,949 |
| Kakap[5] | 6,300 | 1,021 | - | 1,310 | 6,012 |
| Bawean[6] | 847 | 13,039 | - | 176 | 13,710 |
| Brantas | 2,191 | - | 2,191 | - | - |
| **Total Proved Reserves** | **139,995** | **31,491** | **2,191** | **26,343** | **142,953** |

(See notes under 2007 Indonesia 2P Reserves Estimation)

## 2007 INDONESIAN 2P RESERVES ESTIMATION (IN MBOE)

| Indonesia Assets | Beginning balance (adjusted) * 1-Jan-07 | Addition or revision FY07 | Sale of Assets FY07 | Production FY07 | Ending balance 31- Dec-07 |
|---|---|---|---|---|---|
| Rimau[1] | 89,375 | - | - | 10,384 | 78,990 |
| Kampar/S.S. Extension[1] | 55,905 | - | - | 8,327 | 47,577 |
| Lematang | | | | | |
| (Harimau and Singa Field)[3] | 31,233 | (11,708) | - | 73 | 19,452 |
| Sanga-Sanga/ Samboja/ Tarakan[2] | 5,853 | - | - | 1,891 | 3,962 |
| Tarakan[1] | 4,946 | - | - | 1,722 | 3,224 |
| Sembakung[1] | 3,703 | - | - | 1,025 | 2,677 |
| Senoro Toili (Tiaka Field)[1] | 4,334 | - | - | 604 | 3,730 |
| Langsa[2] | 1,763 | 1,763 | - | 213 | 3,313 |
| Tuban[4] | 7,567 | - | - | 618 | 6,949 |
| Kakap[5] | 8,170 | 758 | - | 1,310 | 7,618 |
| Bawean[6] | 847 | 14,429 | - | 176 | 15,100 |
| Brantas | 7,380 | - | 7,380 | - | - |
| **Total Proved and Probable Reserves** | **221,075** | **5,242** | **7,380** | **26,343** | **192,594** |

| **Contingent Resources** | |
|---|---|
| Senoro Toili (Senoro Gas Field)[7] | 153,612 |
| Block A[9] | 23,221 |
| Bangkanai[8] | 3,638 |
| Simenggaris[8] | 10,535 |

(1) MedcoEnergi's reserve estimates were certified in the GCA Report as of January 1, 2007.

(2) MedcoEnergi's reserve estimates were certified in the GCA Report as of January 1, 2006.

(3) MedcoEnergi's Proved reserve estimates for the Singa gas field of the Lematang PSC are based on Gas Sales Agreement (GSA) with PLN, while Proved and Probable reserves for Singa fields are based on in-house estimates as of January 1, 2008. MedcoEnergi's reserve estimates for Lematang Harimau Field were certified in the GCA report as of January 1, 2006.

(4) MedcoEnergi's reserve estimates for the Tuban block are based on operator's estimates as of January 1, 2007 and effective working interest of 25%.

(5) MedcoEnergi's reserve estimates for the Kakap block are based on operator's estimates as of January 1, 2008 and effective working interest of 16%.

(6) MedcoEnergi's reserve estimates for the Bawean block are based on operator's estimates as of January 1, 2008 and effective working interest of 100% (see Note 38a regarding sale of Bawean PSC non-operating interest), however the reserves amount to 15.1 MMBOE are subject to a contract extension.

(7) MedcoEnergi's contingent reserve estimates for the Senoro gas field of the Senoro Toili PSC block were certified in the GCA Report as of January 1, 2008 with effective working interest of 50%. In 2006, the reserves of Senoro Gas Field were reported within Proved and Probable classification; as of December 31, 2007, the reserves were reclassified as contingent.

(8) MedcoEnergi's contingent reserve estimates for the Bangkanai and Simenggaris blocks are based on in-house estimates and subject to finalization of Gas Sales Agreements.

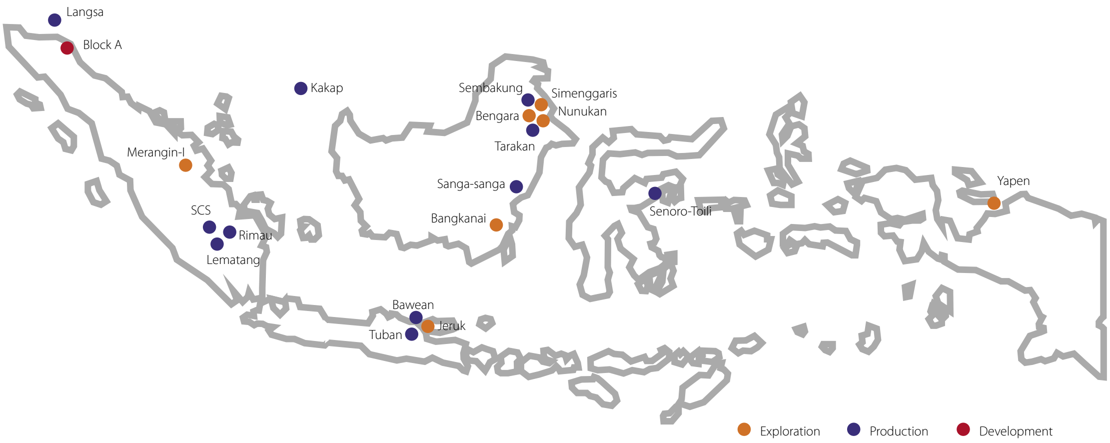
(9) MedcoEnergi's contingent reserve estimates for the Block A are based on Gas Sales Agreement (GSA) with Pupuk Iskandar Muda and PLN, assuming the PSC is extended beyond 2011.

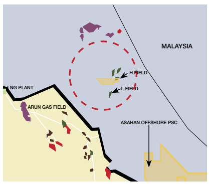
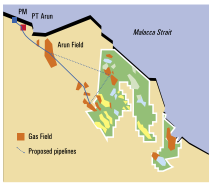
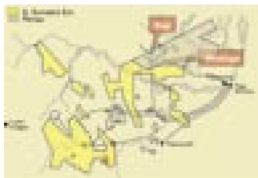
Beginning reserves balances of for several blocks have been adjusted by management based on GCA reports prepared in May 2007 for Indonesia assets.

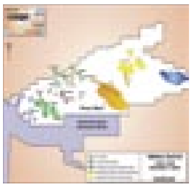
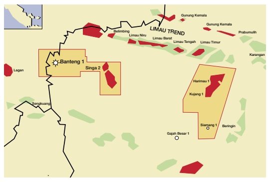
# Indonesian Assets

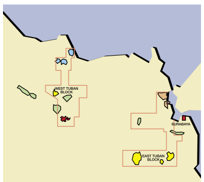
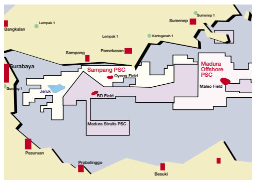
MedcoEnergi Indonesian Oil & Gas E&P participated in 19 blocks. These are comprised of producing, developing, and explorations assets as well as one economic interest. The 19 blocks are located across the archipelago from the north-western tip of Sumatra Island to the eastern frontier of Papua.

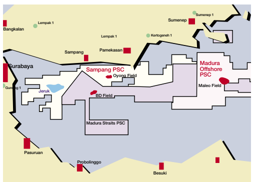
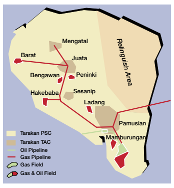
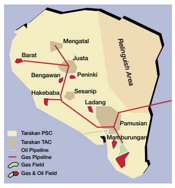
Below is the map of Indonesia which describes the locations of MedcoEnergi's assets.

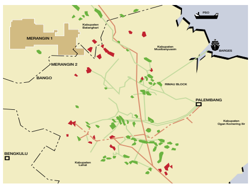
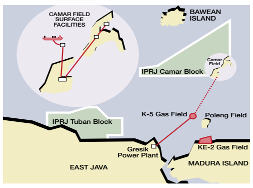
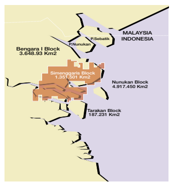


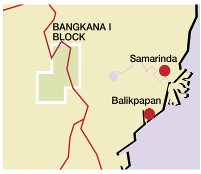
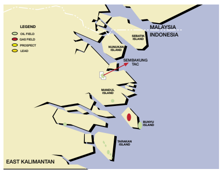

| Block | Langsa | Block A | South & Central Sumatera |
|---|---|---|---|
| |  |  |  |
| Type of Contract | TAC | PSC | PSC |
| Areas (km²) | 77 | 1,803 | 6,493 |
| Contract Expiry | 2017 | 2011 | 2013 |
| Working Interest Holders | Medco Moeco Langsa Ltd - 70% (operator), Modec Production (Langsa) Pte. Ltd - 30% | PT Medco E&P Malaka - 41.67% (operator), Premier Oil Sumatera (North) BV - 41.6%, Japex Block A Ltd - 16.67% | PT Medco E&P Indonesia - 100% (operator) |
| Status | Production | Development | Production |
| | On November 8, 2007, MedcoEnergi entered into a Share Transfer, Release and Indemnification Agreement with Mitsui Oil Exploration Co. Ltd. (Moeco). Moeco agreed to transfer its entire participating interest in Medco Moeco Langsa Limited to MedcoEnergi. Upon completion of this agreement, MedcoEnergi holds a 70% working interest and acts as sole operator.<br><br>The average daily production of the Langsa Block was 0.58 MBOPD in 2007. This was significantly higher compared to prior year's average production of 0.16 MBOPD.<br><br>The remaining 1P reserves in the Langsa Block were estimated at 1.93 MMBO at the end of 2007 based on a GCA certification.<br><br>The Company plans in 2008 to continue production using a Floating Production Storage and Offtake (FPSO). | Based on the previous operator's estimates, the Proven and Probable (2P) reserves in this block as of January 1, 2005 were approximately 666 BCF.<br><br>In 2007, the Company's activities in this block were focused on obtaining POD approvals from BPMIGAS, extending the PSC contract and starting a oil reactivation program.<br><br>In December 2007, the Company signed a GSA with Pupuk Iskandar Muda to supply 110 MMBTUD of gas at a price of USD 5.00/MMBTU plus 60% of any additional profit above an agreed urea base price.<br><br>On April 14, 2008, an additional GSA was signed with PLN to supply 15 BBTUPD of gas at a price of USD 5.30/MMBTU escalated at 3% per annum. | Total average crude oil production from South & Central Sumatra (SCS) Block increased slightly to 9.70 MBOPD in 2007 compared to 9.66 MBOPD in 2006. The average gas production increased to 76.72 MMCFD compared to 70.64 MMCFD in 2006 mainly due to higher off-take from gas buyers.<br><br>Based on a GCA certification, the remaining oil and gas 1P reserves in the SCS Block were 7.56 MMBO and 112 BCF at the end of 2007 compared to 11.10 MMBO and 140.37 BCF in 2006.<br><br>To optimize production from this block, the Company drilled 6 development wells in the Lagan and Fariz fields and drilled 3 exploration wells in the Gegas, Gemuruh and Kaju fields in 2007.<br><br>In 2008, MedcoEnergi plans to drill 15 development wells to optimize production from the Fariz, Gunung Kembang, Soka, Lagan, Jene and Temelat fields.<br><br>In 2008, the Company also intends to carry out 3D seismic over 135 km2 and drill 7 exploratory wells. The 3D seismic work and the Lagan Deep exploration well will be funded by the Company's partner, Anadarko.<br><br>Other programs to be conducted by the Company in 2008 are construction of the Gunung Megang-Singa-Pagar Dewa pipeline to support gas sales to PLN West Java and Fariz field development phase 2.<br><br>On April 14, 2008, a GSA was signed with PLN to supply 37 BBTUD of gas at a price of USD 4.17/MMBTU escalated at 3% per annum. |

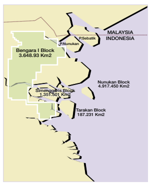
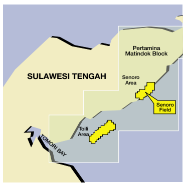
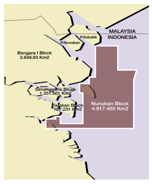
| Block | **Rimau** | **Lematang** |
|---|---|---|
| |  |  |
| Type of Contract | PSC | PSC |
| Areas (km²) | 1,577 | 409 |
| Contract Expiry | 2023 | 2017 |
| Working Interest Holders | PT Medco E&P Rimau - 95% (operator),<br>Perusahaan Daerah Pertambangan & Energi Sumsel (PDPDE) - 5% | PT Medco E&P Lematang - 74.12% (operator),<br>Lundin Lematang BV (Prev. Coparex Lematang BV) - 25.88% |
| Status | Production | Production |
| | The Rimau PSC, operated by MedcoEnergi, contains the producing Kaji-Semoga oil fields, together with five smaller fields, namely: Kalabau, Tabuan, Langkap, Kerang and West Iliran. In 2007, gross production from the block comprised 9.9 MMBBLS of oil and 5.9 BCF of gas. As at the end of 2007, the Company estimates the block to have net proved reserves of 61 MMBOE.<br><br>The Company's recent and future development focus for the Rimau PSC is primarily centered on stemming production decline through optimization of the existing waterflood through a pattern realignment; implementation of ESPs in new wells and replacement of gas lift in selected existing wells; further development using stimulation (hydraulic fracturing) and horizontal wells; ongoing development of reservoirs through an infill drilling program; and implementation of a chemical injection EOR program.<br><br>The Company plans to develop future production opportunities from exploring the Iliran High field; further heavy oil development; interpretation of recently acquired and processed 3D seismic; development of a new geological model; and further exploration and appraisal of eight already-identified, high-graded prospects and advanced leads. | The Lematang PSC, operated by MedcoEnergi, contains the Harimau oil and gas and Singa gas fields. As at the end of 2007, the Company estimates the block to have net proved reserves of 16 MMBOE.<br><br>The Singa Field is currently being developed in accordance with the latest plan of development. The Singa Field development is scheduled to deliver first gas in the first half of 2009. Production is expected to plateau at 50 MMSCFD.<br><br>The plan of development for the Singa field includes the engineering, procurement, construction and commissioning of: flow lines for wells; a gas processing plant; and pipeline to transport the sales gas to the Pagar Dewa pipeline junction. Singa gas will be transported via a 40 km pipeline to the sales point at Pagar Dewa junction, enabling the field to be tied into the South Sumatra to West Java Gas Transmission Pipeline System. The gas production from Singa will be utilized by a PLN power project in West Java. |

| Block | **Tuban** | **Jeruk Field in Sampang PSC** |
|---|---|---|
| |  |  |
| Type of Contract | PSC JOB | Economic Interest |
| Areas (km²) | 1,478 | 2,007 |
| Contract Expiry | 2018 | 2027 |
| Working Interest Holders | PT Medco E&P Tuban - 25%,<br>PT Pertamina (Persero) - 50%,<br>Petrochina International Java Ltd - 25% (operator) | Santos - 45% (operator)<br>Medco Straits Services PTE Ltd - 25 %<br>Singapore Petroleum Company - 21.8%<br>Cue Energy Resources - 8.2% |
| Status | Production | Exploration |
| | The Tuban PSC JOB, operated by Petrochina, contains the Mudi, Sukowati and Gondang fields. In 2007, gross production from the block comprised 2.5 MMBBLS of oil. As at the end of 2007, the Company estimates the block to have net proved reserves of 6.9 MMBOE.<br><br>Further plans for development of the Tuban PSC JOB include: work overs and development drilling. In 2008, the Operator plans to drill two new development wells (Sukowati-8 and Mudi-25). Sukowati-8 is expected to be spudded in the first half of 2008 and Mudi-25 well in the fourth quarter of 2008. The Tuban PSC Contractors are working to identify more infill drilling locations to recover additional reserves in the Mudi, Sukowati and Gondang fields.<br><br>The block's leads and prospects inventory is continuously updated following ongoing drilling, geophysical and geological evaluations. The focus for near term exploration is on the current proven plays. The longer term strategy is to evaluate alternative geological concepts/plays.<br><br>On April 14, 2008, a GSA was signed with Petrokimia Gresik to supply 5 BBTUPD of gas at USD 4.90/MMBTU escalated at 2.5% per annum. | In early 2006, MedcoEnergi acquired a 25% economic interest from Singapore Petroleum Sampang (SPC) and Cue Sampang Pty. Ltd (Cue) and reimbursed past drilling expenditures and working capital extended by SPC and Cue.<br><br>The Jeruk field is located within the Sampang PSC Block and is operated by Santos. The operator has drilled one exploration well in 2004 and two appraisal wells in 2005 and 2006 respectively with oil flow rates ranging between 500 - 700 BOPD.<br><br>Based on in-house estimates and full field development, the Jeruk contingent reserves may be as high as 50 MMBBLS. |

| Block | **Kakap** | **Sanga-Sanga/Samboja/Tarakan** | **Tarakan** |
|---|---|---|---|
| |  |  |  |
| Type of Contract | PSC | TAC | PSC |
| Areas (km²) | 2,006 | 136 | 180 |
| Contract Expiry | 2028 | 2008 | 2022 |
| Working Interest Holders | Star Energy (Kakap) Ltd - 31.25% (operator),<br>Premier Oil Kakap BV - 18.75%,<br>SPC Kakap Ltd - 15%,<br>Novus UK (Kakap) Ltd (Medco) - 13.50%,<br>PT Pertamina - 10%,<br>Santos UK (Kakap 2) Ltd - 6.25%,<br>Novus Nominees Pty. Ltd - 2.75%,<br>Novus Petroleum Canada (Kakap) Ltd (Medco) - 2.50% | PT Medco E&P Kalimantan - 100% (operator) | PT Medco E&P Tarakan - 100% (operator) |
| Status | Production | Production | Production |
| | The Kakap Block is operated by Star Energy and MedcoEnergi owns a 16% working interest.<br><br>MedcoEnergi recorded net production of 1.28 MBOPD of oil and 8.96 MMCFD of gas in 2007 compared to 1.12 MBOPD of oil and 13.87 MMCFD of gas in 2006. In 2007, the Operator drilled one development well (KG West-1) and one non-commercial exploration well (Pancing-1X). The Operator also completed facilities and put on production KRA-2X. Meanwhile, KG-KF pipelines and subsea well tie in were delayed to 2008.<br><br>The remaining 1P reserves from the Kakap block were 6 MMBOE at the end of 2007 compared to 6.3 MMBOE at the end of 2006.<br><br>Going forward, the operator intends to execute Lukah-1 subsea tie in, KG platform modification, KR-1X reactivation and booster compressor installation. Additionally, the Company expects production from the Kakap Block to contribute net oil production rate of 1.13 MBOPD of oil and 9.12 MMCFD of gas in 2008. | The average daily crude oil production from the Sanga-sanga/Samboja/Tarakan area increased to 4.73 MBOPD in 2007 compared to 4.58 MBOPD in 2006. Gas production declined to 2.62 MMCFD in 2007 compared to 6.91 MMCFD in 2006.<br><br>The proven reserves as of December 31, 2007 were 2.2 MMBOE based on in-house estimates.<br><br>MedcoEnergi intends to accelerate production in 2008. Presently, a negotiation to extend the TAC KSO with the Government is in progress. | The average daily oil production from Tarakan Block was 1.66 MBOPD in 2007 compared to 1.95 MBOPD in 2006. Gas production declined to 17.86 MMCFD in 2007 compared to 20.08 MMCFD in 2006.<br><br>The proven reserves as of December 31, 2007 were 3.22 MMBOE based on in-house estimates .<br><br>In 2007, MedcoEnergi drilled 4 development wells (Mamburungan) and one exploration well (Peninki Deep 1).<br><br>In February 2007, the gas sales contract to Medco Methanol Bunyu (MMB) was extended to March 2008 with total gas sales of 5.36 TBTU.<br><br>To maintain oil and gas production, the Company intends to drill 3 additional development wells and 1 exploration well in 2008. |

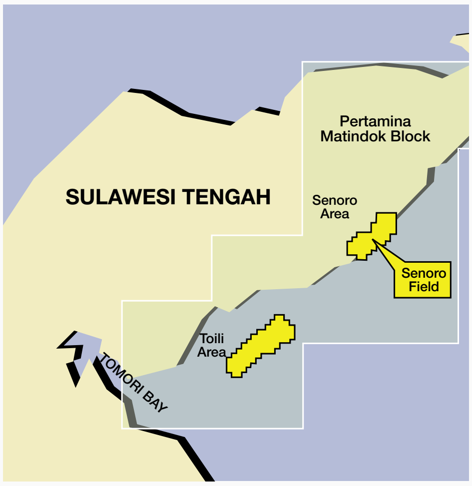
| Block | **Merangin-I** | **Bawean** | **Simenggaris** |
|---|---|---|---|
| |  |  |  |
| Type of Contract | PSC | PSC | PSC - JOB |
| Areas (km²) | 2,577 | 3,025 | 1,351 |
| Contract Expiry | 2033 | 2011 | 2028 |
| Working Interest Holders | PT Medco E&P Merangin - 40% (operator),<br>PTT EP Merangin Company Ltd. - 40%,<br>Moeco Merangin Co. Ltd. - 20% | Camar Resources Canada Inc. - 35%,<br>Camar Bawean Petroleum Ltd (CBPL)* - 30% (operator),<br>Kuwait Bawean Indonesia - 35%<br>*CBPL is affiliate of Medco | Medco Simenggaris Pty Ltd - 41,5% (operator),<br>PT Pertamina - 37.5%,<br>Salamander Energy (Simenggaris) Ltd - 21.0% |
| Status | Exploration | Production | Exploration |
| | The Company completed one exploration well (Tunas-1) in 2007 which is currently temporarily suspended.<br><br>According to the PSC Agreement, the Company had an obligation to execute its 1st relinquishment in 2007. This relinquishment was approved by both Partners and BPMIGAS.<br><br>In 2008, one exploration well (Nuansa-1) will be drilled. The Company will also acquire 3D seismic in the block. | The Bawean PSC, operated by a Medco affiliate, contains the producing Camar oil fields. In 2007, gross production from the block comprised 0.2 MMBOE of oil. As at the end of 2007, the Company estimates the block to have net proved reserves of 13.7 MMBOE compared to 0.8 MMBOE as at end of 2006.<br><br>The Operator is currently seeking an extension to the Bawean PSC to exploit remaining recoverable reserves in the Camar field and further explore substantial exploration prospects identified in both the Camar and Tuban areas. Further plans for development of the Bawean PSC include: workovers; infill and development drilling; heavy oil development and Camar field gas reserves development. | In June 2007, the Company sold a 21% working interest to Salamander Energy (Simenggaris) Ltd. After this sale, MedcoEnergi's interest is 41.5% and acts as operator.<br><br>The Company drilled 2 exploration wells in 2007 (South Sembakung-3, and deepening South Sembakung-2).<br><br>The Company's contingent reserves based on in-house estimates are 61.63 BCF as of December 31, 2007.<br><br>Based on the results of 2007 drilling activities, the Company will submit a POD to the Government for South Sembakung and expects to obtain approval in 2008. |

| Block | Bangkanai<br> | Sembakung<br> | Yapen<br> |
|---|---|---|---|
| Type of Contract | PSC | TAC | PSC |
| Areas (km²) | 6,976 | 23 | 9,500 |
| Contract Expiry | 2033 | 2013 | 2029 |
| Working Interest Holders | Elnusa Bangkanai Energy Ltd - 50.01% (operator), Mitra Energi Bangkanai Ltd - 34.99%, Bangkanai Petroleum (L) Berhad (BPLD)* - 15%<br>*BPLD is affiliate of Medco | PT Medco E&P Sembakung - 100% (operator) | Nations Petroleum Company Ltd. - 85% (operator), PT Medco E&P Yapen - 15% |
| Status | Exploration | Production | Exploration |
| | MedcoEnergi acquired a 15% working interest in this block from Mitra Energi Bangkanai in 2006. The Bangkanai Block is operated by Elnusa.<br><br>The Operator did not perform any exploration activities in 2007, however, MedcoEnergi evaluated seismic survey results and one exploration well proposal (Sungai Lahei-1).<br><br>In 2008, the Operator intends to acquired 2D seismic, drill one exploration (deeper Sungai Lahei-1) and one development well (upper Sungai Lahei-1). | The average daily oil production from this Block was 2.81 MBOPD in 2007 compared to 3.78 MBOPD in 2006. The production decline was mainly due to limited contract rigs, therefore the Company had to delay drilling 8 development wells.<br><br>The proven reserves as of December 31, 2007 were 1.68 MMBOE based on in-house estimates.<br><br>The Company drilled 3 development wells in 2007 and intends to drill 9 development wells in 2008 to increase and maintain oil production. No exploration wells are planned in 2008. | In 2007, the operator completed 2D & 3D seismic surveys. The seismic data was processed and is currently being interpreted.<br><br>In 2008, the Company plans to divest its interest in the Yapen Block subject to the seismic interpretation results. |

| Block | Bengara<br> | Senoro-Toili<br> | Nunukan<br> |
|---|---|---|---|
| Type of Contract | PSC | PSC - JOB | PSC |
| Areas (km²) | 2,311 | 451 | 4,917 |
| Contract Expiry | 2029 | 2027 | 2034 |
| Working Interest Holders | PTT EP Bengara I Co. Ltd - 40%, PT Medco E&P Bengara - 35% (operator), Salamander Energy (Bengara) Ltd - 25% | PT Medco E&P Tomori Sulawesi - 50%, PT Pertamina - 50% | PT Medco E&P Nunukan - 51% (operator), Anadarko Indonesia Nunukan Co. - 49% |
| Status | Exploration | Production | Exploration |
| | In 2007, the Company drilled one exploration well (Tiram-1). The well had no hydrocarbon indication and was plugged and abandoned.<br><br>The Company executed a farm out with Salamander and is currently waiting for partner approval.<br><br>In the 2008, the Company intends to drill one exploration well (South Sebuku 1) and plans to reprocess seismic data. | MedcoEnergi has a 50% interest and jointly operates the block with Pertamina. The block covers 2 fields namely the Senoro field, which contains huge gas reserves, and the Toili field, which contains oil reserves.<br><br>Based on MedcoEnergi's estimates, the Block contains significant reserves that could substantially enhance its E&P portfolio. The Company, in 2007, conducted work on Tiaka oil production and reviewed commercialization plans for Senoro gas. MedcoEnergi estimates its contingent resources for the Senoro gas field are 153.6 MMBOE as certified in a GCA Report as of January 1, 2008.<br><br>In 2007, oil production from the Toili field reached 1.65 MBOPD compared to 0.35 MBOPD in 2006. The Company also drilled two development wells (Tiaka-10 and Senoro-5) to prove up reserves.<br><br>In 2008, the Company intends to drill one exploration well (Cendanapura) to add reserves and acquire a 3D seismic. Other programs include a Geological & Geophysical study for Senoro/Tiaka fields, evaluation of the Kolo - Pandauke prospect, and drilling a North Tiaka well. | In July 2007, MedcoEnergi sold a 49% working interest in the Nunukan Block and an additional 11% working interest to Anadarko Petroleum Company. The Company maintain a 40% working interest in the Block. Effective January 2008, the block operatorship was transferred to Anadarko.<br><br>The Company's evaluation showed that shallow prospects were not commercially viable. The Company and its partner intend to focus on the deepwater area in the Block. In 2007, the Company prepared a site survey contract, which was approved by BPMIGAS, for an exploration well (Badik-1).<br><br>In 2008, one exploration well (Badik-1) is planned to be drilled. The costs of Badik-1 well will be fully funded by Anadarko. |

# Senoro -Toili, LNG Development

## Key Project #1 / Indonesia E&P




### Strategy

Commercialization of the uncommitted Senoro gas reserves is a priority of MedcoEnergi. The Company's strategy is to explore direct gas sales, working alliances with potential international downstream customers, establishing gas transportation and LNG facilities. The Company is now committed to developing and selling the Senoro gas in reserves stages, with an emphasis on establishing production infrastructure and drilling activity through the first phase, focusing on the development of LNG or LNG related projects as a priority.

### Background

The Senoro-Toili JOB blocks hold the Company's largest gross proven and probable oil and gas reserves. They consist of two areas: Senoro (onshore) currently covers 188 square kilometers and Toili (offshore) is currently covering 263 square kilometers. The Company has a 50% effective interest in the Senoro-Toili block. It operates the block under a JOB arrangement, together with Pertamina. The onshore Senoro gas field's reserves were estimated by GCA in its technical reserve report as of December 31, 2007 to have gross proven reserves of approximately 1,756.9 BCF.

### Upstream Progress in 2007

MedcoEnergi received formal approval of its plan of development for the Senoro gas field in May 2005, for up to 230 MMSCFD of total production capacity. The Company intends to develop the field by drilling nine development wells and one recompletion well. It will also construct related facilities to be completed by the end of 2008 or in early 2009. The fields currently are targeted to enter production in the second quarter of 2012 after production facilities are completed in the fourth quarter 2011. The total field initial rate is expected to be up to 250 MMSCFD. The Company completed Senoro-5 appraisal well in 2007 with the objective of proving additional reserves for development.

Upstream facilities development project activities completed in 2007 included Site Investigation & Topography Survey, and preparation of EPC Bid Document of Central Processing Area, Jetty & Loading Facilities, Flow Lines and Pipeline Construction. Land acquisition and Special Port Permit processes are now still in progress. The Company aims to accomplish land acquisition & site preparation, HOA/GSA with DSLNG, and EPC Tender this year, to meet the target of delivering gas to the LNG Plant in mid 2012.

### Downstream Progress in 2007

Currently, MedcoEnergi, Pertamina and Mitsubishi are undertaking a plan for a medium-sized LNG plant which is divided amongst the upstream and downstream sector. This project is expected to utilize approximately 1.5 TCF of Senoro's gas as feedstock.

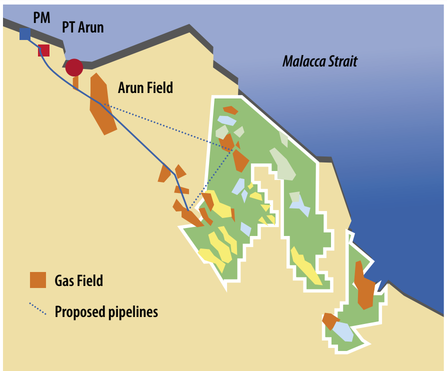
A new operating company, PT Donggi Senoro LNG (DSLNG), owned by the three parties was established in late 2007 and finalized in January 2008. DSLNG will buy gas from the upstream sector, operate an LNG plant and sell LNG to international buyers. Negotiations are ongoing to finalize a gas price from the upstream, economic valuation, strategic partnership and project construction to enable gas to be on stream in second quarter of 2012.

### Forward Plans

The Company plans to finalize the GSA and complete all other required documents to be able to make a Final Investment Decision (FID) in 2008.

# Block A Gas Development

## Key Project #2 / Indonesia E&P




### Strategy

Monetize gas reserves by obtaining GSAs and extend the PSC contract which will expire in 2011.

### Background

In April 2006, a consortium comprised of MedcoEnergi, Japan Petroleum and Premier Oil acquired 50% of ExxonMobil's share in Block A. The consortium further acquired the remaining 50% of the working interest from ConocoPhillips in January 2007. Currently, the effective shareholders of the working interest is MedcoEnergi 41.67% ,Premier Oil 41.66% and Japex 16.67%. MedcoEnergi acts as the operator in this PSC. Block A PSC is located onshore in Aceh province in the northern part of Sumatra and covers 1,803 square kilometers.

Based on operator's estimates, the Proven and Probable (2P) reserves from this block as of January 1, 2005 were approximately 666 BCF. However, the reserves certification from the independent auditor has not been completed.

### Progress in 2007

Following the signing of Heads of Agreement with PT Pupuk Iskandar Muda in October 2007, MedcoEnergi entered into a GSA on December 10, 2007. Under the agreement MedcoEnergi will deliver gas for nine year period, from 2010 to 2019, and will supply gas at 223 TBTU or 110 BBTU per day at peak time. The gas price is USD 5.00/MMBTU floor price plus 60% of additional profit from premium on agreed urea base price. The gas will be channeled from three fields in Block A; Alur Rembong, Julu Rayeu and Alur Siwah through approximately 120 km pipelines. The development plan was approved by the Government in December 2007 and it is currently underway to be accomplished in the fourth quarter of 2010.

During 2007, MedcoEnergi continued to negotiate the terms of the PSC extension with BPMIGAS. The Company proposed that the oil split be 85/15 and gas split 51/49. The sunk costs in Block A are USD 112 million. The total budgeted capital expenditures are USD 608 million which comprised of development drilling expenditures of USD 393 million for 26 wells, Gas Production Facilities expenditures of USD 203 million and Future Compressor of USD 12 million.

The Environmental Impact Study (AMDAL) for the oil and gas exploitation in East Aceh was re-approved by the Minister of Environment (KLH) in June 2007. It is important to share facilities with ExxonMobil Indonesia (EMOI) & PT Arun NGL as this will be the most economic approach to deliver gas to PIM. In December 2007, MedcoEnergi and EMOI concluded a facilities sharing scenario. Both parties need to develop further implementation through a Facilities Sharing Agreement.

### Forward Plans

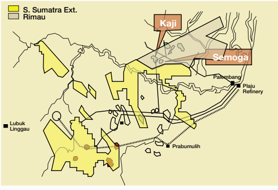
Block A PSC extension is under negotiation with the Government and the Company is targeting to obtain the final approval in 2008.

On April 14, 2008, MedcoEnergi executed a GSA with PLN to deliver 15 BBTUPD at USD 5.3/MMBTU, escalated 3% per annum. MedcoEnergi will supply PLN with a total volume of 85 TBTU for 15 years beginning in the first quarter of 2011.

In order to meet planned operations in June 2010, MedcoEnergi is in the process of finalizing the Front End Engineering and Design (FEED), EPC tender, land acquisition and site preparation.

# Lematang Gas Development

## Key Project #3 / Indonesia E&P




### Strategy

Monetize uncommitted gas reserves by obtaining a GSA.

### Background

Singa Gas Development Project located in Lematang PSC Block, South Sumatra which covers 228 square kilometers. The Company's current gross production from the block was 1.04 BBTUPD and 0.02 MBOPD of oil for the year ended December 31, 2007. The Company is the operator of the block and has a 74.12% effective interest in the Lematang PSC. The Singa gas field was discovered in 1997. As of December 2007, the certified proven and probable reserves were 19.4 MMBOE.

### Progress in 2007

The Plan of Development was approved by the Minister of Mines and Energy in August 2006 with total capital expenditures of USD 101.6 million which comprised of development drilling and workover expenditures of USD 40.4 million and Production Facilities of USD 61.2 million.

A GSA between the company and Perusahaan Listrik Negara (PLN) was signed on March 21, 2007 to supply gas at 48.30 MMCFD for nine years starting 2009. The total volume is 129 TBTU at USD 2.55/MMBTU escalated maximum USD 3.91/MMBTU. The gas will be supplied to PLN West Java using Perusahaan Gas Negara's (PGN) South Sumatra-West Java pipeline, which is currently under development.

The Engineering, Procurement and Construction (EPC) Bid Plan was approved by the Government in January 2007 and it was awarded to PT Inti Karya Persada Teknik (IKPT) for a contract value of USD 69 million. The gas facilities project is now in progress and is targeted to be mechanically complete in April 2009.

By the 2007 year end, the Company had completed the land acquisition process for plant facilities, flow lines and pipeline right of ways. Meanwhile land clearing and site preparation were in progress.

### Forward Plans

This project is scheduled to be in production by the first half of 2009. Two development wells (Singa 3 and Singa 4) will be drilled in 2008 to support the on-stream target for 2009.

# Rimau EOR

## Key Project #4 / Indonesia E&P

### Strategy

To increase production volume through reserves development.

### Background

Kaji Semoga field in Rimau PSC block is MedcoEnergi's largest oil producing block and contains its largest gross proven and probable oil reserves. Rimau block covers 1,104 square kilometers and cumulative gross production since first production until December 31, 2007 was 157 MMBO and 76 BCF.

In September 1996, MedcoEnergi discovered huge oil reserves and significant gas reserves in Kaji and Semoga fields with total discovery 304 MMBOE. The Kaji-Semoga oil has an API range of 35 to 38 degrees.

As of December 31, 2007, the proven and probable reserves were 78,990 MBOE. MedcoEnergi holds a 95% effective interest and the local government holds the remaining 5%, which includes a free carry on capital expenditures. MedcoEnergi is the operator of this block.

Producing operations from Rimau block consist of approximately 139 commercially producing wells across seven fields, as well as 51 injection wells in Kaji-Semoga. Since 2002, as the Kaji and Semoga wells became mature oil fields, production has declined. In 2007, oil production was 25.82 MBOPD. The company has taken several key initiatives to offset oil production declines including maintaining reservoir pressure, developing and stimulating the Telisa sands tight reservoir formation by utilizing sand fracing techniques in the reservoir rock, developing Talang Akar reservoir by drilling infill wells, minimizing pressure drawdown by drilling horizontal wells and Enhance Oil Recovery Project.

The Company's strategy to maintain oil production remains focused on enhancing oil recovery. From the Kaji Semoga Original Oil in Place reserve, oil production through Primary Recovery and Water Flood project is approximately 37.6% of the reserve. The EOR Project is expected to increase oil recovery by approximately 16.4% or to a total of 54% of the Original Oil in Place reserve.

### EOR Progress and Forward Plans

The EOR Program will increase potential reserves by 81 MMBO and will consist of several phases, such as, laboratory and test studies, pilot project preparation, pilot project implementation, pilot project evaluation and finally full scale EOR in Kaji and in Semoga.

Laboratory and test studies were conducted in 2006, and drilling of the pilot project implementation was executed in 2007 and in 2008. Chemical injection will be started in the second quarter of 2009. The full scale EOR project will start in 2010, with production increases expected from EOR to commence in 2012.

# International E&P

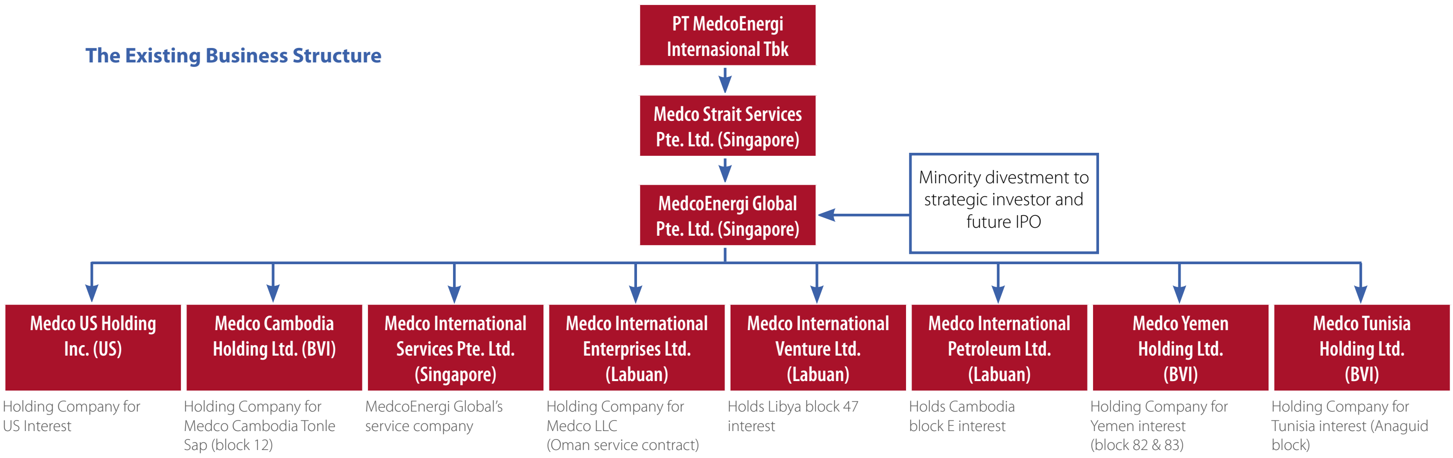
## Background

Three years ago, following the acquisition of Novus, an Australian oil and gas company, MedcoEnergi divested a number of the international assets it acquired through the transaction. These assets were considered non-core. MedcoEnergi retained Novus' former Indonesian assets as well as certain US assets. The US assets were retained as their potential capacity to generate cash flows was enhanced from increased domestic gas prices and improved company take from a concession agreement. Additionally the US assets in the Gulf of Mexico provided MedcoEnergi access to offshore technology and experience while enhancing the Company's operating credibility when negotiating with international governments and state entities.

In recognizing the increased international competition for resources and the expectation of increased oil prices, the retention of the US assets provided MedcoEnergi with the required leverage to acquire additional international assets. MedcoEnergi now has a balanced portfolio of international assets covering production in the US and Oman, discovered hydrocarbons requiring exploitation in Libya and Tunisia and exploration in Cambodia and Yemen. MedcoEnergi has recognized that it has a natural cultural affinity to the Middle East and North Africa and Asia where it is readily accepted, has relationships and can offer itself as an alternative to western companies. Accordingly, future growth will be primarily focused in these geographical areas.

Medco Energi Global Pte Ltd, (MEG), a Singapore based company was established in 2007 to hold all international E&P assets. It is the intention of MedcoEnergi to obtain value from its investment in international assets by selling up to 49% of its going concern interest in MEG. A number of value realization avenues are being explored, one of which has been to test the market value through private placement discussion, which is ultimately expected to lead to an IPO. Below is a diagram showing the relationship of MEG and its subsidiary company assets under PT MedcoEnergi Internasional Tbk.

### The Existing Business Structure




Today, MedcoEnergi International oil & gas E&P operations consist of 17 assets; 8 producing, 8 exploration and 1 development blocks which are located in the USA, Yemen, Libya, Cambodia and Tunisia, and an E&P Service Contract in Oman.

To ensure sustainability of its international E&P business, MedcoEnergi continues to implement the strategies outlined in the accompanying table:

| Main Strategies | Supporting Strategies | Achievements in 2007 |
|---|---|---|
| Replace and add reserves through exploration and acquisitions. | 1. To build a large and sustainable, publicly listed E&P company targeting hydrocarbon assets in under-exploited countries<br>2. To obtain additional growth especially opportunities in countries in which the Company already operates or has targeted for expansion. | 1. Acquired (40%) of the equity participating interest in the Convention, Permit and Joint Operating Agreement relating to the Anaguid Block in Tunisia from Anadarko Tunisia Anaguid Company in June 2007.<br>2. Received approval from the Royal Government of Cambodia for a Petroleum Agreement in September 2007 to carry out exploration and exploitation activities in Block 12 onshore in Cambodia.<br>3. Since winning exploration rights in Block 47 in Libya in 2005, the Company has drilled and cased six new field wildcat exploration wells and two appraisal wells. Six of these wells have been fully tested. The Company continues to report positive results. |
| Developing commercial reserves and creating new markets for uncommitted natural gas. | To be rigorous and disciplined in the commercialization of assets with a focus on early production, cash flow and shareholder value. | Under its new management, the US operation consolidated its position to extract full value from its existing assets and will seek to expand its operations. |
| Build strategic alliances and maintain financial flexibility with a prudent financial structure and cost control. | 1. To grow a balanced asset portfolio of producing, discovered non-producing and exploration opportunities with a geographic and geological spread of risk<br>2. To leverage the Company's extensive network of contacts and those of its ultimate parent and its strategic partners to identify new assets. | 1. Reviewed existing assets to ensure a balance of risk.<br>2. Divested a 21.25% participating interest in Block E which is located offshore of the Kingdom of Cambodia to Lundin Cambodia BV, an affiliated company of Lundin Petroleum AB effective on July 2, 2007.<br>3. Through a strategic relationship with Anadarko Petroleum Corporation, an international oil and gas company based in Houston. Medco acquired their interest in the Anaguid Block, Tunisia.<br>4. Partnering with Lundin Petroleum AB in Block E, Cambodia.<br>5. Maintained existing business partners including Verenex. |
| Foster prosperity with local communities and preserve the natural environment. | Ensure Safety, Health and Environment (SHE) excellent performance. | No accidents or material incidents in the operations. |
| Continue practicing the highest standard of corporate governance principles. | Improve organization capabilities and standard business process. | Adopted MedcoEnergi policies and procedures in business processes. |

## Production

The oil & gas production from MedcoEnergi's international operation was produced from the Company's US assets (MEUS). During 2007, the total oil and gas produced was 112 MBO and 2,570 MMCF from 5 (five) producing blocks namely Main Pass 64, East Cameron 317 / 318, Brazos 437 / 451, Mustang Island 758 and West Delta 52.

In Oman, where MedcoEnergi was appointed as the contractor to operate, manage and supervise the Karim Cluster of Fields, the Company managed to produce 2,186 MBO during 2007, for which it earns a fee.

## Reserves

The 1P reserves from MedcoEnergi's international working areas in the USA, as of December 31, 2007 were 4,935 MBOE compared to 7,969 MBOE as of January 1, 2007. The decrease was caused by the disposal of Sorrento Dome and re-evaluation of the Company's East Cameron and Main Pass assets, whereas the 2P reserves from the Company's international working areas in the USA as of December 31, 2007 were 7,276 MBOE based on GCA report.

## Exploration Activities

**USA.** MedcoEnergi drilled Brazos 437 #1 and West Delta 52#1 wells. The Company was able to book 11.3 BCF 1P reserves and 13.4 BCF 2P reserves for 21 year life in Brazos 437#1 and 0.6 BCF 1P reserves and 0.6 BCF 2P reserves in West Delta 52 #1. MedcoEnergi, however, experienced dry holes in Brazos 435#1 as a result, the log evaluation reserves indicated the project was not justified to complete and produce. Similarly, the drilling results in Mustang Island 758#2 showed that the shallow section reserve estimate was too low to justify completion and production due to depletion from an adjacent block. In 2007, total dry-hole costs were approximately USD 15 million.

**2007 Implementation of Drilling Program in International Working Areas**

| Block | Development Wells | | | Exploration Wells | | |
|---|---|---|---|---|---|---|
| | 2007 Plan | 2007 Actual | 2008 Plan | 2007 Plan | 2007 Actual | 2008 Plan |
| USA | 5 | 8 | - | - | - | 1 |
| Libya | - | - | - | 6 | 6 | 12 |
| Tunisia | - | - | - | - | - | 2 |
| **Total** | 5 | 8 | - | 6 | 6 | 15 |

**Libya.** Since MedcoEnergi acquired exploration rights in Block 47 in 2005, the Company's partner, Verenex Energy Inc., which acts as the operator of this block, has drilled and cased six new field wildcat (NFW) exploration wells. These wells have been fully tested through various choke sizes on various reservoir intervals ranging from 32/64ths inch to 128/64ths inch. Flow testing of a seventh well has recently been completed and results will be released following review and approval by the Libyan National Oil Company (NOC).

**Tunisia.** MedcoEnergi along with its partner and operator of the Anaguid Block, Pioneer Natural Resources commenced acquiring 900 km2 of seismic in 2007.

**Cambodia and Yemen.** MedcoEnergi completed the acquisition of 1,760 km of 2D seismic in Block E offshore, Cambodia, in 2007. Meanwhile, Yemen Block 82 and 83 are currently waiting on the Parliament's final authorization before moving to seismic exploration activities.

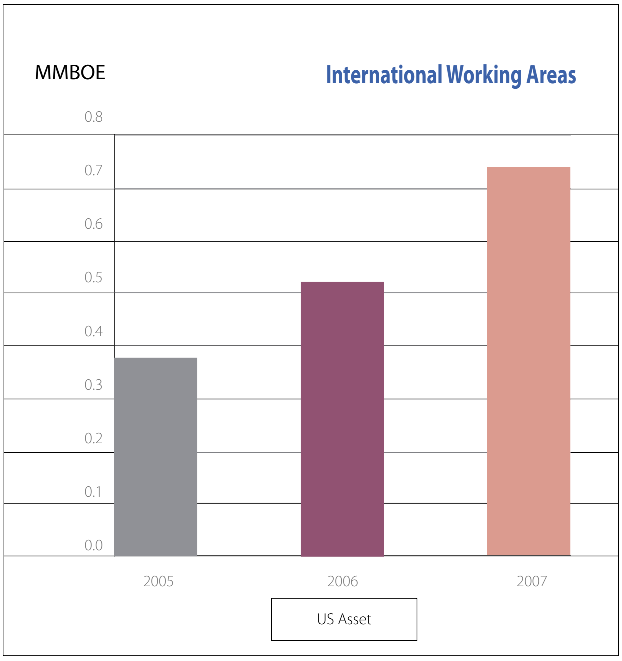
## Development

**Libya.** The Company's partner plans to submit, mid-year 2008, a Plan of Development to the Government of Libya to develop a portion of Block 47 with an early production system with a maximum rate of approximately 50,000 BOPD. The Company plans to have production in 2010, with continuing exploration in the Block.

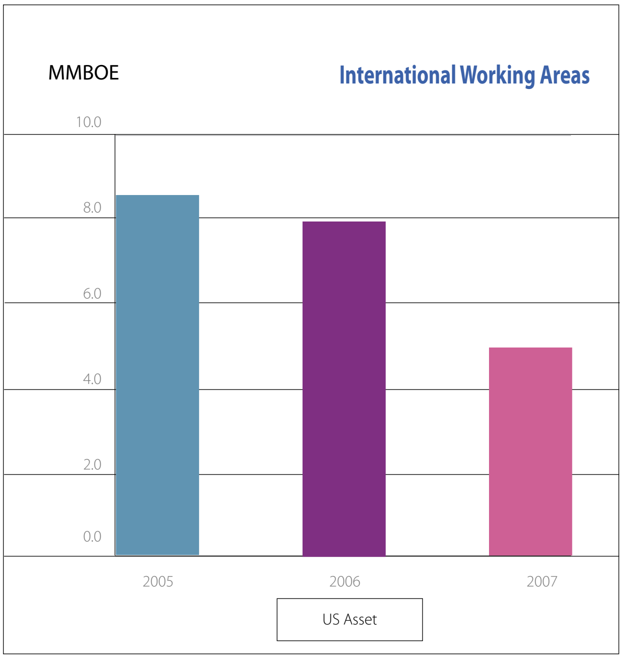
## Oman – Service E&P Agreement

In January 2006, MedcoEnergi won a tender for a ten year duration service E&P Agreement (the first of its kind in Oman) whereby Petroleum Development Oman, PDO, outsourced an onshore field area, Karim Fields, for a third party contract operator to operate on its behalf with the objective of arresting decline, increasing production and exploiting the potential of the fields. Oil production started in 1987,

**Total Oil & Gas Production in the Last 3 Years**




**The Estimated 1P Reserves for the Last 3 Years**



giving MedcoEnergi the opportunity to apply its skill and experience in field re-habilitation. MedcoEnergi took full field responsibility of over 115 wells, producing 11,750 BOPD in August 2006.

MedcoEnergi earns a fee from production, and is cost reimbursed. The benefit to MedcoEnergi is that it provides an opportunity for existing Indonesian employees to get international experience and it creates a pool of experienced talent for use in other international areas. The contract being fully cost recoverable does not require heavy working capital commitment and is self-funding.

At year end MedcoEnergi had drilled 17 wells achieving production of 13,280 BOPD in the month of December, where 20% of production came from new wells. MedcoEnergi contracts two drilling rigs which commenced activities in June and September, and a hoist which commenced activity in October 2006, for maintaining production operations.

## Replace and Add Reserves

**USA.** Sorrento Dome was an onshore asset with a play concept of producing hydrocarbons trapped against a salt diapir. The asset was inherited through the acquisition of Novus and the existing hydrocarbons became depleted. Alternative asset development possibilities required deeper directional drilling and the project risk was considered too high. Rather than sustain continuing costs and fees for a depleted asset with no further utility, MEUS opted to divest the asset for the cost of abandonment and site clean-up with minor cash claw backs in the event of future success. This was completed on 15th April 2007.

In November 2007, MedcoEnergi engaged Gaffney Cline Associates (GCA), in connection with a planned private placement of its international E&P assets, to perform a detailed reserve review using all available production, seismic, pressure and other data to accurately determine year end reserves. The results of this review determined that an impairment existed related to the Company's East Cameron assets

### 2007 International E&P 1P Reserves Estimation (MBOE)

| | Beginning balance (adjusted) | Addition or revision | Sale of Assets | Production | Ending balance |
|---|---|---|---|---|---|
| **International Assets (USA)[1]** | **1-Jan-07** | **FY07** | | | **31- Dec-07** |
| East Cameron 317/318 | 4,460 | (3,893) | - | 321 | 247 |
| Main Pass 64/65 | 2,257 | (757) | - | 135 | 1,364 |
| Mustang Island Block 758 | - | 602 | - | 9 | 592 |
| Brazos Block 435/437/492/514 | - | 2,709 | - | 85 | 2,624 |
| West Delta Block 52 | - | 109 | - | - | 109 |
| Sorrento Dome | 1,252 | - | (1,252) | - | - |
| **Total Proved Reserves** | **7,969** | **(1,231)** | **(1,252)** | **551** | **4,935** |

### 2007 International E&P 2P Reserves Estimation (MBOE)

| | Beginning balance (adjusted) | Addition or revision | Sale of Assets | Production | Ending balance |
|---|---|---|---|---|---|
| **International Assets (USA)[1]** | **1-Jan-07** | **FY07** | | | **31- Dec-07** |
| East Cameron 317/318 | 6,272 | (5,332) | - | 321 | 619 |
| Main Pass 64/65 | 4,157 | (1,472) | - | 135 | 2,549 |
| Mustang Island Block 758 | - | 793 | - | 9 | 784 |
| Brazos | - | 3,301 | - | 85 | 3,216 |
| West Delta Block 52 | - | 109 | - | - | 109 |
| Sorrento | 3,061 | - | (3,061) | - | - |
| **Total Proved and Probable Reserves** | **13,490** | **(2,602)** | **(3,061)** | **551** | **7,276** |
| **Contingent Resources** | | | | | |
| Libya[2] | | | | | |

(1) MedcoEnergi's reserve estimates for the US assets were certified in the GCA Report as of December 31, 2007.

(2) MedcoEnergi holds a 50% non-operating interest in the Area 47 Block in Libya with a number of discoveries and exploration opportunities. No contingent resources are reported at this time.

**(Left):** Seismic evaluation activity using the vibroseis method in Anaguid, Tunisia.

in the USA. The GCA report provided a more accurate picture of the Company's current reserves, which was significantly less than those represented in prior years. The previous reserves were also based on third party reports but were prepared using a less rigorous methodology and were made without the benefit of several years of production history. The Company believes that its reserves are now accurately stated and that the related net book value of the East Cameron assets are representative of fair market value in 2007.

In March 2007, MedcoEnergi acquired a non-operating working interest of 52.84% in the West Delta 52 Block located in Louisiana state waters in Plaquemines Parish, Louisiana. Red Willow Offshore LLC is the operator in this Block.

In June 2007, MedcoEnergi acquired a 100% interest in the Brazos 451 Block from Apache Corporation.

MedcoEnergi acquired a portion of Challenger Minerals's interests at Main Pass Blocks 64/65 and 57 which is an additional 9% working interest and a 7% working interest respectively in these blocks. After this acquisition, MedcoEnergi's effective interest was 75% in Main Pass Blocks 64/65 and 7% in Main Pass 57. The agreement was signed on March 12, 2008 however it was effective in August 2007.

**Tunisia.** MedcoEnergi acquired forty percent (40%) of the equity participating interest in the Convention, Permit and Joint Operating Agreement relating to the Anaguid Block in Tunisia from Anadarko Tunisia Anaguid Company effective on June 12, 2007.

**Cambodia.** MedcoEnergi divested a 21.25% participating interest in Block E to Lundin Cambodia BV, an affiliated company of Lundin Petroleum AB effective on July 2, 2007. After the divestment, MedcoEnergi maintains an effective 41.25% working interest. The Block is located offshore.

## Forward Plans

MedcoEnergi will implement Company wide systems and controls and continue to seek value realizing opportunities including testing the market for a private placement using its sponsor bank prior to undertaking an IPO. This plan however, has been postponed due to current financial market conditions. The Company is also exploring other options to achieve its objectives to meet its future funding requirements.

**Libya and Tunisia.** MedcoEnergi will continue to explore as well as finalize the first development plan in Block 47 in Libya. MedcoEnergi also plans to further appraise the Anaguid Block potential in Tunisia by drilling two prospects, after receiving 3D seismic results mid year 2008.

**Cambodia and Yemen.** MedcoEnergi plans to acquire, either new or additional, 3D and 2D seismic and undertake other exploration activities.

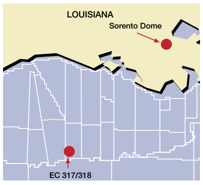
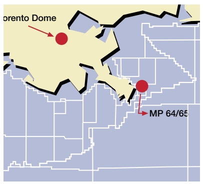
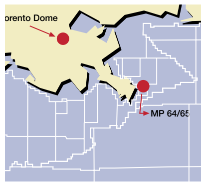
**Oman.** MedcoEnergi plans to increase production to 18,000 BOPD, almost 38% by drilling a further 46 wells. Further study work will be conducted on the application of enhanced recovery techniques. MedcoEnergi will continue the drilling programs and initiate secondary recovery studies to meet production targets.

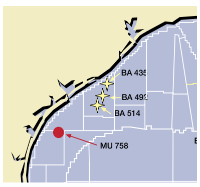
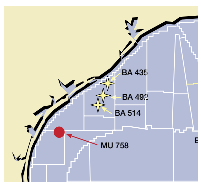
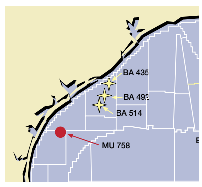
**USA.** MedcoEnergi has always worked on a layered planning strategy, starting with Layer 1 which represents existing assets from which it intends to optimize production and where possible to develop incremental production additions. Layer 2 represents small incremental single asset additions to bolster production, offset decline where possible. Layer 3 represents identification of larger project opportunities in which MEUS adds reserves and production potential through older field area rehabilitation and redevelopment. Layer 4 represents acquisition of a more substantial set of assets which would effectively resize the MEUS Company and provide a faster growth platform. Layer 5 represents opportunities beyond the financial resources of MEUS requiring participation with strategic partners where MEUS brings to bear its capabilities and experience as operator.

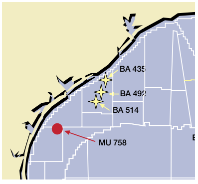
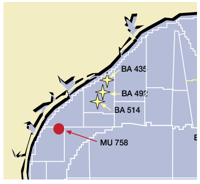
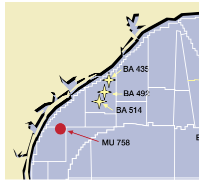
Operational emphasis in 2008 will be maintained in executing Layers 1, 2 and 3. Meanwhile management will continue to seek and evaluate Layers 4 and 5 opportunities. The management emphasis will be on cost effective production not production at any cost.

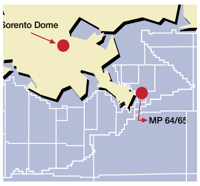
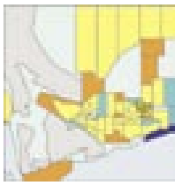
# International Assets


MedcoEnergi International oil & gas E&P operations consist of 16 assets; 7 producing, 8 exploration and 1 development blocks. These are located in the USA, Yemen, Libya, Cambodia and Tunisia, and an E&P Service Contract in Oman.

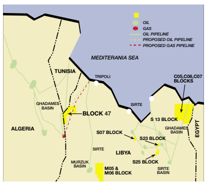
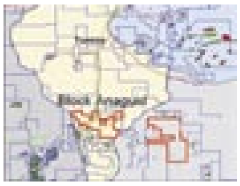
| Block | **East Cameron 317/318**<br> | **Main Pass 64/65**<br> | **Main Pass 57**<br> |
|---|---|---|---|
| Countries | USA | USA | USA |
| Type of contract | Concession | Concession | Concession |
| Areas (Km²) | 40.5 | 28.4 | 10.1 |
| Contract Expiry | Held by Production | Held by Production | Held by Production |
| Working Interest Holders | MedcoEnergi US LLC - 75%,<br>Leed Petroleum LLC - 25% | MedcoEnergi US LLC - 75.00%,<br>Leed Petroleum LLC - 25.00% | Samson Offshore - 25.00%,<br>Reef Global Energy I, L.P. - 4.69%,<br>Bright & Company I, Ltd. - 4.69%,<br>Palace Exploration Company - 23.44%,<br>Fidelity Exploration & Production Co. - 32.81%,<br>Leed Petroleum LLC - 2.34%,<br>MedcoEnergi US LLC - 7.03% |
| Status | Production | Production | Production |
| | Gas: 1,851 MMCF in 2007 vs. 1,727 MMCF in 2006.<br>Oil: 6.2 MBO in 2007 vs. 0 in 2006.<br>Reserves: 1,441 MMCF; 0.2 MBO.<br>2007: Tied-in ERT offset producer at 13.5 MMCFD.<br>2008: Plan joint development of potential gas reserves from platform. | Gas: 167 MMCF in 2007 vs. 703 MMCF in 2006 (depletion of gas supply and compressor downtime to mid-year).<br>Oil: 106.9 MBO in 2007 vs. 115.9 MBO in 2006 (gas lift shortage in 4th Qtr).<br>Reserves: 912 MBO; 2,362 MMCF.<br>Added gas lift supply 12/07, shut-in until needed.<br>2008: Complete waterflood reactivation with 2 conversions to injectors. | This block was acquired in March 2008 but effective in August 2007. Production was less then 5 BOPD in 2007. |

| Block | **Mustang Island 758**<br> | **Brazos 435**<br> | **Brazos 437**<br> |
|---|---|---|---|
| Countries | USA | USA | USA |
| Type of contract | Concession | Concession | Concession |
| Areas (Km²) | 23.3 | 23.3 | 23.3 |
| Contract Expiry | Held by Production | 2011 | Held by production |
| Working Interest Holders | Rampant Lion Energy LLC - 11.25%,<br>MedcoEnergi US LLC - 66.25%<br>Challenger Minerals - 22.5% | MedcoEnergi US LLC - 100% | MedcoEnergi US LLC - 100% |
| Status | Production | Exploration - Potential Future Development | Production |
| | Commenced production in November 2007.<br>Gas: 53 MMCF. Oil: 0.1 MBO<br>Reserves: 3,438 MMCF; 4.9 MBO.<br>2007: Completed #1 well, and drilled and plugged #2 (logged gas pay sands but non-commercial).<br>2008: Possible up-hole recompletion in well #1. | Drilled and plugged #1 well (logged gas pay sands but non-commercial).<br>Prospective Gas Resources in Inventory.<br>2008: Continue evaluating exploration potential. | Commenced production in October 2007.<br>Gas: 499 MMCF, Oil: 0.001 MBO.<br>Reserves: 11,318 BCF; 38 MBO.<br>2007: Drilled and completed 1 successful discovery.<br>2008: Continue optimizing existing production and discoveries. |

| Block | **Brazos 451** | **Brazos 492** | **Brazos 514** |
|---|---|---|---|
| |  |  |  |
| Countries | USA | USA | USA |
| Type of contract | Concession | Concession | Concession |
| Areas (Km$^2$) | 5,760 | 23.3 | 23.3 |
| Contract Expiry | - | 2011 | 2011 |
| Working Interest Holders | MedcoEnergi US LLC - 100% | MedcoEnergi US LLC - 100% | MedcoEnergi US LLC - 100% |
| Status | Production | Exploration - Potential Future Development | Exploration - Potential Future Development |
| | Acquired from Apache in 07/07; on production.<br>Reserves: 3, 753 MMCF; 9.7 MBO.<br>Hooked-up and producing Brazos 437 at 451.<br>2008: Behind-Pipe and PUD development. | Prospective Gas Resources in Inventory.<br>2008: Continue evaluating exploration potential. | Prospective Gas Resources in Inventory.<br>2008: Continue evaluating exploration potential. |

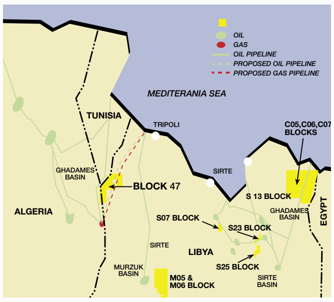
| Block | **West Delta 52** | **Block 82** | **Block 83** |
|---|---|---|---|
| |  |  |  |
| Countries | USA | Yemen | Yemen |
| Type of contract | Concession | PSA | PSA |
| Areas (Km$^2$) | 0.5 | 1,853 | 346 |
| Contract Expiry | Held by Production | 2027 | 2027 |
| Working Interest Holders | MedcoEnergi US LLC - 53.84%<br>Red Willow Offshore LLC - 46.15% | Medco International Holding Pte Ltd - 38.3%<br>Kuwait Energy Co. - 21,3%<br>Indian Oil Corporation Ltd - 12.8%<br>Oil India Ltd - 12.8%<br>Yemen General Corporation for Oil & Gas - 15% | Medco International Holding Pte Ltd - 38.25%<br>Kuwait Energy Co. - 21,25%<br>Indian Oil Corporation Ltd - 12.75%<br>Oil India Ltd - 12.75%<br>Yemen General Corporation for Oil & Gas - 15% |
| Status | Production | Exploration | Exploration |
| | Commenced production in July 07.<br>Gas: 16 MMCF; Oil: 0.2 MBO.<br>Reserves: 608 MMCF; 4.9 MBO.<br>Drilled and completed 1 successful discovery.<br>2008: Continue optimizing existing production and discoveries. | No activities in 2007.<br>Run 198 km2 3D Seismic Study in 2008. | No activities in 2007.<br>Run 203 km2 3D Seismic Study in 2008. |

| Block | Block E | Block 12 |
|---|---|---|
| |  |  |
| Countries | Cambodia | Cambodia |
| Type of contract | PSC | PSC |
| Areas (Km$^2$) | 5,000 | 3,000 |
| Contract Expiry | 2031 | 2032 |
| Working Interest Holders | Medco International Petroleum Ltd - 41.25%<br>Lundin BV - 34%<br>Kuwait Energy Company - 20.625%<br>JHL Ltd - 4.125% | Medco Cambodia Tonle Sap Ltd - 52.5% CNPA - 40%<br>JHL Ltd - 7.5% |
| Status | Exploration | Exploration |
| | Completed 1,760 km2 2D seismic acquisition.<br>Plan to acquire 250 km2 3D seismic in 2008. | No activities in 2007 as the Petroleum Agreement with the Royal Government of Cambodian was just signed in September 2007.<br>Plan to acquire 500 km2 2D seismic in 2008. |

| Block | Block 47 | Anaguid |
|---|---|---|
| |  |  |
| Countries | Libya | Tunisia |
| Type of contract | PSC | Concession |
| Areas (Km$^2$) | 6,182 | 5,716 |
| Contract Expiry | 2030 | 2022 |
| Working Interest Holders | Medco International Ventures Ltd - 50%<br>Verenex Energy Area 47 Ltd - 50% | Medco Tunisia Anaguid Ltd - 40%<br>Pioneer Natural Resources Anaguid Ltd - 60% |
| Status | Exploration | Development |
| | In 2007, 232 mm bo (risked mean), completed 1,225 km2 3D seismic and drill 6 exploration wells and 1 appraisal well.<br>Plan to acquire 550 km2 2D seismic and drill 11.5 exploration wells in 2008. | Run 900 km2 3D seismic and drill 2 exploration wells in 2007.<br>Continue 900 km2 3D seismic acquisition and plan to drill 2 exploration wells in 2008. |

# Block 47 Development, Libya

## Key Project #5 / International E&P




### Strategy

Replace and add reserves through exploration.

### Background

In January 2005, MedcoEnergi and Verenex were awarded Block 47 in the Ghadames Basin, Libya. MedcoEnergi and Verenex hold a 50 % interest respectively in the Block 47 license and Verenex acts as the operator.

### Discovery

Block 47 is located within the Ghadames Basin which has a world class proven petroleum system. The Basin has discovered some 2,700 MMBOE in 54 fields. The results of the first six exploration wells confirm that Block 47 has received significant oil charge. As of December 2007, a total of 585 km2 of 3D seismic had been shot. As a plan for 2008, a total of 1,225 km2 of 3D seismic will be shot, with a further 550km of 2D seismic. MedcoEnergi and Verenex (hereafter referred to as "the Partners") have thereby exceeded all of the minimum commitments for 3D and 2D seismic acquisition under the terms of their contract.

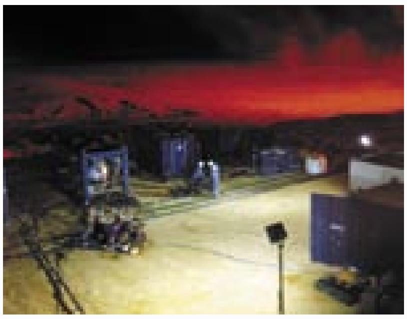
To acquire the Block 47 license, the Partners bid a Production Allocation (PA) of 13.7 % of which MedcoEnergi receives a proportion equal to its 50 % participating interest, being 6.85 %. Under the terms of the EPSA, MedcoEnergi recovers its share of capital and operating costs from its 6.85 % allocated production. MedcoEnergi is responsible for 50 % of all exploration and appraisal costs, 25 % of all development costs and 6.85 % of all operating costs. Once all of the Partners' capital and operating costs are fully recovered, any remaining portion of the 6.85 % PA is allocated between the Libyan National Oil Company (NOC) and the Partners. MedcoEnergi's share is calculated as the product of two factors. One factor is based on profitability, measured as the cumulative value of the Partners' production divided by the cumulative value of capital and operating costs. The second factor is based upon daily production volumes. The NOC pays all royalties and taxes on behalf of MedcoEnergi from its share of production.

### Exploration activities in 2007

Verenex commenced drilling its first new field wildcat exploration well in Block 47, named A1-47/02, on 29 September 2006. Since then, the operator has completed six exploration wells on Block 47 and each tested significant oil flows. There is a large inventory of exploration prospects remaining to be tested to determine the reserve potential of the licence. The Company met its drilling commitments after the third well. There are no other contractual commitments to be met under the contract.

### Forward Plans

In 2008, an extensive workover and well test program for 12 exploration wells has been approved by the Management Committee. The 2008 approved exploration budget is USD150 million on a Gross basis. According to Verenex (the operator), these wells are targeting in excess of 500 MMBBLS of oil mean probabilistic resources. The Partners have until March 2010, with certain extension opportunities, to complete the exploration phase in order to retain portions of the block for future joint development, under the terms of the EPSA.



MedcoEnergi is actively involved in the Middle East and North Africa, especially Block 47 in Libya which has a large potential discovery based on exploration results.

**Operational & Financial Highlights (Downstream)**

| | 2007 | 2006 | ▲ |
|---|---|---|---|
| **Methanol Plant** | | | |
| Sales and other operating income (million USD ) | 34.4 | 32.0 | 7.5% |
| Methanol Sales (Metric Tons) | 117,033 | 137,045 | -15% |
| **LPG Plant** | | | |
| Processing fee (million USD ) | 7.2 | 9.2 | -22% |
| Associated Gas Processed (MMCF) | 4,205 | 5,301 | -21% |
| LPG Production (Metric Tons) | 26,803 | 36,510 | -27% |
| **Fuel Storage & Distribution Facility**[1] | | | |
| High Speed Diesel (KL) Sales | 47,120 | - | 100% |
| **Ethanol Plant**[2] | | | |
| Capital Expenditures (million USD ) | 21.7 | 4.2 | 417% |

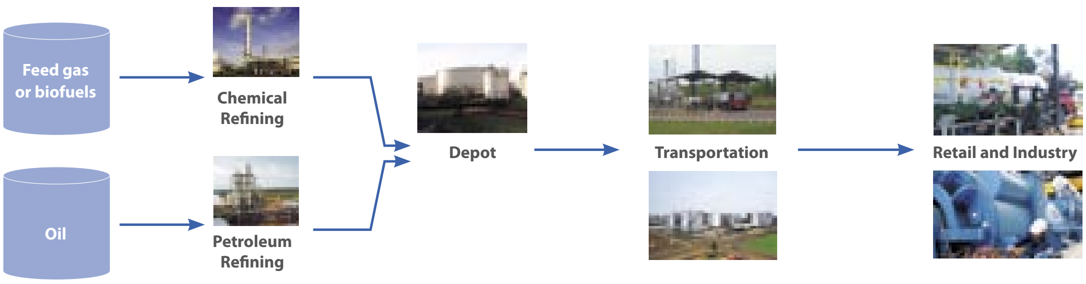
[1] Operated in June 2007
[2] Construction to be completed in second semester 2008

# 2 Downstream

## Background

MedcoEnergi first began operating in the downstream sector with its Methanol plant in East Kalimantan in 1997. Later in South Sumatra in 2004 it started the LPG Kaji operation. This was followed by the construction of an ethanol plant operation in Lampung in late 2006. In 2007, MedcoEnergi acquired a fuel storage and distribution business in North Jakarta, and a 20% stake in PT Donggi Senoro LNG (DSLNG). DSLNG has been designated to construct and operate an LNG plant using gas from the Senoro and Matindok Blocks. An equity interest in PT Trada International (Trada) was also acquired to gain exposure to the trading and transportation sectors.

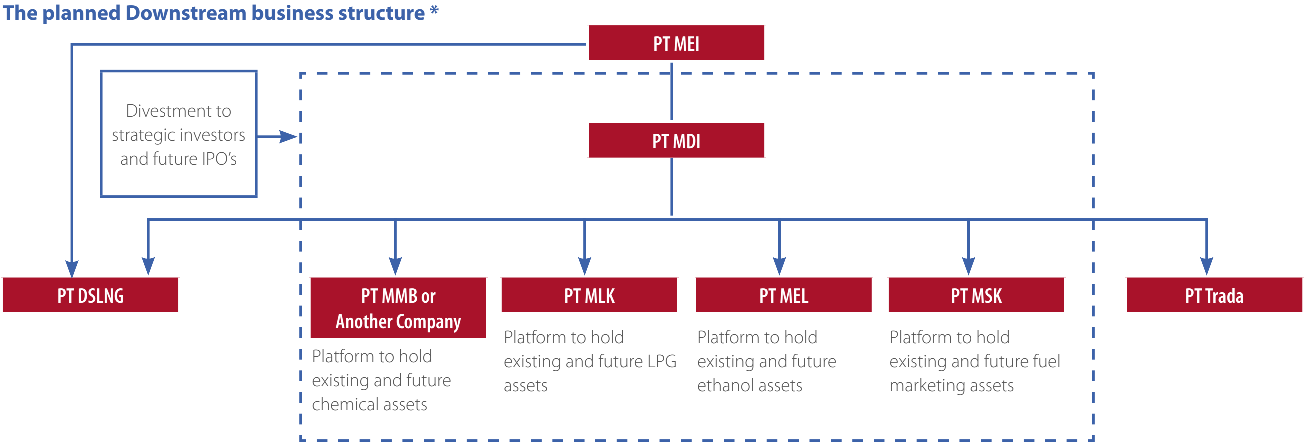
Capitalizing on the deregulation of the Indonesian downstream sector and leveraging the MedcoEnergi brand name, the Company believes there are a number of opportunities from refining to retail to realize value for shareholders in the downstream market. MedcoEnergi, however, does not have significant downstream experience yet and recognizes that parts of the downstream energy chain can be capital intensive. Accordingly, the Company has chosen to invest in the fuel storage and distribution sector which is a low cost entry point and will allow the Company to move up or down the energy chain. The Company does not intend to participate as a majority investor in any large capital intensive downstream projects but will participate as a minority investor.




## Downstream Restructuring

In late 2007, the management of MedcoEnergi initiated a restructuring of its businesses, including its downstream interests. A sub-holding company, PT Medco Downstream Indonesia (MDI), formerly PT Medco Ethanol Indonesia, was established in December 2007 which will hold all of the Company's downstream assets. In 2008, existing incorporated downstream companies will be transferred from PT MedcoEnergi Internasional Tbk (MEI) to MDI. PT Medco Methanol Bunyu (MMB) or another company yet to be established will be utilized, where commercially viable, to hold all future chemical investments. PT Medco LPG Kaji (MLK) will be utilized, where commercially viable, to hold all future LPG investments or it may possibly merge with the fuel storage and distribution business at a later date. PT Medco Ethanol Lampung (MEL) will be utilized, where commercially viable, to hold all future ethanol investments. PT Medco Sarana Kalibaru (MSK) will be utilized, where commercially viable, to hold all future fuel storage and distribution investments.

**The planned Downstream business structure ***




**Based on existing or new business*

In 2007, MDI developed supporting strategies and accomplished achievements as outlined in the accompanying table.

| MedcoEnergi's main strategies | Downstream supporting strategies | 2007 Achievement |
|---|---|---|
| Increase production volumes through the development of reserves and creating new markets for uncommitted natural gas. | Continue to leverage downstream projects from the Company's upstream reserves. | 1. Total methanol production 114,176 MT from Tarakan PSC Gas.<br>2. Processed associated gas from Sumatra E&P operations with a total volume of 4.205 MMSCF.<br>3. Total sales of high speed diesel 47,120 KL from Medco Sarana Kalibaru operation.<br>4. Executed a six month gas supply contract from Tarakan for 5.7 BCF. |
| Develop other energy resources and related businesses to meet the world's growing demand for energy. | 1. Explore market opportunities to strengthen growth:<br>a. Primarily domestic but open to international market.<br>b. Take advantage of the deregulation in the downstream business.<br>2. Penetrate the market:<br>a. Develop a distribution network of downstream energy and chemical related products.<br>b. Develop and/or acquire production facilities to secure supply for distribution units. | 1. Completed acquisition of MSK in January 2007 to penetrate the downstream fuel storage and distribution sector.<br>2. Constructed an ethanol plant in Lampung to be commissioned in the second semester of 2008.<br>3. Revised plans to develop other fuel storage and distribution facilities.<br>4. Acquired a minority interest in an LNG plant and a minority interest in Trada, an oil and gas trading and transportation company. |
| Foster prosperity with local communities and preserve the natural environment. | Ensure Safety, Health and Environment (SHE) excellent performance. | 1. Received Zero Accident Awards for MMB & MLK.<br>2. Implemented safety "Omega Assessment" ISRS7 and received states performance of level 3 for MMB & MLK.<br>3. Received a golden flag for SMK 3 for 2006 performance<br>4. CDM for MLK is under validation process. |
| Continue practicing the highest standard of corporate governance principles. | Improve organization capabilities and standard business process. | 1. Developed standard operating procedures for the Company's new downstream business.<br>2. Prepared to implement SAP in the Company's ethanol and fuel distribution business. |

The Indonesian E&P business unit has provided an opportunity to develop markets for uncommitted gas, alternatives for maximizing gas utilization and reducing environmental impact. Currently, MedcoEnergi operates two downstream facilities, a Pertamina-owned methanol plant on Bunyu Island, East Kalimantan, and an LPG plant at Musi Banyuasin, South Sumatra. The methanol plant consumes gas feedstock from the Company's Tarakan gas field and the LPG plant processes associated gas from the Kaji/Semoga oil field from which the gas was previously flared.

In early 2007, MedcoEnergi completed its acquisition of a fuel storage and distribution facility in Tanjung Priok, North Jakarta. This was an entry point into the distribution of high speed diesel. The Company also expanded its downstream business into ethanol production through the development of a plant in Lampung, South Sumatra and will start commercial production in the second semester of 2008. These new ventures will strengthen MedcoEnergi's downstream business while it continues to seek opportunities that will match with its strategy and capabilities.

## 2007 Achievements and Performance

**Methanol**.
The average methanol price during 2007 was USD 294/MT. Unfortunately MedcoEnergi did not fully reap the benefit of the price increase as the Company's methanol production decreased as a result of lower gas supply during 2007. The total methanol production in 2007 was 114,176 MT, a decrease of 17% compared to 137,088 MT in 2006. MedcoEnergi booked total sales of 117,033 MT in 2007, a decrease of 15% compared to 137,045 MT in 2006.

The methanol plant experienced a temporary shutdown from 21 January 2007 to 1 April 2007 as a result of the rapid decrease in gas supply from the Tarakan Block. The shortage of feedstock was resolved when gas supply was finally resumed to the plant on 21 April 2007.

In 2007, MedcoEnergi amended the joint operating agreement with Pertamina to obtain an improved profit split scheme for the Company's methanol plant.

Through its subsidiary, PT Medco E&P Indonesia, the Company continues to optimize its efforts to maintain the gas supply by finding new wells through additional drilling programs in the Tarakan Block, and to explore prospects in other gas fields. MedcoEnergi is confident that a gas supply will be secured to sustain the methanol plant.

**LPG**.
The LPG production facilities in Kaji, South Sumatra have been in operation since 2004 using associated gas from oil and gas production in Kaji and Semoga fields in the Rimau Block. In 2007, the LPG plant processed a total of 4.205 MMSCF associated gas and converting it into 26,803 metric tons of LPG a decrease of 21% and 27% respectively compared to 5,310 MMSCF gas and 36,510 tons of LPG in 2006.

During 2007, the LPG plant was fully operational for 365 days of the year. Along with the decrease in gas supply from Kaji and Semoga fields, the operational expenditures declined.

**Distribution, Trading & Transportation**.
MedcoEnergi completed its acquisition of PT Usaha Kita Makmur Bersama in January 2007 and started its commercial operation on 28 May 2007. The company was then renamed PT Medco Sarana Kalibaru (MSK). MSK focused on trading and distribution of fuel especially High Speed Diesel (HSD) using the base of Mid Oil Platts Singapore (MOPS) price.

Until December 2007, MSK distributed 47,120 KL of HSD and provided service to 245 industrial customers using both agents and direct links.

**(Right):** In 2007, MedcoEnergi acquired its first fuel storage and distribution facility in North Jakarta, which is strategically positioned near Indonesia's largest seaport, providing a competitive advantage.

The outsourced distribution network is comprised of some 23 trucks with a total capacity of 368 KL, a tanker fleet and an oil barge for customers in Merak, Jakarta, Surabaya and Kalimantan.

In August 2007, MedcoEnergi acquired an equity interest in PT Trada International (Trada). Trada's main business is commodity trading and transportation services. This investment provides the Company exposure to the trading and shipping sectors in the downstream energy chain. This investment will be evaluated from time to time to determine whether to maintain or increase the Company's ownership stake.

## Forward Plans

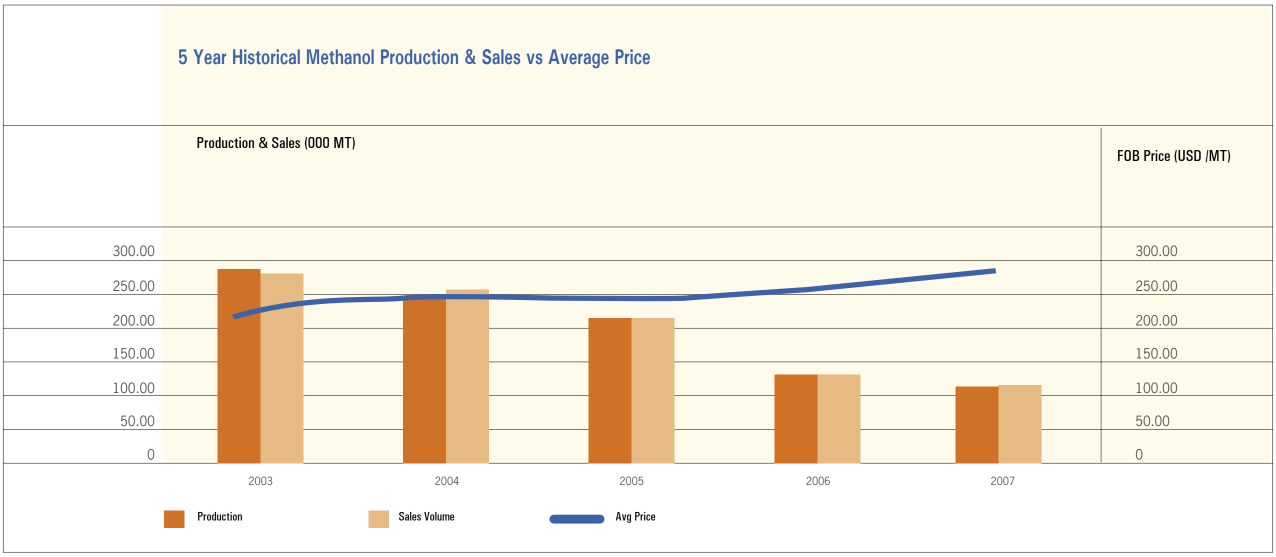
MedcoEnergi will continue to cooperate with MEPI to ensure gas supply to MMB and continue to study the utilization of the LPG trains in light of falling feedstock. The Company will review feasibility studies to develop another biofuel plant where feedstock is abundant. MedcoEnergi will also identify additional fuel storage and distribution opportunities in strategic locations.

MedcoEnergi intends to complete the MDI subholding structure in 2008.

As part of its ongoing portfolio optimization process, MedcoEnergi is proposing to divest up to 49% in its ethanol business. MedcoEnergi has appointed a financial advisor for this divestment. MedcoEnergi's objective for this divestment is to promote good risk management and corporate governance and seek out opportunities to gain technology from new partners, and to better reshape its asset portfolio. It intends to select a partner(s) who can help develop other ethanol plants. MedcoEnergi intends to complete this process by late 2008 or early 2009.

In 2008, MSK is expected to develop its distribution capacity further by constructing new depots. This new fuel storage and distribution business provides the Company an opportunity to enter the downstream energy chain. In Indonesia this sector has traditionally been managed by Pertamina, the state-owned oil company under a monopoly. MedcoEnergi's aim is to become the partner of choice in the fuel distribution business by leveraging the Company's brand name.

MedcoEnergi recognizes that the downstream sector is capital intensive and provides smaller returns than E&P activities. The Company believes, however, that given the size of the Indonesia downstream market, combined with the MedcoEnergi brand name and its use of strategic investors to develop certain sectors, that significant value can be created for shareholders.



# Ethanol Plant

Key Project #6 / Downstream

## PT Medco Ethanol Lampung (MEL)

### Strategy

Develop other resources of energy and its related businesses to meet the world's growing demand.

### Background

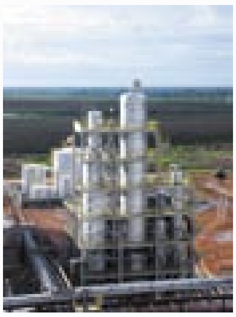
Given the size of its agriculture sector, Indonesia has a vast potential for biofuels. To capitalize on this potential and respond to the world's growing demand for energy, MedcoEnergi began constructing the Company's first biofuel plant in 2006 in Kotabumi, northern Lampung. The plant is capable of producing 180 KL per day or approximately 60,000 KL a year. The plant was developed using modern technology from India and can produce ethanol from multiple feedstocks such as cassava and molasses. The plant will be the biggest multi feedstock ethanol plant in Asia to date.

The plant utilizes the latest renewable energy technology using biogas from the waste water treatment facility as the ethanol source of energy. Construction began in October 2006 by PT Rekayasa Industri (Rekayasa), a privately owned contractor for Engineering, Procurement and Construction (EPC). Rekayasa has experience in constructing chemical plants in Indonesia. Commercial production is expected to start by the second semester of 2008 with capacity of 60% which will gradually increase to full production by the end of 2008.

To accelerate the process of commissioning the biofuel plant, MedcoEnergi has set a few targets:

1. Team support - the management of MEL acts as a supporting team to Rekayasa controlling the plant development.
2. Feedstock - the management will work closely with its local suppliers to initially exploit the approximately 2,700 Ha of fields from the targeted 13,200 Ha to meet the initial feedstock requirements for the ethanol plant.
3. Offtake negotiations with potential buyers are now in the final stages.

MedcoEnergi is committed to continuously learning in order to become a major player in the renewable energy sector in Indonesia with a worldwide reputation.



**(Left):** MedcoEnergi's construction of its first ethanol plant in Kotabumi, Lampung.

**Operational & Financial Highlights (Power)**

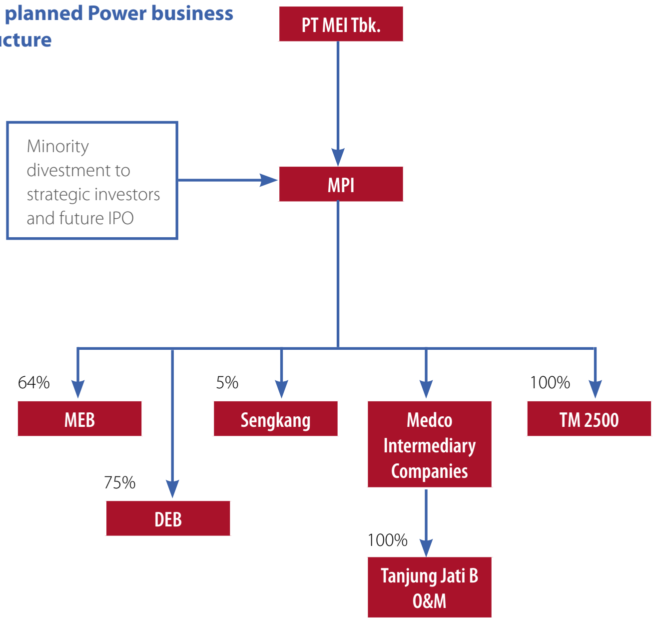
| | 2007 | 2006 | ▲ |
|---|---|---|---|
| Sales and other operating revenues from electric power sales (million USD ) | 33.3 | 24.4 | 36% |
| Sales and other operating revenues from other contracts- Power (million USD ) | 18.5 | 14.80 | 25% |
| Total power supply (GWH) | 918 | 701.1 | 32% |
| Capital Expenditures (million USD) | 2.9 | 22.2 | -87% |

# 3 Power

## Background

MedcoEnergi's power business is managed through PT Medco Power Indonesia (MPI) which is a leading developer and operator of small-to-medium size Independent Power Producers (IPP) projects in Indonesia. MPI currently owns stakes in four operational assets with gross capacity of 274 MW. It has one Operation and Maintenance (O&M) services contract for a 1,320 MW power plant. It also has plans to expand into renewable power generation projects such as geothermal, biomass and wind. MPI has a fast growing power plant services business which encompasses engineering, procurement and construction (EPC), O&M services and other additional ancillary services including fuel handling and spare parts trading.

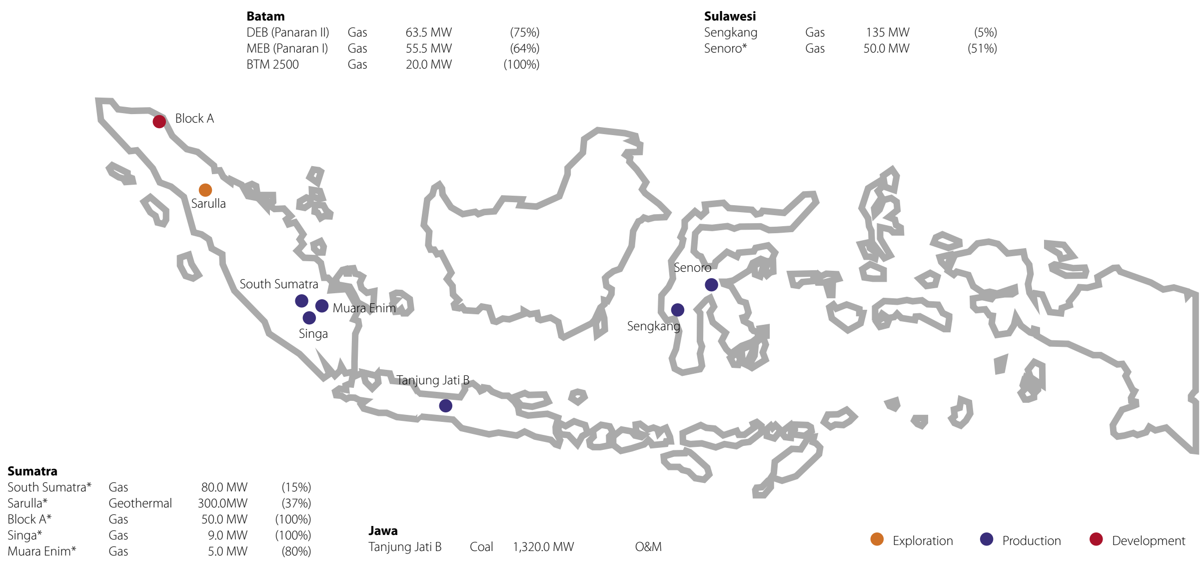
**The planned Power business structure**




MedcoEnergi's first penetration into the power generation business came in 2004 with the operation of Panaran I, the Company's first gas fired power plant in Batam Island. The plant utilized the Company's gas supply from various sources in South Sumatra under a Gas Supply Agreement (GSA) between PGN and PLN Batam.

In line with MedcoEnergi's vision to generate electricity from green and renewable resources, MPI has recently been reviewing non-fossil fuel power generation projects, not only from geothermal sources where Indonesia has abundant reserves, but also biomass, wind, and other alternative energies. MedcoEnergi also intends to provide solutions for the Indonesia power supply shortage needs.

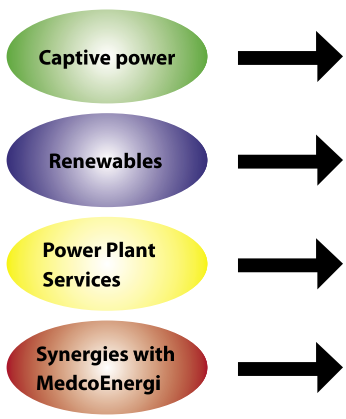
**Indonesian IPP Locations and Size**



During 2007, MPI developed supporting strategies and accomplished achievements outlined in the accompanying table.

| Main Strategies | Supporting Strategies | Achievements in 2007 |
|---|---|---|
| Develop other resources of energy and its related businesses to meet the world's growing demand of energy. | 1. Develop small-to-medium IPPs within Indonesia and throughout the region.<br>2. Captive power – MPI intends to be a niche power developer focusing on captive power plants to support local industry throughout Indonesia.<br>3. Renewables – in the face of increasing pressure by most companies to 'go green', MPI presents an opportunity for new investors to participate in the renewable energy sector. Such opportunities will also allow for the capitalization of carbon credits. | 1. Entered the renewable energy business through the Sarulla geothermal project. In December 2007, the Consortium executed :<br>a. A Deed of Assignment (DOA) whereby PLN assigned and transferred the rights and obligations under the Joint Operating Contract (JOC) and Energy Sales Contract (ESC) to the Sarulla Consortium<br>b. An Amendment to the JOC with PT Pertamina Geothermal Energy (PGE), and<br>c. An Amendment to the ESC with PLN.<br>2. Entered into an agreement to develop, construct and operate a biomass power co-generation plant in Singapore. |
| Maintain financial flexibility with a prudent financial structure and cost control | 1. Further develop the Project Management business – immediate cash-generating business. Project management includes O&M services, EPC contracts and spare parts management.<br>2. Expand business to power plant services and diversify risks by penetrating captive power markets. | 1. Continued to develop expertise in power not only through acquiring the plants but also to offer operation and maintenance services such as Tanjung Jati to improve near term operating cashflow.<br>2. Undertook EPC work in North Sumatra to provide near term operating cashflow. |
| Build strategic alliances. | 1. Develop strategic alliances through minority interests with partners which have:<br>a. Similar business values; and<br>b. Strengthen the existing power management team.<br>2. Maximize synergies with MedcoEnergi. | 1. Initiated an offer for a minority stake in the Company's power subholding to strategic investors.<br>2. Continued to review opportunities in MedcoEnergi's producing gas fields to build low capacity/captive power plants in Lematang, Block A and Senoro blocks.<br>3. Continued to seek opportunities in the international market where a power plant project is feasible.<br>4. Sold minority stakes in the Company's Sarulla geothermal project to Kyushu and Itochu. |
| Foster prosperity with local communities and preserve the natural environment. | 1. Create a multiplier effect from operations and development projects; and<br>2. Encourage local enterprises to be part of the supply chain in IPP projects. | 1. There are approximately 50 local enterprises involved in Panaran, Batam.<br>2. Initiated an CDM process for Sarulla and other projects. |
| Continue practicing the highest standard of corporate governance principles. | 1. Encourage compliance with all prevailing regulations including participation in transparent bidding processes; and<br>2. Develop policies and procedure to improve operations. | 1. Issued HR, Finance, Procurement policies.<br>2. Began implementation of SAP.<br>3. Initiated a sub-holding structure. |

### MPI Business Model




- MPI intends to be a niche power developer focusing on captive power plants and small-to-medium power plants ( < 200 MW ) throughout Indonesia
  - Diversifying risk for offtakers.
  - Indonesia has a large captive power market with more than 5,500 existing captive power plants with repowering opportunities.

- In the face of increasing pressure to "go green" coupled with Indonesia's vast "green" resources Indonesia and Asia provides MPI with a great opportunity and create value.

- Power Plant Services provides immediate cash-generating business which can be used for near-term operating cashflow.
- Power Plant Services business includes O&M services, EPC contract and spare parts management, fuel handling services

- MPI benefits from being a subsidiary of MedcoEnergi
- Gas-to-power opportunities in areas and regions where MedcoEnergi have producing gas fields (both in Indonesian and outside)

## 2007 Achievements and Performance

**Gas-fired Power Plant**

**Panaran I**

Panaran I is a dual fuel system gas-fired power plant located on Batam Island. It is owned and operated by Mitra Energy Batam (MEB). MedcoEnergi owns a 54% share in MEB. Panaran I was the first power plant owned by MPI. The total capacity of the plant is 2x27.75 MW (namely GTG 1 & 2). In April 2007, MPI purchased an additional 10% interest in MEB from PT YPK PLN for IDR 11.2 billion, increasing the Company's ownership interest in MEB to 64%.

Currently, the plant is fueled by natural gas supplied by Perusahaan Gas Negara (PGN). MEB has a 12-year Power Purchase Agreement (PPA) with Perusahaan Listrik Negara (PLN) effective since 30 October 2004. Under the PPA, PLN is responsible for securing and paying for the gas under a direct contract with PGN.

During 2007, the total production was 419 GWH compared to 380 GWH in 2006. The average production was 86.16% compared to 78.25% in 2006 due to higher optimized production.

In November 2007, Gas Turbine and Generator (GTG) 1 received a major overhaul. Concurrently a load gear problem was encountered on GTG2. This affected a lower rate of output to 25MW. The load gear was replaced in February 2008. MEB experienced no accidents during 2007.

**Panaran II**

Panaran II is a is a dual fuel system gas-fired power plant located on Batam Island operated by Dalle Energy Batam (DEB). MedcoEnergi owns a 59% share in DEB. The installed capacity of the plant is 2x27.75 MW (namely GTG 3 & 4) with two additional chiller facilities with an output of 2x4 MW.

Currently, the plant is fueled by natural gas supplied by PGN. The first unit was commissioned in January 2006 and the second unit in May 2006. The PPA was signed with PLN Batam on 24 January 2005 for a 12 year period ending in August 2017. DEB is responsible for the gas supply and has a supply contract with PGN.

During 2007, the total production was 459 GWH compared to 321 GWH in 2006 and the average production was 85.2% compared to 82.4% in 2006 due to optimized production.

Based on a recent contract amendment, the capacity factor for take or pay mechanism increased from 80% to 90%, however, the tariff decreased from IDR 224 to IDR 198. This amendment is effective from January 2008 to January 2010. Currently DEB is negotiating to expand its capacity by installing combined cycle. DEB experienced no accidents in 2007.

A Long Term Service Agreement (LTSA) was negotiated with Rolls Royce to revise terms & conditions including payment schedule for power generating equipment at Panaran I and II. The new agreement will also accommodate the integration of the 4 units comprising MEB and DEB operations.

**TM 2500**

TM 2500 is a dual fuel system gas fired 20 MW power plant generating unit located next to Panaran II on Batam Island. This power generator is capable of producing 20MW of electricity and is fueled by natural gas. MPI acquired TM 2500 in January 2006 and started commercial operations in January 2007.

Under a current agreement with PLN Batam, TM 2500 is operated as a backup power plant to support MEB and DEB operations. Presently, MPI is negotiating with PLN Batam to upgrade the status of TM 2500 to become a base load plant with the gas pass through scheme. During 2007, the total production of TM 2500 was 40 GWH.

**Steam-fired Power Plant**

**TJB Power Services (TJBPS)**

A consortium of MedcoEnergi and Fortum Services Oy (Fortum) was appointed by PLN to provide Operation and Maintenance (O&M) service to PLN Tanjung Jati B 2x660 MW coal fired power plant at Tanjung Jati, Central Java for 24 years in June 2005. MedcoEnergi is involved in the service implementation supported by Fortum technical expertise.

The consortium established a new company, TJBPS, in April 2006 to enter into an O&M agreement with PLN. Beginning in November 2006, TJBPS was commissioned to provide service to Tanjung Jati B.

The 2007 actual O&M contract based availability was 93.66%, it was 13.66% higher than projected. The total net electricity generation during 2007 was 7,313 GWH.

**Biomass Power Plant**

In November 2007, MedcoEnergi signed a subscription agreement for the acquisition of the majority shares in Biofuel Power Pte, Ltd (BP) which was established to undertake the development and construction of a 25 MW biomass power plant and facilities in Singapore. The subscription agreement however is still subject to certain conditions precedent. Currently, MPI is finalizing all necessary documents to make the SPA effective.

**MPI's interests in non-operating IPPs**

**Energi Sengkang**. MPI owns 5% interest in Energi Sengkang. The power plant is a combined cycle power plant, consisting of 2 units of GTG with a total capacity of 135 MW, located in South Sulawesi. The operation and maintenance service is performed by PT Alstom. Fuel for the plant is natural gas sourced from the Sengkang gas field. Construction of additional 65MW unit commenced in 2006 and the unit will begin its commercial operations in 2008.

## Forward Plans

Consistent with MedcoEnergi's plan to restructure its holding investment company into four subholding companies including its power business, MPI will hold all MedcoEnergi's power assets. In 2008, MedcoEnergi initiated a strategic minority divestment of up to 49% in MPI. MedcoEnergi's objective for this divestment is to promote good risk management and corporate governance, to have the opportunity to gain technology from new partners, and to better reshape its overall asset portfolio. A financial advisor has been appointed and the divestment is expected to be completed by the end of 2008.

MEB plans to add a chiller and a combined cycle unit to their existing facilities at Panaran I. Additionally, DEB also plans to add a combined cycle unit to the existing units to boost overall capacity by 22 MW. After the expansion plan, the total capacity installed will be 82 MW for MEB and 85 MW for DEB. Currently, MPI is committed to undertaking the future projects which are at different stages of development. MPI has several power plant projects with a total gross capacity of close to 470 MW. Many of these projects have already achieved significant development milestones and are expected to achieve commercial operations by 2010 and beyond. The table below outlines the list of MPI committed projects.

| No. | Committed Projects | Gross Capacity (MW) | Expected COD | MPI Ownership |
|---|---|---|---|---|
| 1. | Muara Enim | 5 | 2008 | 80% |
| 2. | Biomass | 25 | 2009 | 60% |
| 3. | Singa | 9 | 2009 | 100% |
| 4. | Sarulla | 330 | 2010 | 37% |
| 5. | Block A | 50 | 2010 | 100% |
| 6. | Senoro | 50 | 2010 | 51% |

# Sarulla Geothermal Plant

## Key Project #7 / Power

### Strategies

Develop renewable resources of energy and its related business to meet the world's growing demand of energy and build a strategic alliance.

### Background

On July 25, 2006, MedcoEnergi, through a consortium with international public companies, Ormat Technologies, Inc. (Ormat) of USA and Itochu Corporation (Itochu) of Japan (altogether called "the Consortium"), received a Letter of Intent from PT PLN (Persero) stating that PLN has awarded the Assignment of the Sarulla Geothermal Power Plant of up to 340 MW (Sarulla Project) at a value of USD 700 million, to the consortium. Sarulla is located in North Tapanuli Regency, North Sumatra Province, and represents the largest single-contract geothermal power project to date. This project is a reflection of the highly productive, large scale potential of Indonesian geothermal resources.

### Progress in 2007

In October 2007, MedcoEnergi transferred 24% of its 86% interest in Sarulla Geothermal Power Project of 300 MW, in North Sumatra (Sarulla Project) to Itochu Corporation (Itochu). In the same month, MedcoEnergi also transferred 25% of its remaining 62.2% participating interest (after sale to Itochu) in the Sarulla Project to Kyuden International Corporation (Kyushu). MedcoEnergi's remaining participating interest in the Sarulla project subsequent to these transfers is approximately 37.2%.

On December 18 2007, the Consortium executed a Deed of Assignment (DOA) with PLN whereby PLN assigned and transferred the rights and obligations under the JOC and ESC to the Consortium - the Amendment to the Joint Operating Contract (JOC) with PT Pertamina Geothermal Energy (PGE) and the Amendment to the Energy Sales Contract (ESC) with PLN.

The Project will be operated by the Consortium members under the framework of the JOC with PGE, and is to be constructed in three phases over the next five years. The first unit is scheduled to commence operations within 30 months after the financial close. The remaining two units are scheduled to commence operation in stages within 18 months after the first unit's scheduled commissioning.

The total project cost of the project is expected to be approximately USD 850 million.

### Forward Plans

Currently the Consortium is under discussions with JBIC and ADB to secure project financing which is expected to be finalized by end of 2008.

**Operational & Financial Highlights (Drilling Service)**

| | 2007 | 2006 | ▲ |
|---|---|---|---|
| Revenues from drilling operations and related services (million USD ) | 160.7 | 122.9 | 31% |
| Drilling operations costs (million USD ) | 104.3 | 91.6 | 14% |
| Offshore Rigs Utilization (%) | 83 | 100 | -17% |
| Onshore Rigs Utilization (%) | 70 | 68 | 2% |
| Average Daily Revenue of Offshore Rigs - Swampbarges (USD ) | 52,988 | 49,677 | 7% |
| Average Daily Revenue of Offshore Rigs - Jack-up (USD ) | 77,592 | 71,221 | 9% |
| Average Daily Revenue of Onshore Rigs (USD ) | 22,609 | 19,791 | 14% |
| Capital Expenditures (million USD) | 47.6 | 104.0 | -54% |

# 4 Drilling Services

## Background

MedcoEnergi's drilling services business is managed by PT Apexindo Pratama Duta Tbk (Apexindo) and was listed on the Indonesian Stock Exchange in 2002. Apexindo provides drilling services for national and multinational oil and gas as well as geothermal exploration and production companies operating in Indonesia.

Established in 1984, today is a leading company in providing rig rental services with 2 jackup rigs, 4 submersible swambarge rigs and 8 onshore rigs.

The accompanying table outlines Apexindo's supporting strategies and achievements in 2007:

| Main Strategies | Supporting Strategies | Achievements in 2007 |
|---|---|---|
| Develop other resources of energy and its related businesses to meet the world's growing demand for energy. | 1. Provide premium quality cost effective services, and maximize the utilization of the rig fleet at attractive day rates through its focus on the offshore drilling market.<br>2. Seek long term contracts and focus on clients with sizeable reserves. | 1. The onshore utilization rate increased to 70% due to higher demand, however the offshore utilization rate decreased to 83% due to refurbishment and late startup of Jack up rigs.<br>2. Obtained 5 new onshore rig contracts in 2007 and one submersible swampbarge rig contract. |
| Maintain financial flexibility with a prudent financial structure and cost control. | Improve operational efficiency through cost cutting initiatives and further improve profitability. | Costs increased in 2007 by USD 20.8 million or 18.6% compared to 2006. This was mainly due to the increase in depreciation, salaries and rentals caused by the inclusion of new jack up rig Soehanah and improved utilization rate for onshore drilling. Net income rose by USD 2.8 million or 8.9% to USD 34.3 million in 2007. |
| Foster prosperity with local communities and preserve the natural environment. | Continue to implement strict maintenance programs and high standard of safety to be well below industry levels recorded by the IADC. | Appexindo received the zero accident award from the Minister of Manpower and Transmigration for the third time reflecting Apexindo's excellence in implementing its Safety, Heatlh and Environment (SHE) program. |
| Continue practicing the highest standard of corporate governance principles. | Implementing high standards of corporate governance practices. | 1. Apexindo was ranked as one of the "Trustworthy" companies by the GCG's Perception Index Survey.<br>2. Received an excellent assessment result at the second annual surveillance audit with regards to ISO9001:2000. |

## 2007 Achievements and Performance

The growing demand of energy increased oil prices during 2007. Accordingly, it has also increased oil and gas E&P activities by major market players. This has directly impacted the demand for rig utilization especially for offshore rigs.

Overall, the offshore rig utilization rate in the industry increased to 90% by the end of 2007. The rig rental daily rates remained attractive, however, prices for drilling rigs escalated with the exception of jack up rigs as the supply increased to meet the growing demand.

Rig rental daily rates for submersible swampbarge rigs also increased. These rigs are designed for operations in shallow waters. Most of the demand for these rigs currently comes from swamps and river delta areas in Africa, Latin America and Indonesia. Indonesia also experienced increased oil and gas investments which directly impacted rig demand and in turn daily rental rates. Apexindo also benefited from the increase in rig rental fees up to 80% on the extension of its Maera rig contract with Total E&P Indonesie in 2007.

Demand for onshore rigs also increased with daily rig rental fees increasing in prices, ranging from 20%-30%.

Apexindo recognizes, however, that the demand for rigs is not constant but rather is directly related to the price of oil and gas in world markets. It is therefore very important for Apexindo to obtain long term contracts to secure sufficient cash flow to support its operations.

### Drilling Statistics as of 31 December 2007 and 2006

| Drilling Statistics | 2007 Well | 2006 Well |
|---|---|---|
| **Onshore Rigs** | | |
| Exploration | 19 | 14 |
| Development | 38 | 32 |
| **Total** | **57** | **46** |
| | | |
| **Offshore Rigs** | | |
| Development | 71 | 64 |
| Total | 71 | 64 |
| **Grand Total** | **128** | **110** |

During 2007, Apexindo performed drilling services for 128 wells compared to 110 wells in 2006. This was mainly due to the higher onshore rig activities to 57 wells in 2007 from 46 wells in 2006 and a higher utilization rate up to 70% in 2007 from 68% in 2006.

Apexindo's four submersible swampbarge rigs were fully utilized by Total E&P Indonesie in East Kalimantan while the two jack-up rigs were not fully operated in 2007. The offshore rig, Raniworo was scheduled to complete its last service with Crescent Petroleum in the Middle East during the second quarter of 2007 and subsequently undergo routine maintenance in dry dock for four months. The maintenance, however took 2 months longer than expected. It therefore finally arrived back in Indonesia in October 2007 but, after a long commissioning with Santos Sampang Pty. Ltd. in East Java, Raniworo did not recommence its full operations until January 2008.

Soehanah, a new jack up rig introduced in March 2007, required some technical adjustments before it began its service with Total E&P Indonesie in May 2007. The offshore rig utilization rate of Apexindo therefore decreased to 83% in 2007 from 100% in 2006.

## Forward Plans

Apexindo will conduct a routine dry-dock for Maera, Raissa and Yani rigs each of which will respectively take one month in 2008. Apexindo therefore estimates the submersible swampbarge will not be 100% utilized in 2008 but rather will maintain a utilization rate of approximately 90%.

In early 2008, Apexindo secured 2 new onshore rig contracts. Rig 2 will be rented by PT Medco E&P Indonesia in Merangin Block, South Sumatra, for USD 2.4 million. Rig 14 will be rented by VICO Indonesia in Badak field, East Kalimantan, for USD 2.2 million.

MedcoEnergi has significant capital commitments over the next 3-5 years related to its seven key development projects. This will limit the amount of capital which can be allocated to Apexindo. In order for Apexindo to realize significant value it needs continual reinvestment of funds to refurbish existing drilling rigs and purchase new rigs. After studying several options, MedcoEnergi determined that given current market valuations for its drilling business and the Company's desire to develop as an integrated domestic energy company with international exploration and production, it will need to sell a portion or its entire stake in Apexindo.

On March 26, 2008, MedcoEnergi sold 2.5% of its shares in Apexindo. After this sale the Company owns 48.9% of Apexindo's total issued and paid-up capital. This transaction resulted in the deconsolidation of Apexindo from MedcoEnergi's financial statements prospectively, and a reduction of USD 190 million in debt. A gain of USD 11.7 million was recognized on the sale. MedcoEnergi will continue with its plans to dispose of its remaining shares in Apexindo.

| Rigs (Offshore) | **Raniworo (jack up)**  | **Soehanah (jack up)**  | **Maera (Submersible Swampbarge)**  |
|---|---|---|---|
| Acquired/Built year | 1995 / 1982 | 2007 / 2007 | 1992 / 1992 |
| Design | BMC 300 IC - Upgraded to 350 ft water depth | Baker Marine Pacific Class 375 | Apexindo / Protomax |
| Drilling Depth (ft) | 25,000 | 30,000 | 25,000 |
| Water Depth (ft) | 350 | 375 | 25 |
| Horse Power (Drawworks) | 2,000 | 3,000 | 3,000 |
| Contractor of | Santos (Sampang) Pty. Ltd. | Total E&P Indonesie | Total E&P Indonesie |
| Contract Period | 2007 - 2010 | 2007 - 2010 | 2004 - 2007 |
| Location | Offshore Madura, East Java | Sisi & Nubi, East Kalimantan | Handil, East Kalimantan |
| | Until the 3rd quarter of 2007, the Raniworo was contracted to Crescent Petroleum Company Inc. and Indago Oman Ltd in the United Arab Emirates and Oman. From February to May 2007, Raniworo underwent a significant drydock.<br><br>Afterwards, the Raniworo was mobilized to Santos Sampang Pty. Ltd. in Madura, Indonesia. The contract value was USD 166.7 million for approximately 3 years. The daily rate was 100% higher compared to the previous contract with Crescent and Indago. The work for Santos began in January 2008. Consequently, the Raniworo's utilization rate was 42%. | In March 2007, the Soehanah was commissioned to strengthen Apexindo's rig fleet. This jack up rig was manufactured at the PPL Shipyard, Singapore based on Marine Baker Pacific Class design.<br><br>The Soehanah began operations in May 2007 for Total E&P Indonesie in East Kalimantan. The contract value was USD 166.7 million. The contract expires end of 2009. During 2007, the Soehanah's utilization rate was 58%. | The Maera completed its contract with Total E&P Indonesie in August 2007. Total E&P Indonesie immediately extended the contract for a five year period until 2012 with the value of USD 145.8 million. The rig was assigned in Handil, East Kalimantan.<br><br>This is one of two long-term contracts that Apexindo obtained for its submersible swampbarge rigs and is proof of customer confidence in Apexindo. |

**March 17, 2007**

Apexindo's Rig Raissa achieved a commendable 4 years of operation without recording a Lost Time Accident.

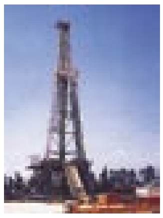
**December 12, 2007**

Successfully passed a second surveillance audit and maintained a ISO 9001:2000 certification on Quality Management System.

| Rigs (Offshore) | **Raisis (Submersible Swampbarge)** | **Raissa (Submersible Swampbarge)** | **Yani (Submersible Swampbarge)** |
|---|---|---|---|
| |  |  |  |
| Acquired/Built year | 1996 / 1996 | 2002 / 2002 | 2002 / 2002 |
| Design | Mc. Dermott | Apexindo / Protomax | Apexindo / Protomax |
| Drilling Depth (ft) | 25,000 | 30,000 | 25,000 |
| Water Depth (ft) | 25 | 35 | 25 |
| Horse Power (Drawworks) | 3,000 | 3,000 | 2,000 |
| Contractor of | Total E&P Indonesie | Total E&P Indonesie | Total E&P Indonesie |
| Contract Period | 2005 - 2008 | 2003 - 2008 | 2006 - 2009 |
| Location | Handil, East Kalimantan | Tunu, East Kalimantan | Tunu, East Kalimantan |
| | The Raisis is currently under contract with Total E&P Indonesie in Handil, East Kalimantan, from December 2005 until December 2008. The total contract value is USD 46.9 million. | The Raissa is currently under contract with Total E&P Indonesie from March 2003 to March 2008 in Tunu, East Kalimantan. The total of contract value was USD 98.8 million. | Since May 2007, the Yani has been contracted to Total E&P Indonesia in Tunu, East Kalimantan. The contract value is USD 53.1 million and will expire in November 2009. |

| Rigs (Onshore) | **Rig 2 (Onshore)** | **Rig 4 (Onshore)** | **Rig 5 (Onshore)** |
|---|---|---|---|
| |  |  |  |
| Acquired/Built year | - | - | - |
| Design | HSMC 1500E | Skytop Brewster NE-95A | Dreco 2000-E |
| Drilling Depth (ft) | 12,000 | 15,000 | 20,000 |
| Horse Power (Drawworks) | 1,500 | 1,750 | 2,000 |
| Contractor of | JOB Pertamina - Medco Tomori Sulawesi | Chevron Geothermal Salak Ltd. | Star Energy Pte. Ltd / Magma Nusantara |
| Contract Period | - | - | - |
| Location | Tiaka Island, Sulawesi | Gunung Salak, West Java | Pangalengan, West Java |
| | In early 2007, Rig 2 was assigned to JOB Pertamina-Medco Tomori in Sulawesi. The contract value was USD 3.5 million. The contract expired in April 2007.<br><br>In July 2007, Rig 2 was hired by JOB Pertamina-Medco Simenggaris in South Sembakung, East Kalimantan. The value of the contract was USD 2.8 milion and expired in December 2007. | During 2007, Rig 4 was contracted to Chevron Geothermal Salak to drill the geothermal project in Salak Mountain, West Java. The contract value is USD 21.6 million. The contract period began in May 2006 and will expire in May 2008. | Until September 2007, Rig 5 was contracted by Star Energy Pte. Ltd/Magma Nusantara for a geothermal drilling project in Pengalengan, West Java. The value of the contract was 22.3 million for one year period.<br><br>In September 2007, Rig 5 obtained a one year contract from VICO in Badak, East Kalimantan with a contract value of USD 13.2 million. |

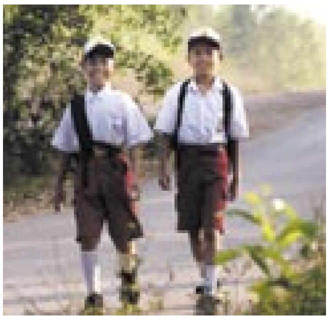
**July 21, 2007**
Apexindo contributed 71% out of the million man hours of Zero Loss Time Incident recognized by Chevron's geothermal drilling business unit located at Gunung Salak , West Java.

| Rigs (Onshore) | **Rig 8 (Onshore)**  | **Rig 9 (Onshore)**  | **Rig 10 (Onshore)**  |
|---|---|---|---|
| Acquire/Built year | - | - | - |
| Design | Gardner Denver 800E | Gardner Denver 1500E | Ideco E-2100 |
| Drilling Depth (ft) | 12,000 | 20,000 | 20,000 |
| Horse Power (Drawworks) | 1,000 | 2,000 | 2,000 |
| Contractor of | EMP Kangean Ltd. | Vico Indonesia | Vico, Indonesia |
| Contract Period | - | - | - |
| Location | Sepanjang Island, East Java | Badak, East Kalimantan | Badak, East Kalimantan |
| | Rig 8 was contracted to Lundin Blora BV in Blora, East Java from May to September 2007 for a contract value of USD 2.5 million.<br><br>Subsequently, Rig 8 obtained a new contract from October to December 2007 with PT Energi Mega Persada Kangean in Sepanjang Island, East Java. The value of the contract was USD 2.1 million. | During 2007, Rig 9 was utilized 100% by VICO Indonesia. In the fourth quarter of 2007, VICO Indonesia awarded Rig 9 a contract extension for 2.5 years in the amount of USD 34.8 million. | During 2007, Rig 10 was utilized 100% by VICO Indonesia. In the fourth quarter of 2007, VICO awarded Rig 10 a contract extension for 1.5 years in the amount of USD 35.7 million.<br><br>Apexindo has been serving VICO Indonesia for over two decades. This is further proof of customer confidence in Apexindo. |

| Rigs (Onshore) | **Rig 14 (Onshore)**  | **Rig 15 (Onshore)**  |
|---|---|---|
| Acquire/Built year | - | - |
| Design | Skytop Brewster RR-850 | Wilson Mogul 42 |
| Drilling Depth (ft) | 8,000 | 6,000 |
| Horse Power (Drawworks) | 900 | 750 |
| Contractor of | JOB Pertamina - Medco Simenggaris | Medco E&P Indonesia |
| Contract Period | - | - |
| Location | Konang Well, Madura | East Kalimantan |
| | During 2007, Rig 14 utilization rate was 43%. VICO Indonesia contracted this rig from June to December 2007 for a drilling program in Mutiara, East Kalimantan. The contract value was USD 1.9 million. | Beginning in 2007, Rig 15 was awarded a contract from Pearl Oil (Tungkal) Ltd. for USD 2.6 million for the period April until June 2007.<br><br>In September 2007, Rig 15 obtained a contract from PT Medco E&P Indonesia for one well in Tunas, South Sumatra. The contract value was USD 0.9 million and expired in November 2007. |

# Corporate Social Responsibility and Safety Health and Environment

**"MedcoEnergi's sustainability is geared towards achieving three correlated areas; economic performance, social responsibility and environmental preservation."**



**(Far left):** Children happily walking to school in the early morning light near MedcoEnergi's Rimau block; Sustainability is about making the world a better place for the next generation. MedcoEnergi regularly contributes to improving education standards in the areas it operates.

**(Left):** A MedcoEnergi environmental safety officer at the Rimau Waste Treatment Center checks the quality of the local water. Maintaining and monitoring environmental standards makes MedcoEnergi an integral part of the community. MedcoEnergi's development of public infrastructure in Rimau included the construction of the Waste Treatment Center

## Corporate Social Responsibilities (CSR)

Economic growth for MedcoEnergi is sustained by the Company's long-term development, and initiatives for harnessing not only conventional fossil fuels, but also renewable sources of energy including biofuel, geothermal power and other alternative sources of energy. MedcoEnergi has contributed to the social welfare of the communities in which the Company operates. MedcoEnergi has a sustained commitment to social empowerment and community development programs. Environmental preservation is ensured through the Company's compliance with prevailing laws and regulations, and good corporate governance practices of the highest standards.

MedcoEnergi designed its CSR programs to support the Government's National Mid-Term Development Plan (RPJMN) for the years 2004-2009. The focus of this 5-year program is improving public welfare. MedcoEnergi's priority is to assist communities in the areas where it operates. The Company also supports social programs for the society at large especially assisting communities that have been affected by natural disasters.

During 2007, MedcoEnergi implemented its CSR programs with the following objectives:

1. Provide access to and improve the quality of educational and spiritual lives;
2. Assist the upgrade of local infrastructure to improve the quality of educational and spiritual lives;
3. Reduce poverty and unemployment rates by empowering small businesses; and
4. Providing Humanitarian Support for communities affected by natural disaster.

**Improving the Quality of Educational and Spiritual Lives**

Education is a vitally important element in helping create a better qualified and work-ready pool of human capital in Indonesia. In support of national development effort towards a better educated and more prosperous nation MedcoEnergi provides support for the educational sector.

Improving the quality of education in Indonesia is MedcoEnergi's highest priority in terms of its CSR activities. During 2007, the Company continued to provide scholarships for elementary, junior-high and high-school students in the vicinity of its operational areas. Particular consideration was given to gifted students from disadvantaged families. Each qualified students was awarded scholarship funding until the completion of their respective formal education level. In this way, MedcoEnergi's scholarship program will be most effective in helping improve the level of education in the community.

Scholarships for university students in areas of study related to the Company's core business activities are certainly a focus. MedcoEnergi annually conducts a selection process whereby scholarship applicants are chosen on the basis of their economic eligibility, academic performance level (minimum grade point average of 3.00) and active participation in student organizations. The scholarship grant covers university tuition costs and living expenses for one year. In 2007, a total of IDR 564.6 million was disbursed for scholarships.

For the academic years 2006-2007 and 2007-2008, a total of 182 university level students have been granted MedcoEnergi scholarships to attend Indonesia's most prestigious institutes of higher learning. MedcoEnergi scholarship recipients hail from the Institut Teknologi Bandung, Universitas Padjadjaran, Universitas Diponegoro, Universitas Gadjah Mada, UPN Veteran Yogyakarta, Universitas Airlangga, Institut Teknologi Sepuluh Nopember, Universitas Brawijaya, Universitas Sriwijaya, Universitas Riau, Universitas Mulawarman, Universitas Borneo Tarakan, and Universitas Hasanuddin.

Additionaly, MedcoEnergi also sponsored 26 students from communities in the vicinity of the Company's SSE Block (South Sumatra), Rimau Block (South Sumatra) and Block A (Aceh) to an Islamic Agro Learning Center in Bogor, West Java. MedcoEnergi has also provided additional training and regularly mentoring for these students.

MedcoEnergi also actively sponsors various courses or training programs for teachers and students, as well as events related to the educational field. The Company carefully screens and evaluates project proposals coming from internal or external sources, in order to ensure that funding is allocated to suitable activities that support the overall aim of the Company's educational initiatives. The Company also works closely with the education division of Medco Foundation, a not-for-profit organization, in developing various educational support projects for the benefit of society.

MedcoEnergi was proud to receive a Social Empowerment Award from the Coordinating Ministry of People Welfare in 2007 related to its CSR programs.

**Upgrading Infrastructure to Improve the Quality of Education and Religious Lives**

Each year, MedcoEnergi also sets aside funds for a variety of educational support activities including for the construction or repair of school buildings, and donations toward the purchase of text books and library books, classroom furniture, sports equipment and other school facilities.

MedcoEnergi believes that active participation in spiritual activities builds individual character development, which in turn will greatly benefit the community. MedcoEnergi supports spiritual programs through donations for development or renovation of community spiritual centers and also by sponsoring spiritual events and celebrations. In line with the Company's ethical principles, MedcoEnergi's support for spiritual life does not distinguish among any particular spiritual beliefs.

The Company has been actively supporting the construction of spiritual facility centers in its surrounding communities, for instance, in Tarakan, East Kalimantan and Musi and Banyuasin, in South Sumatra. This assistance represents MedcoEnergi's commitment to inspire residents to enhance their spiritual life. MedcoEnergi regularly supports community spiritual activities during Ramadhan through spiritual teacher training and other life skills training for residents.

**Reducing Poverty and Unemployment by Empowering Small Businesses**

The Micro Financing Service (MFS) program aims to help improve the economic welfare of communities around the Company's operational areas through the provision of revolving loans to micro scale productive enterprises. The concept of the MFS program has been developed to support economic activities that foster entrepreneurship and community-based employment. The target market for the MFS program are those communities that are directly affected by MedcoEnergi's operations. Loan funding allocation is determined in proportion to the size of business activities by the respective business units in each area of operation. The MFS program offers micro-loans without collateral for productive activities among the small-scale informal sector using a system developed by MedcoEnergi.

MFS activities in 2007 remained centered around the operating areas of the Kaji and Matra fields in South Sumatra; and Sanga-Sanga in East Kalimantan. The MFS program in South Sumatra began in 2003, with that of East Kalimantan commencing in 2005. At the year-end 2007, the total MFS disbursement in South Sumatra amounted to approximately IDR 425 million with a total number of small-scale business partners of 320. In the working areas of East Kalimantan, the total amount of disbursement reached approximately IDR 193 million encompassing 153 partners.

In South Sumatra, the MFS program was provided to, among others, traditional cracker producers, small provisionary shops, fish and vegetable vendors, as well as farmers. In East Kalimantan, small business operators who received the financing included vegetable sellers, motorcycle workshops, electronic repair centers, foodstalls, fuel retailers, telephone voucher retailers and food vendors.

The potential risk for bad loans in 2007 was nil, which indicated that the awareness and responsibility for sound financial management among the partners has truly grown in line with what is expected of the MFS program.

**Providing Humanitarian Support for Natural Disasters**

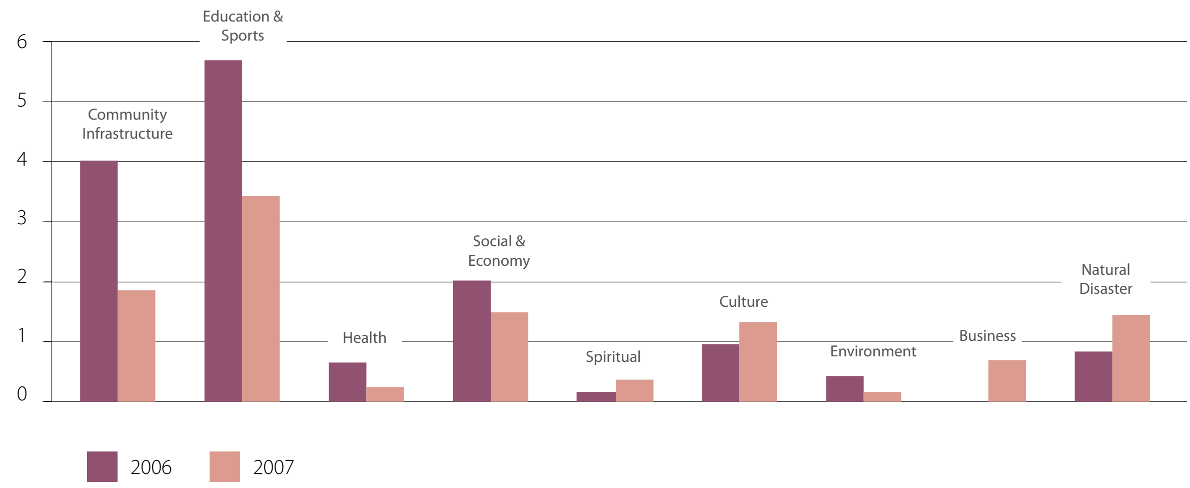
Throughout 2007, most of the expenses for humanitarian support focused on assisting mudflow victims in Porong, Sidoarjo carried over from 2006. The Company delivered its aid through a number of volunteer organizations. The year 2006 and 2007 programs consisted of technical support to handle the mudflow, academic assistance to a number of universities and delivering immediate aid. MedcoEnergi also contributed by facilitating small and medium scale enterprises through continuous assistance and coaching using the MFS program. The mudflow victims also participated in several SME exhibitions throughout the year aimed at promoting entrepreneurship.

Several earthquakes in Sumatra affected communities in Bengkulu, West Sumatra and other places nearby. The Company proactively donated blankets, mattresses, food, drinking water, and other emergency supplies to the effected areas.

MedcoEnergi will continue to develop and align its CSR programs to meet the Company's triple sustainability goals of economic growth, social welfare and environmental preservation working closely with the Medco Foundation, governmental institutions, and also non-governmental institutions.

**Consolidated CSR Expenditures in 2007 and 2006***

**(IDR Billion)**




* Total gross expenditures in 2007 was IDR 14.6 billion
* Total gross expenditures in 2006 was IDR 11.0 billion

Social Empowerment Award 2007 from the Coordinating Ministry of People Welfare for Medco E&P Indonesia.

PT Medco E&P Indonesia received an award as one of a Indonesia's Most Admired Knowledge Enterprises (MAKE) again in 2007.

PT Medco E&P Indonesia received an award for Career Development Monitoring.

Apexindo received a Zero LTA Award from the Minister of Manpower and Transmigration for its performance in conducting Work Safety and Health programs.

## Safety, Health and Environment

MedcoEnergi is highly committed to maintaining high standards for Safety, Health and Environment (SHE) in all Company operations. MedcoEnergi believes that SHE issues are key to the success of the Company.

To ensure the implementation of proper SHE practices, a global Written Policy on the concern for SHE was issued to all employees, contractors, partners and the surrounding communities to be cautious and concious of all SHE aspects within the operating and surrounding areas.

### Safety First

Due to the various industries that MedcoEnergi is engaged in, the Company allows some discretion to each business unit to adopt a system or program of SHE procedures, which is suited for the needs of each and every business unit within the respective industries. MedcoEnergi, however, requires all of its business units to adopt a system that is fully compliant with the prevailing laws and regulations as well as being in line with international best practices.

All of MedcoEnergi's subsidiary companies that are engaged in the exploration and production of oil and gas in Indonesia continued to adopt Medco Integrity Management System (MIMS) in undertaking SHE procedures. The MIMS contains 11 key elements, which defines in detail the extent to which every operation has to comply with SHE requirements. These elements include aspects related to safety, security, health and environmental management. From the time a project commences its operations until it eventually concludes and prepares to vacate the area, MedcoEnergi is firmly devoted to preserving the best interest of the community. This policy also ensures that each operating unit has resources, expertise, systems, procedures and rules to facilitate secure, reliable and environmentally-safe working conditions.

MIMS has also become the guideline for MedcoEnergi to ensure that its operations do not encroach upon local communities. Another aspect of the MIMS is that the Company can fully assess the social and environmental impact of new projects. Additionally every activity of each operating business unit is monitored through an evaluation process that is consistently and regularly applied within three to five years period.

To further enhance SHE awareness and to ensure consistent evaluation to the applied standards, since December 2006 the Indonesian oil and gas business unit has adopted the 7th Edition of the International Safety Rating System (ISRS7). The ISRS7 constitutes a highly useful system in measuring the effectiveness of SHE procedures as they relate to the business performance of a company.

In 2007, MedcoEnergi's producing assets in Tarakan, Rimau and Sanga-Sanga received "No Lost Time Accident" awards from the Government. As for the Company's power business units in Batam; MEB and DEB, received similar awards from the Government for "No Lost time Accidents."

In 2007, MedcoEnergi used questionnaires distributed to management and employees.to implement Alpha Assessments in all its Indonesian oil and gas assets. These assessments were basically undertaken to provide a Safety, Health, Environment & Quality (SHEQ) perception of the Company's management system.

Upon completion of the Alpha Assessments, the next step is to undertake Omega Assessments which cover requirements from ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (Occupational Health & Safety), PAS 55 (Asset Management) and GRI (Corporate Social Responsibility). The company plans to conduct the Omega Assessments in the fourth quarter of 2008. SHEQ compliance will remain a critical component of ongoing efforts to improve MedcoEnergi's operations and processes.

Medco Energi Global adopts SHE procedures for its international oil and gas assets, which differ slightly from the Company's Indonesian operations.

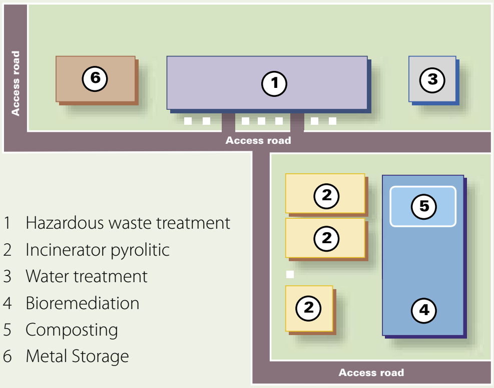
As for its downstream business units, the ISRS7 has been adopted since 2005 in Medco Methanol Bunyu (MMB) and Medco LPG Kaji (MLK). Omega Assessments were carried out in both plants and achieved a level 3 state of performance. Medco Sarana Kalibaru (MSK), a recently acquired fuel storage and distribution business began implementing SHE procedures in 2007 and expect to have a comprehensive SHE program in place by 2008. No Lost Time Accidents were reported at MMB and MLK.

In the drilling service business unit, the DNV International Safety Rating System has been adopted which requires the Company's drilling business unit to develop a work safety management system that aims at building robust preventive measures and the ability to respond swiftly to emergency situations. In practice, the system has to implement 12 aspects of safety management which among other things comprise of leadership and administration, risk management, work safety analysis, incident and accident reporting, and analysis and investigation.

# Waste Treatment Center


MedcoEnergi's WTC ensures that health and pollution risks to the communities surrounding MedcoEnergi's operations are mitigated to a minimum.

**WASTE CENTER LAY OUT**




## Rimau Waste Treatment Center (WTC)

In 2006, MedcoEnergi Waste designed and built a Waste Treatment Center in Rimau Block in South Sumatra. The facility aims to accommodate all treatments that will be needed to process waste from the Company's Sumatra operations especially in the Rimau Block which is one of MedcoEnergi's biggest production assets.

Today the completed WTC facilities consist of:

a. Hazardous Waste Temporary Storage as a means of holding hazardous waste for a temporary period prior to treatment, disposal, or additional storage.
b. Non Hazardous Waste Temporary Storage is able to store any waste except those mentioned as hazardous waste. These types of waste include solid construction waste debris and other non-containerized waste.
c. Hazardous Waste Incinerator has an important role in the future for the safe and effective treatment of organic hazardous waste that will continue to be generated. It is also a necessary component of the clean up of organic waste.
d. Domestic Waste Treatment Facility comprises solid waste from households, commercial and industrial sources. This excludes construction and demolition waste, chemical waste and other special waste. Domestic Waste is usually disposed of at landfills.
e. Bioremediation Facility treats soil contaminated with mineral oil, benzene, toluene, ethylbenzene, xylenes, polycyclic aromatic hydrocarbons, and phenols.
f. Wastewater Treatment Facility include treatment of sanitary sewage, industrial wastewater, or even stormwater.
g. Oil Sludge Recovery is a method for cleaning crude oil sludge treatment directly from tanks or pits by; thus reducing off site waste, reducing off site transport costs, recover up good quality oil from waste oil sludge and environmentally friendly system.

## Environmental Protection and Conservation

MedcoEnergi endeavors to undertake its businesses in a safe manner that will protect the social interests as well as environmental preservation of the surrounding areas where the Company operates. For that purpose, the Company ensures that its operations comply with all laws and government regulations that oversee the protection of the environment.

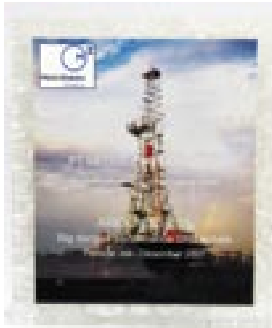
MedcoEnergi always makes sure that it conducts its operations by adhering to international best practices in environmental protection and conservation. A number of regulations that have been enacted by the Government of Indonesia through the Ministry of Environment includes the Analysis on Environmental Impact (Amdal) which contains several documents on: Guideline Framework for Environmental Impact, Analysis on Ecological Impact, Plans for Ecological Management and Plans or Ecological Monitoring.

MedcoEnergi through its oil and gas business unit operating in Indonesia has also undertaken a series of activities in restoring ecological balance in conjunction with its business operations.

To preserve and maintain a safe and clean environment, the Company observes the following programs:

1. Zero Discharge (produced water injection)
   Produced water from oil production activities is re-injected into the reservoir for pressure maintenance.
2. Zero Emission (gas flaring reduction)
   Flare reduction is carried out by utilizing associated gas for local power plant, injection into the formation to enhance oil recovery and convert it into LPG.
3. Hazardous Waste Management
   Hazardous waste produced from operations is managed by providing facilities such as hazardous waste temporary storage, bioremediation, etc and proactive reporting to related government institutions.
4. Environmental impact assessment & environmental study
   An environmental impact assessment or environmental study is conducted in every operational activity which has potential environmental impacts.
5. Environmental monitoring (including emission and wastewater monitoring)
   This program is conducted every semester in order to monitor and evaluate environmental impacts from its operations. Reports from this activity are sent to related government institutions.

In late 2007, PT Medco E&P Rimau received a certification from International Standard Organization (ISO) 14001:2004 through TUV Nord Indonesia for environmental awareness.



Rig 15 achieved best SHE performance rig amongst all contractors working for PT Medco E&P Indonesia, for the period Jan-Jun 2007. This was in addition to the Best of Hazards Identification / Observation Cards Awards obtained by Rig 2 crew – Wiwik S. (Asst. Driller) – and Rig 15 crew – Tukiman (Asst. Driller).

6. Environmental audit
   Internal and external environmental audits from The Ministry of Environment are carried out periodically every year to evaluate the environmental performance of each asset.
7. Reforestation
   Reforestation of open areas in the vicinity of Company operations in order to restore natural habitat and improve micro-climate conditions.

All of these programs have been implemented in each of MedcoEnergi's Indonesian E&P Assets.

In 2007, MedcoEnergi's Indonesian E&P Asset in Rimau implemented ISO 14001:2004 (Environmental Management System) in its operational activities. The certification on this particular ISO was acquired in December 2007.

For its international oil and gas assets, Medco Energi Global adopts and complies with all relevant environmental laws and regulations applicable in the foreign countries in which it operates.

## Conserving Nature for Future Generation

MedcoEnergi believes that conserving nature is crucial to the future generations that will follow in its footsteps. Over the past several years, MedcoEnergi has created a number of industries that support a cleaner environment.

Our commitment toward nature conservation is building environmental friendly plants. In 2003, MedcoEnergi constructed an LPG Plant to process associated gas from the huge volume of oil that is pumped out of the Rimau field. Prior to the LPG plant, this gas was simply flared which also contributed to global warming. In 2004, MedcoEnergi entered into the electricity utility industry with a gas-fired power plant, one of the most environmentally friendly operating power plants in Indonesia. In 2006, the Company began construction of an ethanol plant which will use cassava roots as a fuel source as well as biogas produced from the effluent waste coming out of the plant. Ethanol can be mixed with fossil fuel to produce bio-fuel, thereby using less fossil fuel to get the same amount of energy while at the same time substantiall lowerving carbon emissions. Presently MedcoEnergi is still negotiating with PLN and Pertamina for a geothermal project at Sarulla in North Sumatra. Geothermal power is another environmentally-friendly form of renewable energy that can be used to fire power plants.

The World Bank commended the Company's venture to build the LPG plant and recommended that MedcoEnergi enter into a Clean Development Mechanism (CDM) project under the framework of the Kyoto Protocol. MedcoEnergi is involved in CDM through an "associated gas recovery and utilization project" in MLK. This project was initiated in 2003 to reduce the amount of associated gas flared in Kaji-Semoga fields which allowed the recovery and processing of the associated gas into LPG, condensate and residue gas. This project received an Approval Letter from Komisi Nasional Mekanisme Pembangunan Bersih (Clean Development Mechanism National Committee) in December 2006 and it is now undergoing the validation process. Once it is registered, MLK will process the Certified Emission Reductions.

## Creating a Healthy Working Environment

MedcoEnergi continuously strives to create a healthy working environment to improve operational efficiency and productivity. Our strong commitment to these efforts can be seen from the various policies and initiatives on the management of healthy working conditions that the Company espouses.

MedcoEnergi regularly provides training and information to its employees on how to maintain a healthy lifestyle. The focus is on maintaining a regular exercise regime, a healthy diet and weight control. A high standard of health and fitness such as high-quality foods and healthy living quarters can be found in all locations of the Company. These conditions are further enhanced by regular medical check-ups.

MedcoEnergi has continuously advanced its ability to cope with emergency situations and handle emergency medical treatment. Currently, the Company has an emergency procedure that is supported by round-the-clock medical service.

# Management Discussions and Analysis


**"MedcoEnergi substantially derives all of its total sales and other operating revenues from net oil and gas sales, revenues from drilling operations and related services, net chemical sales, electric power sales, and share of profits of joint ventures."**

MedcoEnergi's consolidated financial statements have been prepared in accordance with Indonesian Generally Accepted Accounting Principles as promulgated by Indonesian Financal Accounting Standards (PSAK). These principles differ in certain material respects from U.S. GAAP and International Financial Reporting Standards (IFRS). The Company's reporting currency is U.S dollars, which represents its functional currency based on its revenues, cash flows and expense indicators as required under Indonesian SFAS 52.

## Overview

MedcoEnergi substantially derives all of its total sales and other operating revenues from net oil and gas sales, revenues from drilling operations and related services, net chemical and other petroleum product sales, electric power sales, and share of profits in joint ventures.

For the year ended December 31, 2007, MedcoEnergi had total sales and other operating revenues of USD 981.9 million, an increase of 23.9% from USD 792.4 million in 2006. MedcoEnergi's EBITDA for 2007 was USD 435 million, an increase of 43% from USD 304.0 million in 2006. Meanwhile, MedcoEnergi's net income for 2007 was USD 6.5 million, a decrease of 82.9% from USD 38.2 million in 2006.

MedcoEnergi's financial performance is affected by a number of external variables, both within and outside of the petroleum industry, including political, economic and social conditions in Indonesia.

## Business Environment and Risk Assessment

**Regulatory, Political And General Economic Environment**

MedcoEnergi is headquartered in Jakarta, the capital city of Indonesia with field operating offices dispersed in each of its production areas. The majority of MedcoEnergi's assets and operations are in Indonesia. MedcoEnergi's performance can be affected by changes in its business environment which are not within its control. Risks relating to Indonesia are primarily connected to the country's political instability, involving changes in Government, Government policies, the Government's failure or inability to implement necessary reforms, terrorist acts as well as social instability and increasing regional autonomy. In addition to economic and political risks, the Indonesian archipelago is subject to significant natural or geological risks including earthquakes, tsunamis, floods, etc.

Accordingly, MedcoEnergi's performance is subject to changes in Government policies, social instability or other political, economic, legal, regulatory or international developments. These risks might have an impact on MedcoEnergi in terms of its financial condition and results of operations, as well as investor's confidence in Indonesia and Indonesian stock prices

## General Business Risks

**Foreign Exchange Risks**

All major contracts entered into by MedcoEnergi have historically been denominated in U.S. dollars, and it is anticipated that this will continue to be the case. Consequently, a majority of MedcoEnergi's revenues and cash expenses are denominated in U.S. dollars. Certain expenses comprising the salaries of Indonesian employees, local vendors, local rentals and interest income/expense are normally paid in Rupiah.

MedcoEnergi is also exposed to foreign exchange rate risk resulting primarily from fluctuations in exchange rates in the translation of its Rupiah denominated loans. As of December 31, 2007, MedcoEnergi maintained Rupiah denominated loans equivalent to USD 254.8 million.

**Interest Rate Risks**

MedcoEnergi is exposed to interest rate risk resulting from fluctuations in interest rates on its short-term and long-term borrowings. Upward fluctuations in interest rates increase the cost of new borrowings and the interest cost of MedcoEnergi's outstanding floating rate borrowings.

**Capital Requirements**

The Company expects certain projects currently under development to significantly increase its cash flow. If such projects do not increase revenue as expected, or, if, following such increases, revenue subsequently declines, the Company may have limited sources of cash to expend the capital necessary to undertake or complete the programs. There is no certainty that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements. The inability of the Company to access sufficient capital for its operations and future expansion could have a material adverse effect on the Company's financial conditions directly impacting results of its operations or future prospects

## Specific Segment Risks

**Risks Relating to Oil and Gas Operations**

Approximately 66% of MedcoEnergi's revenues are derived from oil and gas production. Its revenues are therefore in large part determined by the difference between the prices received for the oil and gas it produces and the costs of exploring for, developing, producing and selling these products. Consequently, similar with other oil and gas operating companies in Indonesia, MedcoEnergi is, among others, subject to risks connected with prevailing world oil prices and Indonesian domestic energy prices. Accordingly, volatilities in prices and demand for crude oil and condensate as well as natural gas have significant effects on MedcoEnergi's future revenues and net income. The market price of crude oil has been and are expected to continue to be volatile and are subject to a variety of factors beyond MedcoEnergi's control.

Additionally, MedcoEnergi is exposed to operating risks, including reservoir risks, risks of loss of oil and gas and natural calamities and risks in respect of all its installations and facilities. Drilling hazards or environmental damage could furthermore increase the costs of operations, and various field operating conditions may affect MedcoEnergi's production levels from successful wells. These conditions include delays in obtaining Government approvals or consents, shut-in of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Production delays and declines from normal field operating conditions may have unfavorable effects on revenue and cash flow to a varying degree. The occurrence of a significant event that MedcoEnergi is not fully insured against, or the insolvency of the insurer of such an event, could have a material adverse effect on MedcoEnergi as well.

Oil and gas companies operating in Indonesia are subject to the prevailing laws and regulations, particularly the Indonesian Oil and Gas Law No. 22/2001 and as well as each operations Production Sharing Contract (PSC). Amongst the key terms and conditions under such Oil and Gas Law and PSC are the cost recovery arrangements and the Domestic Market Obligation (DMO). For every barrel produced, an oil and gas company that operates under a PSC is entitled to recover costs pertaining to the exploration and production activities carried out during the year. The cost recovery portion of the net entitlement varies with the level of cost incurred, including capital investment for exploration, development and production, annual operating expenses and the market prices of oil and gas.

### Risks Relating to Drilling Services Operations

MedcoEnergi's Drilling Business makes up approximately 16% of MedcoEnergi's total revenues. The contract drilling industry has always been highly volatile, competitive and cyclical, with periods of low demand, excess rig supply and depressed rig dayrates. The contract drilling business is influenced by many factors beyond the control of MedcoEnergi, such as the worldwide demand for, and the prices of oil and natural gas, operational risks as well as the ability of OPEC to influence production levels and pricing and the level of production of non-OPEC countries. There can be no assurance as to the duration of prevailing utilization and dayrates, and a decline in utilization and dayrates may have a material adverse effect on MedcoEnergi.

### Risks Relating to Downstream Operations

Approximately 5% of MedcoEnergi's revenues are derived from the sales of methanol produced by the Company's subsidiary, PT Medco Methanol Bunyu. Revenues from methanol sales depend on the production volume and the prevailing methanol price. The production volume depends on the availability of gas supply. Methanol prices are volatile in nature, fluctuating based on the world's trend in supply and demand of methanol.

### Risks Relating to Power Operations

Approximately 3.4% of MedcoEnergi's revenues are derived from the sales of electricity and provision of services relating to power generation by the Company's subsidiaries. The Power business in Indonesia is highly regulated business and is subject to subsidies which affect the tariffs that can be charged to the off-taker. Furthermore, the business is influenced by factors beyond the control of MedcoEnergi such as new market entrants, prices and gas supply as well as operating risks inherent in the industry.

The risks covered here are not all inclusive and other possible risks and uncertainties could arise.

## Consolidated Results of Operations

The following table sets forth certain summarized historical consolidated financial data of MedcoEnergi as of December 31, 2007 and 2006. The summarized historical consolidated financial statements as of and for the years ended December 31, 2007 and 2006 were audited by Ernst & Young.

### Consolidated Sales and Revenues

| | Audited* | | Variance | |
|---|---|---|---|---|
| **in USD million** | **2007** | **2006** | **USD** | **%** |
| **Sales and Other Operating Revenues** | | | | |
| Net oil and gas sales | 648.5 | 568.3 | 80.2 | 14 |
| Revenues from drilling operations and related services | 160.7 | 122.9 | 37.8 | 31 |
| Revenues from other contracts(1) | 70.3 | 41.1 | 29.1 | 71 |
| Net sales of chemicals and other petroleum products | 47.8 | 32.6 | 15.2 | 47 |
| Electric power sales | 33.3 | 24.4 | 8.9 | 36 |
| Share of profits in joint ventures | 21.3 | 3.0 | 18.3 | 6.1 |
| **Total Sales & Other Operating Revenues** | **981.9** | **792.3** | **189.5** | **24** |
| **Direct Cost** | | | | |
| Depreciation, Depletion and Amortization | (197.6) | (122.9) | (74.7) | 61 |
| Production and Lifting Costs | (147.0) | (106.1) | (40.9) | 39 |
| Exploration Expenses | (48.1) | (41.2) | (6.9) | 17 |
| Cost of Crude Oil Purchases | (40.0) | (30.9) | (9.0) | 29 |
| Drilling Operations Costs | (104.3) | (91.6) | (12.7) | 14 |
| Cost of sales of chemicals and other petroleum products | (37.1) | (23.6) | (13.5) | 57 |
| Cost of Electric Power Sales | (27.9) | (19.0) | (9.0) | 47 |
| Share of losses in joint venture | (11.6) | (69.6) | (58.0) | -83 |
| **Total Direct Cost** | **(613.6)** | **(504.9)** | **(108.6)** | **22** |
| **Gross Profit** | **368.3** | **287.5** | **80.8** | **28** |
| **Operating Expenses** | **(133.3)** | **(107.4)** | **(25.9)** | **24** |
| **Income from Operations** | **235.0** | **180.0** | **55.0** | **31** |
| **EBITDA** | **435.4** | **304.0** | **131.4** | **43** |
| **Other Income (Expenses)** | | | | |
| Gains / (Loss) on Foreign exchange - Net | 6.4 | (12.3) | (18.8) | 152.2 |
| Gains / (Loss) on sale of marketable securities - net | 4.5 | 4.5 | - | - |
| Interest expense - net | (71.4) | (46.5) | (24.9) | 53.6 |
| US Assets Impairment | (25.9) | - | (25.9) | - |
| Gain or Loss on sale of FA | (20.5) | - | -20.5 | - |
| Financing Charges – Net | (10.1) | (2.0) | (8.1) | 408.8 |
| Gain (Loss) from Swap transactions | (8.0) | 39.5 | (47.6) | 120.3 |
| Equity in Net Inc. / (Loss) of Ass. Entities - Net | (0.2) | (2.8) | 2.6 | -93.0 |
| Others - net | 2.0 | 9.1 | (7.1) | -78.2 |
| **Other Expenses - Net** | **(123.2)** | **(10.5)** | **(112.8)** | **10.73** |
| **Income Before Tax Expense** | **111.8** | **169.5** | **(57.8)** | **-34** |
| **Tax Expense** | | | | |
| Current tax | (121.7) | (113.7) | (8.0) | 7 |
| Deferred tax | 36.5 | (5.3) | 41.8 | -785 |
| **Total Tax Expense** | **(85.2)** | **(119.0)** | **33.8** | **-28** |
| **Income Before Min. Int. in Net Earnings of Consolidated Subsidiaries** | **26.5** | **50.5** | **(24.0)** | **-47** |
| **Minority Interest in Net Earnings of Consolidated Subsidiaries** | **(19.98)** | **(12.3)** | **(7.6)** | **62** |
| **NET INCOME** | **6.5** | **38.2** | **(31.6)** | **-83** |
| **Basic Earnings per Share** | **0.0021** | **0.0123** | **-0.0102** | **-83** |

Note: Find more information and details of the particular accounts in their respective business units.

* Audited by Public Accountant Office Purwantono, Sarwoko & Sandjaja (E&Y)

(1) Revenues from other contracts represent back charges related to the Company's drilling operations, operation and management services for Tanjung Jati B and other business. The detail discussions will focus on the revenues from drilling and power operations.

As per the above table, in 2007, MedcoEnergi recognized total sales and revenues of USD 981.9 million, an increase of 24% or equal to USD 189.5 million compared to USD 792.3 million in 2006.

The overall increase was due to the increase in revenues from:

- net oil and gas sales driven by higher realized oil and gas prices;
- revenue from drilling operations and related services, as a result of an increased demand for rig services and higher rental prices;
- revenues from other contracts due to higher back charges from drilling services, higher production rates in Tanjung Jati B and Oman in which MedcoEnergi provides operation and maintenance services;
- net sales of chemicals and other petroleum products due to higher realized methanol prices and the operation of a high speed diesel distribution facility beginning in June 2007;

- electric power sales, as a result of the operation of TM2500 and an increase in plant performance at both Panaran I and II; and
- share of profits in joint ventures due to net income from Kakap and Tuban in 2007 driven by higher realized oil and gas prices and efficiencies in production.

**Consolidated Production Costs**

As per the consolidated sales and revenues table, MedcoEnergi recognized production costs of USD 613.6 million in 2007, an increase of 22% or equal to USD 108.6 million compared to USD 504.9 million in 2006. The increase was mainly driven by higher depreciation depletion and amortization, costs, production and lifting costs, exploration expenses, cost of crude oil purchases, drilling operations costs, cost of sales of chemical and other petroleum products, and cost of electric power sales but was offset by a decrease in share of loss in joint ventures.

A more detailed overview of the results and costs of operations from the respective segments is outlined below.

**Oil and Gas**

MedcoEnergi classifies its revenues and expenses from exploration and production of oil and gas primarily on the basis of whether the fields are operated directly by MedcoEnergi or by third parties. Revenues and expenses from fields operated directly by MedcoEnergi are presented under the respective income and expense accounts, including net oil and gas sales, depreciation, depletion and amortization, production and lifting costs, exploration expenses and operating expenses.

Revenues and expenses for the Non-Group operated fields or block are presented in the consolidated statements of income under "Share of profits/losses in joint ventures". This line item is net of depreciation, depletion and amortization, production and lifting costs, exploration expenses and operating and other expenses specifically related to such Non-Group-operated blocks.

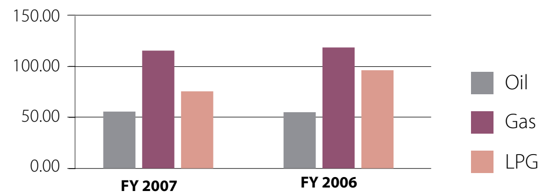
**Revenues from Group-Operated Fields**

**Net Oil and Gas Sales**

| in million USD | Audited 2007 | Audited 2006 | % Variance |
|---|---|---|---|
| Oil Sales | 567.0 | 489.0 | 16% |
| Gas and LPG Sales | 81.5 | 79.3 | 3% |
| **Total** | **648.5** | **568.3** | **14%** |

As per the above table, net oil, gas and LPG sales totaled USD 648.5 million in 2007 representing an increase of 14% compared to 2006.

**Sales of Oil, Gas & LPG**




1. Oil – Revenues

The increase in oil revenue was due to the higher realized oil prices, which outweighed a decline in oil production.

The Company's average lifting volume of oil decreased by 10.6% in 2007 to 50.41 MBOPD from 56.37 MBOPD in 2006. The decrease was mainly due to the natural decline in oil production in the Rimau block. The realized weighted average oil price increased by 13.3% to USD 72.49/Bbl in 2007 from USD 63.98/Bbl in 2006.

MedcoEnergi sells its net crude oil entitlement through competitive tender processes, subject to market conditions, and enters into short-term sales contracts with the winning bidders. Crude oil entitlement not sold pursuant to a sales contract can readily be sold in the spot market, albeit without the modest premium afforded by a sales contract. Substantially all of MedcoEnergi's net crude entitlement in 2007 was sold to Itochu Petroleum Co. (S) Pte Ltd (Itochu), Mitsui Oil (Asia) Hongkong Ltd., PT Pertamina (Persero), BP Migas, Medco US Overseas customers, PT Perusahaan Listrik Negara (Persero), and Petro Diamond Co. Ltd, Hong Kong.

2. Gas and LPG - Revenues

Gas sales contracts are typically long-term fixed price contracts. The increase in gas revenue was due to higher realized gas prices, which outweighed a decline in gas production.

Gas sales increased by 8% in 2007 to USD 74.3 million from USD 68.6 million in 2006.

Gas production decreased by 7.6 % in 2007 to 117.53 BBTUPD from 127.15 BBTUPD in 2006 mainly from a reduction of gas in the Tarakan PSC and the divestment of Brantas which still contributed to gas sales volumes in 2006, offset by new sales contracts entered into by the South Central Sumatra PSC. The decrease in gas volume was compensated by higher realized weighted average gas price to USD 3.19/MMBTU in 2007, or an increase of 14.5% from USD 2.78/MMBTU in 2006.

LPG sales decreased by 33% to USD 7.2 million in 2007 from USD 10.7 million in 2006.

A lower supply of associated gas from oil production in Rimau block decreased LPG sales/production by 26.4% in 2007 to 73.73 MTD from 100.13 MTD in 2006. However, this was partly offset by an increase in realized LPG price by 39.0% in 2007 to USD 440.12/MT from USD 316.56/MT in 2006.

**Depreciation, Depletion and Amortization**

| in million USD | Audited 2007 | Audited 2006 | % Variance USD | % Variance in % |
|---|---|---|---|---|
| Depreciation, Depletion and Amortization | 160.3 | 94.5 | 65.8 | 70% |

The increase in depreciation, depletion and amortization by USD 65.8 million or 70% in 2007 was mainly due to higher depletion expense from the Company's US assets (additional DD&A of approximately USD 30.7 million due to an impairment adjustment in the Company's East Cameron block), higher depletion from its Rimau and East Kalimantan blocks in line with the remaining life of reserves/production and PSC contract, and due to increase in production of gas from the South Central Sumatra block.

**Oil and Gas - Production and Lifting Costs**

| in million USD | Audited 2007 | Audited 2006 | % Variance |
|---|---|---|---|
| **Production and Lifting Costs** | | | |
| Operations and Maintenance | 44.2 | 46.8 | -6% |
| Fields operations overhead | 75.0 | 40.2 | 87% |
| Pipeline and transportation fees | 20.9 | 14.2 | 47% |
| Operational support | 6.9 | 4.8 | 44% |
| **Total** | **147.0** | **106.0** | **39%** |

Production and lifting costs consist primarily of salaries, wages and employees' benefits, materials and supplies and contract charges. These costs are mainly affected by the level of production, field operations overhead, operations and maintenance costs, operations support and pipeline fees.

Total production and lifting costs increased by 39% to USD 147 million in 2007 from USD 106 million in 2006 mainly due to efforts to maintain the level of the production in the Rimau block and increase production in the South Central Sumatra block.

### Exploration Expenses

| in million USD | Audited | | % Variance |
|---|---|---|---|
| | 2007 | 2006 | |
| **Exploration Costs** | | | |
| Dryhole costs | 21.6 | 30.0 | -28% |
| Exploration overhead | 5.6 | 5.1 | 10% |
| Seismic | 16.1 | 4.8 | 235% |
| Geological and geophysical | 4.8 | 1.4 | 243% |
| **Total** | **48.1** | **41.3** | **16%** |

MedcoEnergi uses the "successful efforts method" of accounting for oil and gas exploration expenses. In this respect, exploration expenses include dry hole costs, geological and geophysical costs and exploration overheads. Exploration expenses vary with the level of exploration activities and the success rate of such activities. Exploration expenses increased by 16% from prior year primarily relating to exploration activities in the US, Libya and various blocks in Indonesia.

The Cost of Crude Oil Purchases increased by 29% to USD 40 million in 2007 from USD 30.9 million in 2006 mainly due to the overlifting of the Company's entitlement in the Rimau Block and Pertaminas' portion in the Tiaka Field.

**Revenues from Non-Company Operated Fields**

Revenues and expenses for the Non-Company operated fields or blocks are presented under "share of profits/losses in joint ventures". This line item is the net results between revenue and expenses relating to those blocks or fields.

### Revenues from Non-Company Operated Fields

| in million USD | Audited | | % Variance |
|---|---|---|---|
| | 2007 | 2006 | |
| **Share of profits in non-group operated fields** | | | |
| PSC Kakap | 13.3 | - | - |
| JOB Tuban | 8.0 | 3.0 | 167% |
| **Total share of profits** | **21.3** | **3.0** | **610%** |
| **Share of losses in non-group operated fields** | | | |
| Libya EPSA Area 47 | (11.6) | (6.1) | 90% |
| PSC Kakap | - | (1.8) | - |
| PSC Brantas | - | (61.7) | - |
| **Total share of losses** | **(11.6)** | **(69.6)** | **-83%** |

Revenues from the shares of profits represent MedcoEnergi's proportionate non-operating net income derived from the Tuban and Kakap blocks. The share of losses of joint ventures in 2006 was primarily derived from discontinuation of MedcoEnergi's operation in Brantas. The share of losses in 2007 primarily represents non-capitalisable exploration costs in Libya.

**Drilling Services**

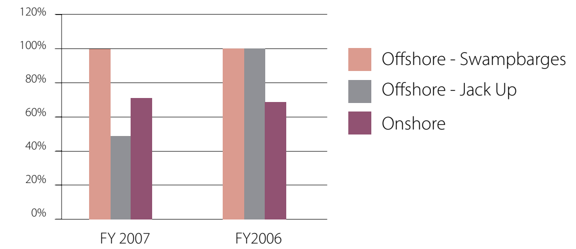
### Revenues from Drilling Operations and Related Services

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Revenues from drilling operations & related services | 160.7 | 122.9 | 37.8 | 31% |

MedcoEnergi's revenues from drilling operations and related services vary based upon demand for its drilling and related services (such as mobilization and demobilization fees). Demand for drilling rigs is affected by a number of factors, primarily demand for oil and natural gas products, the level of oil and natural gas exploration and production activities and general worldwide economic and market conditions.

Revenues from drilling operations and related services totaled USD 160.7 million in 2007 representing an increase of 31% compared to 2006.

### Drilling Utilization Rates




During 2007, the Company maintained 100% utilization rates for swamp-barge offshore rigs and slightly increased daily revenues by 6.7% to USD 53,019 from USD 49,677 in 2006. On the contrary, the utilization rate of the Company's jack-up offshore rigs declined by 50% to 50% in 2007 from 100% in 2006. In 2007, the Company owned and operated 2 jack-up offshore rigs (Raniworo and Soehanah) while in 2006 the Company only owned and operated the Raniworo rig. The decline in utilization rates of jack-up offshore rigs was due to the refurbishment of the Raniworo rig in conjunction with the preparation to enter into a new contract and late commencement of the Soehanah rig operation during 2007 period. The lower utilization rate was partially compensated by the increase in average daily revenue for jack-up offshore rigs by 7.0% in 2007 to USD 76,211 from USD 71,221 in 2006.

The increase in oil price has bolstered the demand of rigs. Thus in 2007, the Company acquired new contracts for onshore rigs which resulted in a slight increase in rig utilization to 70% from 68% in 2006. At the same time, the increase in demand in onshore rigs also increased the rental rate, thus the daily revenue increased significantly by 13.8% in 2007 to USD 22,530 from USD 19,791 in 2006.

### Drilling - Revenues from Other Contracts

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Revenues from other contracts | 49.64 | 23.26 | 26.4 | 113% |

Revenues from other contracts for drilling business are recognized when earned and represent back charges related to MedcoEnergi's drilling operations, comprising spare parts, supplies, fuel and catering for MedcoEnergi's drilling clients for which MedcoEnergi bills its customers. The increase was primarily attributed to the overall increase in drilling operations.

## Drilling - Depreciation and Amortization

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Depreciation and Amortization | 30.4 | 22.7 | 7.7 | 34% |

Depreciation is computed using the straight - line method based on the estimated useful lives of onshore drilling rigs for 4 - 8 years, offshore drilling rigs for 20 - 21 years and rig equipment for 4 - 10 years. In 2007, depreciation and amortization increased due to the Soehanah Rig being placed into service in 2007.

## Drilling Operations Costs

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Drilling Operations Costs | 104.3 | 91.6 | 12.7 | 14% |

Drilling operations costs primarily consist of salaries and wages, labor contracts, repairs and maintenance, rental expense of drilling equipment, catering and insurance expenses.

In line with increases in above cost components, the increase in average daily operating costs were USD 15,484 in 2007 from USD 14,052 in 2006 for onshore rigs, USD 22,084 in 2007 from USD 23,490 in 2006 for Swampbarge Rigs, and USD 16,454 in 2007 (in line with annual average rate of utilization) from USD 21,249 in 2006 for Jack-up rigs.

### Downstream

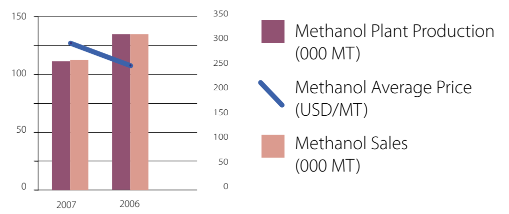
MedcoEnergi derives revenues from sales of methanol produced from the Bunyu methanol plant which is leased from Pertamina and operated by MedcoEnergi and sales of high speed diesel (HSD) by a new HSD distribution subsidiary in 2007.

## Downstream – Revenues

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Net sales of chemicals and other petroleum products | 47.8 | 32.6 | 15.2 | 47% |

The higher revenues in 2007 were contributed by higher realized prices of methanol in 2007 compared to 2006, which outweighed the decrease in production volume, and also from HSD distribution.

## Methanol Production vs Sales




The unexpected decline in reserves and production from the Tarakan block significantly decreased methanol production and sales in 2007.

During 2007, MedcoEnergi produced 114,176 MT and sold 117,033 MT of methanol, or around a 16.7% and 14.6% decline compared to 137,088 MT and 137,045 MT in production and sales, respectively, in 2006. However, the methanol average price increased by 23.5% to USD 294/MT in 2007 from USD 238/MT in 2006.

The Company's new line of business, HSD distribution, began its operation in June 2007 and traded 47,120 KL of HSD in 2007.

## Costs of Downstream Revenues

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Cost of sales of chemicals and other petroleum products | 37.1 | 23.6 | 13.5 | 57% |

Pursuant to a 20-year agreement entered into with Pertamina in April 1997, MedcoEnergi began operating a methanol plant owned by Pertamina on Bunyu Island, east of Kalimantan through its subsidiary, PT Medco Methanol Bunyu (MMB). On March 15, 2007, MedcoEnergi and Pertamina signed the amendment of Methanol Bunyu Plant operatorship agreement with effective date on January 01, 2006 in which Pertamina is entitiled to a monthly fee calculated based on cost and profit sharing with minimum of USD 2.2 million per annum. The other components of the cost of methanol sales are feed gas costs, plant operational costs, salaries and other allowances, contract labor, fuel consumption and material used.

Cost of HSD sales primarily is purchase price of this product from the producer.

The increase in cost of production for chemicals primarily represents cost of HSD purchases from suppliers (while in 2006 there was no HSD distribution), while costs of methanol in 2007 did not increase significantly as the volume of production decreased.

### Power

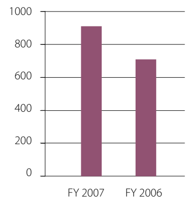
At the moment, MedcoEnergi sells its electric power generated by its subsidiaries to the State Electricity Company (PLN). The subsidiaries of MedcoEnergi that currently operate in this field are PT Mitra Energi Batam (MEB) and PT Dalle Energy Batam (DEB). MEB is the operator of Panaran I, a power plant with the capacity of 2 X 27.75 MW and 7.5 MW chiller. DEB is the owner and operator of Panaran II, a power plant with the capacity of 2 X 27.75 MW and 7.5 MW chiller.

## Electric Power Sales

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Electric power sales | 33.3 | 24.4 | 8.9 | 36% |

Electric power sales totaled USD 33.3 million in 2007 representing an increase of 36% compared to 2006, which is primarily due to an increase in electricity production/sales in 2007.

## Operation Highlights Power




The full operation of the new gas fueled power plant in Batam Island, Panaran II, in 2007 has increased the Company's power supplied by 25% to 878 GWH compared to 701 GWH in 2006. Panaran I power plant increased its supply by 10.0% in 2007 to 419 GWH compared to 380 GWH in 2006. In the meantime, Panaran II power plant increased its supply significantly by 43% to 459 GWH from 321 GWH in 2006.

## Power - Revenues from Other Contracts

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Revenues from other contracts | 18.50 | 14.80 | 3.7 | 25% |

Revenues from other contracts for power business represent the Operation and Management (O&M) services for Tanjung Jati B which has been effective since September 19, 2005 for a period of 23 years. The increase is in line with increase in the level of O&M operations in 2007.

### Power – Depreciation and Amortization

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| Depreciation and Amortization | 3.9 | 2.6 | 1.3 | 50% |

Depreciation is computed using the straight - line method based on the estimated useful lives of the assets, with the primary contributors being the depreciation of electricity power turbines/generators. The significant increase was due to full year depreciation of a couple of turbines in 2007, and only partial year depreciation in 2006 (operation started in July 2006).

MedcoEnergi's depreciation and amortization increased by USD 1.3 million, or 50%, to USD 3.9 million in 2007 from USD 2.6 million in 2006, primarily attributable to the full operation of DEB in 2007.

### Cost of Power Sales

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2007 | USD | in % |
| Costs of Electric Power Sales | 27.9 | 19.0 | 9.0 | 47% |

Costs of power sales represent expenses, such as maintenance costs and salaries as well as gas purchases related to the Batam power plant. The increase was in line with increase in electricity production and increase in gas purchase prices.

## Consolidated Operating Expenses

MedcoEnergi's Operating expense for 2007 increased by 24% or equal to USD 25.9 million to USD 133.3 million from USD 107.4 million in 2006. The following table sets forth the breakdown of operating expenses into general and administrative (G&A) expenses as well as selling expenses.

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| **Operating Expenses General and Administrative** | | | | |
| Salaries, wages and other employee benefits | 51.6 | 42.4 | 9.1 | 21.4% |
| Professional fees | 12.4 | 11.2 | 1.3 | 11.2% |
| Rental | 11.5 | 6.3 | 5.1 | 81.3% |
| Contract charges | 7.8 | 9.7 | (1.9) | -20.0% |
| Office supplies and equipment | 4.7 | 2.7 | 2.1 | 77.0% |
| Insurance | 3.9 | 2.3 | 1.6 | 73.1% |
| Depreciation | 2.9 | 1.1 | 1.8 | 170.5% |
| Repair and maintenance | 0.9 | 1.3 | (0.5) | -35.1% |
| Provision of doubtful accounts | 0.7 | 3.4 | (2.7) | -79.4% |
| Other | 12.8 | 9.5 | 3.3 | 34.8% |
| **Total General and Administrative Expenses** | **109.1** | **89.9** | **19.2** | **21.3%** |
| **Selling** | | | | |
| Export expenses | 14.5 | 12.2 | 2.3 | 18.9% |
| Business Travel | 7.3 | 4.6 | 2.7 | 57.4% |
| Entertainment | 1.6 | 0.4 | 1.2 | 280.8% |
| Advertising and Promotion | 0.8 | 0.2 | 0.6 | 235.4% |
| **Total Selling Expenses** | **24.2** | **17.5** | **6.7** | **38.3%** |
| **Total Operating Expenses** | **133.3** | **107.4** | **25.9** | **24%** |

The increase in G&A expenses was primarily due to increase salaries, wages and employees benefits related to cost of living adjustments and rental related to aircraft leasing agreement.

The increase in selling expenses was primarily due to business travelling expenses related to the Company's expansion of its international assets.

### Consolidated Other Expense

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| **Other Income (Charges)** | | | | |
| Gain / (Loss) on Foreign Exchange – Net | 6.4 | (12.3) | 18.7 | -152.2% |
| Gain/(Loss) on Sale of Marketable Sec. - Net | 4.5 | 4.5 | 0.0 | 0.5% |
| Interest Expenses – Net | (71.4) | 46.5 | (24.9) | 53.6% |
| US Assets Impairment | (25.9) | - | (25.9) | 100.0% |
| Gain or Loss on sale of FA | (20.5) | - | (20.5) | 100.0% |
| Financing Charges – Net | (10.1) | (2.0) | (8.1) | 408.8% |
| Gain (Loss) from Swap Transactions | (8.0) | 39.5 | (47.5) | -120.3% |
| Equity in Net Inc./(Loss) of Ass. Entities - Net | (0.2) | (2.8) | 2.6 | -93.0% |
| Others – Net | 2.0 | 9.1 | 7.1 | -78.2% |
| **Other Expenses - Net** | **(123.2)** | **(10.5)** | **(112.8)** | **1,077%** |

In 2007, the Company recorded net other expense in the amount of USD 123.2 million from USD 10.5 million in 2006. The significant increase in net other expense in 2007 was mainly due to:

a. an increase in financing charges of USD 8.1 million as a result of a number of new short and long term loans in 2007 as working capital, general corporate purposes and project financing;

b. an unrealized loss of USD 8.0 million from swap transactions in 2007 compared to an unrealized gain of USD 39.5 million in 2006. MedcoEnergi's IDR Bonds were partly hedged by Cross Currency Swaps (CCS) which did not meet the criteria for 'hedging transactions' under SFAS No. 55. As a result of this, any movement in the fair value of the swaps is to be recognized as a gain or loss in the current period, although the gain or loss from movement has not been realized. Primarily due to strengthening of USD against IDR, MedcoEnergi recognized unrealized losses of USD 8 million due to changes in the fair value of the swaps, a decrease of USD 47.5 million from gains of USD 39.5 million in 2006. Despite the (unrealized) loss being recognized on the swap transaction as noted above, on a cash basis, in 2007 the swaps have reduced payments for interest on IDR Bonds by USD 3.4 million;

c. an increase in interest expense of USD 24.9 million as a result of new loan facilities from Bank Mandiri, BNI, Natixis de Banque (Natixis), other loan facilities and full year accrual for interest from Convertible Bonds which was issued in May 2006;

d. the sale of the Company's participating interests in the Sorento Dome assets in the United States of America, which resulted in a loss of USD 20.5 million; and

e. US asset impairment of USD 25.9 million was recognized due to downward adjustment of petroleum reserves in the East Cameron block. The impairment expense is non-cash in nature, which will reduce future depletion charges by such amount from production of petroleum reserves from East Cameron.

## Consolidated Income Tax

### Income Tax

MedcoEnergi's income tax expense decreased by USD 33.8 million, or 28%, to USD 85.2 million in 2007 compared to USD 119.0 million in 2006. The decrease in overall tax expense was due to the recognition of deferred tax benefits from loss carry forward, which outweighed a slight increase in current tax expense paid by subsidiaries that posted net income in 2007.

## FINANCIAL CONDITION, CASH FLOWS AND FINANCIAL RATIOS

Consolidated Balance Sheets:

### Consolidated Assets

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| **Current Assets** | | | | |
| Cash and cash equivalent | 266.4 | 188.3 | 78.1 | 41% |
| Short-term investments | 84.4 | 91.7 | (7.3) | -8% |
| Trade receivables - net | 219.2 | 119.4 | 99.8 | 84% |
| Oth. Rec. - third parties - net of all. for doubtful acc. | 66.1 | 71.9 | (5.8) | -8% |
| Inventories - net | 64.8 | 48.5 | 16.3 | 34% |
| Prepaid taxes | 25.1 | 33.2 | (8.0) | -24% |
| Prepaid expenses | 4.4 | 6.5 | (2.1) | -33% |
| Restricted cash in banks | 11.4 | 4.6 | 6.8 | 147% |
| Derivative assets | 0.3 | - | 0.3 | 100% |
| Other current assets | 1.1 | 2.7 | (1.6) | -58% |
| **Total Current Assets** | **743.2** | **566.8** | **176.4** | **31%** |
| **Non-Current Assets** | | | | |
| Other receivables - third parties - net | 11.2 | 45.8 | (34.6) | -76% |
| Restricted cash in banks | 24.5 | 25.2 | (0.7) | -3% |
| Accounts receivables from related parties | 0.3 | 11.2 | (10.9) | -97% |
| Deferred tax assets - net | 82.2 | 56.9 | 25.3 | 45% |
| Investments in shares of stock | 16.9 | 10.6 | 6.4 | 60% |
| Investments in projects | 36.2 | 43.0 | (6.8) | -16% |
| Property and equipment - net | 506.6 | 469.5 | 37.1 | 8% |
| Oil and gas properties - net | 686.0 | 577.7 | 108.3 | 19% |
| Swap assets | 0.7 | 6.9 | (6.1) | -89% |
| Other assets - net | 39.6 | 28.1 | 11.5 | 41% |
| **Total Non-Current Assets** | **1,404.3** | **1,274.4** | **129.5** | **10%** |
| **Total Assets** | **2,147.5** | **1,841.6** | **305.9** | **17%** |

## Current Assets

### Cash and Cash Equivalents

Cash equivalents increased by 41.5% to USD 266.4 million in 2007 from USD 188.3 million in 2006 due to excess funds from draw down loans especially by amounts drawdown during the 4th quarter of 2007. The excess funds were due to timing difference in utilizing cash for capex spending projections.

### Trade Receivables Net

The Trade receivables rose by 83.7% to USD 219.2 million in 2007 from USD 119.4 million in 2006. This was mainly due to higher realized oil & gas prices, the increase in rig utilization rates and the average daily revenue (especially from jack-up rigs) in Apexindo, and the new operation of high speed diesel distribution company, PT Medco Sarana Kalibaru.

### Inventories

The inventories increased by 33.6% to USD 64.8 million in 2007 from USD 48.5 million in 2006 mainly due to the new operation of the Company's high speed diesel distribution.

### Restricted Cash in Banks

The Restricted cash in banks increased by 146.9% to USD 11.4 million in 2007 from USD 4.6 million in 2006 due to the requirement of an escrow account from Banque de Natixis in relation to the Soehanah Jack-up project financing in April 2007.

## Non Current Assets

### Other Receivables from Third Party - Net

Other receivables decreased significantly by 75.6% to USD 11.2 million in 2007 from USD 45.8 million in 2006 due to the repayment of cash calls especially under Senoro Toili JOB PSC and reimbursement of VAT from BP Migas.

### Accounts Receivables from a Related Party

Accounts receivables from a related party decreased significantly by 97.2% to USD 0.3 million in 2007 from USD 11.2 million in 2006 due to the acquisition of the remaining 50% shares in Medco Moeco Langsa (Langsa block) thru MEPL in November 2007. With this acquisition MEPL became a consolidated subsidiary, and the receivable was eliminated in the consolidated financial statements of MedcoEnergi.

### Investment in Shares of Stock

The increase in Investment in Shares of Stocks in 2007 of 60.3%, or equal to USD 6.4 million, to USD 16.9 million from USD 10.6 million in 2006 was mainly due to the acquisition of Trada International shares in the amount of USD 12.3 million which was partially offset by the consolidation of MML after acquiring 50% of the shares in November 2007.

### Investment in Projects

Investments in projects decreased by 15.8% to USD 36.2 million in 2007 from USD 43.0 million in 2006, mainly due to the conversion of investment in Bawean and Bangkanai projects into working interests in the respective PSCs.

### Property, Plant and Equipment

The increase in property, plant and equipment in 2007 by 7.9%, or equal to USD 37.1million, to USD 506.6 million in 2007 from USD 469.5 million in 2006 was mainly due to the costs of the new jack-up rig, Soehanah that were incurred in 2007.

### Oil and Gas Properties

The increase in oil and gas properties in 2007 of 18.8%, or equal to USD 108.3 million, to USD 686.0 million in 2007 from USD 577.7 million in 2006 was mainly due to several new acquisitions of international assets,an additional acquisition of interest in the Block A PSC, the consolidation of the Langsa block (previously accounted for as equity investment), and an increase due to capitalization of expenditures incurred on existing international and domestic oil and gas assets.

# Consolidated Liabilities and Equity

| in million USD | Audited | | % Variance 07 vs 06 | |
|---|---|---|---|---|
| | 2007 | 2006 | USD | in % |
| **Liabilities and Equity** | | | | |
| **Current Liabilities** | | | | |
| Short Term Bank Loans | 57.6 | - | 57.6 | 100% |
| Trade payables: | | | | |
| Related parties | 0.5 | 0.8 | (0.3) | -35% |
| Third parties | 90.6 | 62.2 | 28.4 | 46% |
| Other payables | 53.8 | 53.0 | 0.8 | 2% |
| Taxes payable | 51.0 | 41.8 | 9.2 | 22% |
| Accrued expenses | 93.5 | 50.5 | 43.1 | 85% |
| Current maturities of long-term loans | | | | |
| Bank loans | 30.2 | 14.2 | 15.9 | 112% |
| Other long-term obligations | - | 25.8 | (25.8) | 100% |
| Deferred income | - | 2.5 | (2.5) | 100% |
| Swap liabilities | 0.3 | - | 0.3 | 100% |
| **Total Current Liabilities** | **377.6** | **250.9** | **126.7** | **51%** |
| **Non-Current Liabilities** | | | | |
| Deferred tax liabilities - net | 115.4 | 123.5 | (8.1) | -7% |
| Employee benefits obligation | 9.0 | 6.9 | 2.1 | 30% |
| Long-term portion - net of current maturities bank loans | 217.9 | 54.7 | 163.3 | 299% |
| Other long-term obligations | | | | |
| Notes payables | 431.7 | 429.7 | 2.0 | 0.5% |
| Rupiah bonds | 201.6 | 209.2 | (7.7) | -4% |
| Payable under consturction contract | - | 100.7 | (100.7) | 100% |
| Derivative liabilities | 1.9 | - | 1.9 | 100% |
| Advance from customer | 127.6 | - | 127.6 | 100% |
| Other payables | 12.8 | 7.4 | 5.3 | 72% |
| **Total Non-Current Liabilities** | **1,117.9** | **932.2** | **185.7** | **20%** |
| **Total Liabilities** | **1,495.5** | **1,183** | **312.5** | **26%** |
| **Negative Goodwill - Net** | **0.8** | **0.9** | **(0.1)** | **17%** |
| **Min. Int. In Net Assets of Subsidiaries Equity** | **126.5** | **121.8** | **4.7** | **4%** |
| Capital stock - Rp 100 par value per share | | | | |
| Authorized - 4,000,000,000 shares | | | | |
| Issued and fully paid | 101.2 | 101.2 | - | 0% |
| Treasury stock | (3.1) | (3.1) | - | 0% |
| Additional paid - in capital | 123.2 | 123.2 | - | 0% |
| Revaluatin increment in property and equipment Effect of changes in the equity | 0.1 | 0.1 | - | 0% |
| Transactions of subsidiaries/ associated companies | 15.9 | 15.5 | 0.4 | 3% |
| Translation adjustment Retained earnings | 0.6 | 0.9 | (0.29) | -34% |
| Appropriated | 6.5 | 6.5 | - | 0% |
| Unappropriated | 280.5 | 291.7 | (11.3) | -4% |
| **Equity - Net** | **524.7** | **535.9** | **(11.2)** | **-2%** |
| **Total Liabilities and Equity** | **2,147.5** | **1,841.6** | **305.9** | **17%** |

The Company's total liabilities for 2007 increased by 26%, or equal to USD 312.5 million, to USD 1,495.5 million from USD 1,183 million in 2006. The increase was mainly due to:

## Current Liabilities

### Short term bank loans

Increase in short term bank loans by USD 57.6 million was due the addition of a loan from Bank Mandiri.

### Trade Payables- 3rd parties

The increase in Trade payables to third parties in 2007 was 46% higher, or equal to USD 28.4 million, to USD 90.6 million from USD 62.2 million in 2006 which was primarily due to the increase in rig utilization and average daily costs especially for the jack-up rigs in Apexindo.

### Taxes Payable

The increase in Taxes payables in 2007 was 22% higher, or equal to USD 9.2 million, to USD 51 million from USD 41.8 million in 2006. The increase is in line with current corporate income tax due by MedcoEnergi in 2007.

### Accrued Expenses

The increase in Accrued expenses in 2007 was 85% higher, or equal to USD 43.1 million, to USD 93.5 million from USD 50.5 million in 2006. The increase was primarily due to the accrued interest relating to loans/debts, including debts newly obtained in 2007, and increased severance and contract services which were mainly related to Medco E&P Indonesia.

### Current Maturities – Long Term Loans and Other Long Term Obligations

The increase in Current maturities – long term loans in 2007 was 112% higher, or equal to USD 15.9 million, to USD 30.2 million from USD 14.2 million in 2006. The increase was primarily due to higher working capital loans of MedcoEnergi and the current portion of Apexindo's loan from Natixis in the amount of USD 21 million for Soehanah rig. Current maturities of other long term obligations decrease by USD 25.7 million due to payment of Note Payable due during the year.

## Non Current Liabilities

### Long Term Loans – bank loans

The increase in Long term bank loans in 2007 was 299% higher, or equal to USD 163.3 million, to USD 217.9 million from USD 54.7 million in 2006. Such increase was due to the financing for the Soehanah rig from Natixis in the amount of USD 92.2 million and a General Corporate Purpose Facility from Bank BNI in the amount of USD 50 million and a Working Capital Loan from Bank Mandiri of USD 30 million.

### Payable under construction contract

The decrease in payable under construction in 2007 was 100%, or equal to USD 100.7 million. The decrease was due to the completion of the Soehanah rig, whereby this payable was refinanced through the Natixis loan.

### Advance from customer

The balance of advance from customer as of December 31, 2007 of USD 127.6 million was received from Itochu as the buyer of MedcoEnergi's oil production from the Kaji/Semoga field.

### Consolidated Debts

| Description | 2007 | 2006 | Variance | |
|---|---|---|---|---|
| | | | USD | % |
| **Short term bank loans** | **57.6** | **-** | **57.6** | **100** |
| **Current maturities long term loans** | **30.2** | **40** | **(9.8)** | **(25)** |
| **Long term portion – net of current maturities bank loans:** | | | | |
| Other Long term obligations | 217.9 | 54.7 | 163.2 | 298 |
| Notes Payable | 431.7 | 429.7 | 2 | 0.5 |
| Rupiah Bonds | 201.6 | 209.2 | (7.7) | (4) |
| Payable under construction contract | - | 100.7 | | (100) |
| **Total** | **939** | **834.3** | **104.7** | **12.5** |

MedcoEnergi's total debts as of 2007 increased by 12.5%, or equal to USD 104.7 million, to USD 939 million from USD 834.3 million in 2006 (including payable under construction contract). As noted above, the increase was mainly due to loans from Bank Mandiri, Bank BNI and Natixis, as outlined in more detailed below:

**Bank Mandiri and Bank BNI.** In 2007 the Company obtained loan facilities from Mandiri and BNI. As of 31 December 2007 the Company has drawn down a total of USD 136.3 million from these facilities, USD 86.3 million from Mandiri and USD 50 million from BNI. From the USD 86.3 million proceeds from Mandiri, USD 56.3 million is due in March 2008, while USD 30 million is due in December 2012. The loan from BNI is due in June 2010.

**Natixis.** Apexindo, a subsidiary, also secured a loan of USD 113.99 million from Natixis in 2007, which represents a re-financing of the construction contract payable accruing since 2005 of USD 100.7 million as of December 31, 2006 for the construction of the Soehanah rig which was completed in mid 2007. This loan is repayable in annual installments from 2008 to 2014.

## Compliance with Debt Covenants

The Company and its subsidiaries are in compliance with the existing covenants and their existing banking facilities and long-term obligations, except DEB, and except with respect to the financial ratio requirement under USD and IDR bonds regarding maximum debt to equity ratio (DER) of 1.75x. DEB did not meet certain financial covenants but have received wavers from their respective banks. At December 31, 2007, MedcoEnergi did not meet the aforementioned DER maximum requirement. On March 26, 2008, the Company sold a 2.5% interest in Apexindo triggering the deconsolidation of USD 190 million in debt. The sale of Apexindo shares and the related impact placed MedcoEnergi back into compliance with the bond covenant, and the Company informed the Trustee of this matter in accordance with the respective bond agreements.

MedcoEnergi's primary source of liquidity is free cashflow and use of financing. Management continues to believe that such internally generated cashflow and its debt-to-equity ratios are such that it will be adequate to service existing debt and to continue to pay dividends and finance future growth.

Free operating cashflow is a measurement that is not the same as net cashflow from operating activities per the statement of cashflow and may not be consistent with similarly titled measures used by other companies.

### Consolidated Cash Flows

| in USD million | Audited | | Variance | |
|---|---|---|---|---|
| | 2007 | 2006* | USD | % |
| Net cash provided by operating activities | 425.9 | 233.2 | 192.7 | 83% |
| Net cash used in investing activities | -451.9 | -312.6 | -139.3 | 45% |
| Net cash provided by (used in) financing activities | 104.1 | 115.6 | -11.5 | -10% |
| Cash and cash equivalents at end of year | 266.4 | 188.3 | 78.1 | 41% |

*) as restated to align with 2007 presentation

Net cash provided by operating activities increased by USD 192.7 million, or 83%, primarily due to receipt of advance USD 108.5 million from Itochu Petroleum Co. (Singapore) Pte. Ltd. for long term crude sales, while the remaining was due to increases in cash inflows from sales due to higher realized sales prices.

Net cash used in investing activities increased by USD 139.3 million to USD 451.9 million in 2007 from USD 312.6 million in 2006. The significant portion of the cash outflows for investment activities continued to be expenditures for acquisition and development of oil and gas properties, exploration activities, as well as the acquisition of property and equipment in 2007.

Net cash provided in Financing Activities was USD 104.1 million in 2007, mainly due to the proceeds from the loans obtained from Mandiri and BNI, which were offset primarily by payments for long terms notes payable, treasury stock, and dividends.

## Financial Ratios

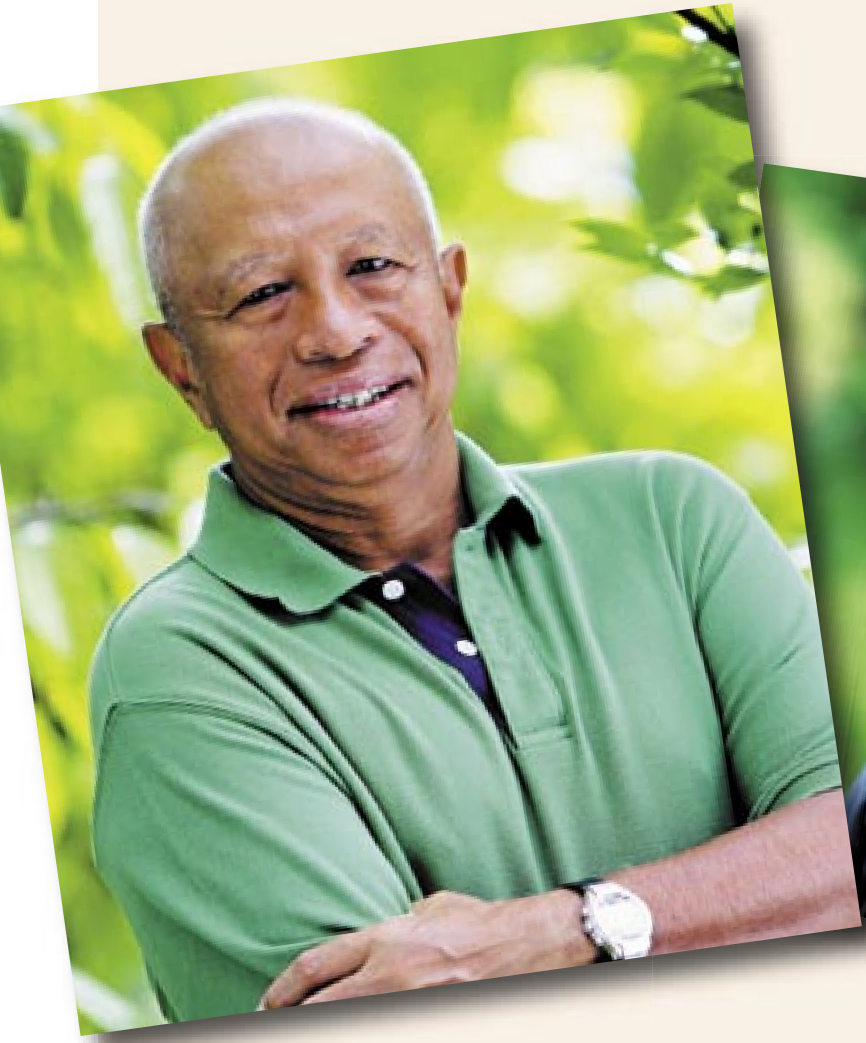
MedcoEnergi's financial ratios for the year ended December 31, 2007 and 2006 are as follow:

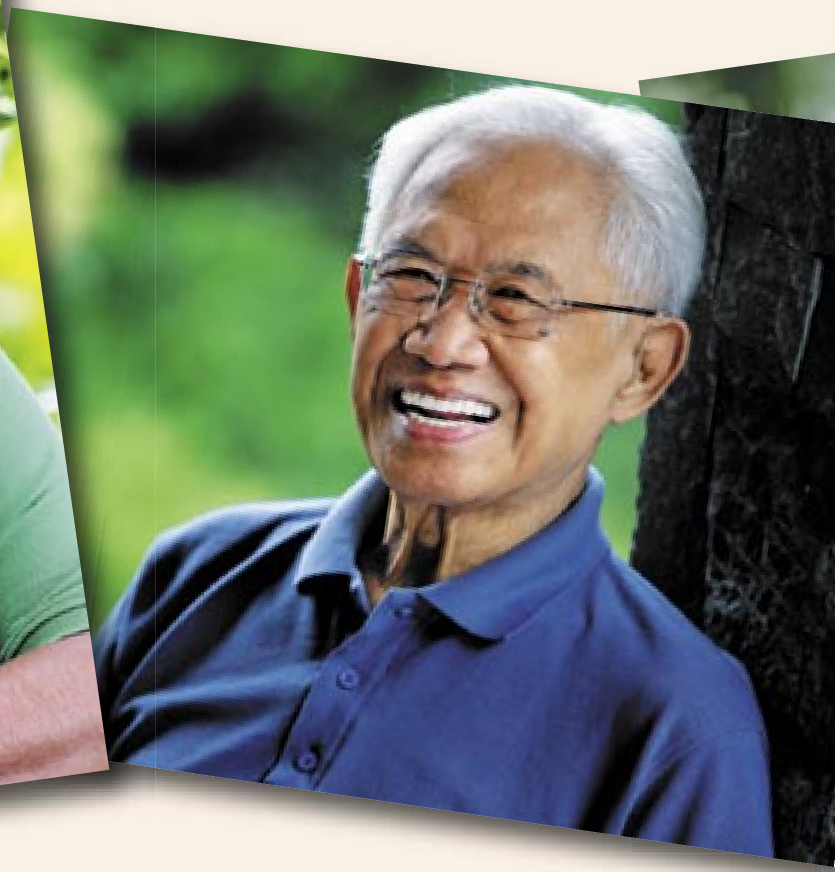
| FINANCIAL RATIOS | Audited | | % Variance |
|---|---|---|---|
| | 2007 | 2006 | |
| **Liquidity & Solvability (%)** | | | |
| Cash Ratio | 70.5 | 75.1 | -6% |
| Quick Ratio | 168.5 | 187.9 | -10% |
| Current Ratio | 196.8 | 226.0 | -13% |
| Debt to Equity Ratio | 179.0 | 155.7 | 15% |
| Net Debt to Equity Ratio | 109.9 | 102.6 | 7% |
| Total Liabilities / Total Equity | 285.0 | 220.8 | 29% |
| **Profitability (%)** | | | |
| Gross Margin | 37.5 | 36.3 | 3% |
| EBITDA Margin | 44.3 | 38.4 | 16% |
| Operating Margin | 23.9 | 22.7 | 5% |
| Net Margin | 0.7 | 4.8 | -86% |
| Return on Equity Percentage | 1.2 | 7.1 | -82% |
| **Coverage Ratios (x)** | | | |
| Interest Coverage Ratio (x) | 6.09 | 6.54 | -7% |
| Income from Operations / net | - | - | -15% |
| Interest | 3.29 | 3.87 | - |
| Net debt / EBITDA | 1.54 | 2.12 | 7% |
| **Efficiency Ratios (x)** | | | |
| Revenue / fixed assets | 0.82 | 0.76 | 9% |
| Revenue / net working capital | 2.69 | 2.51 | 7% |
| **Investment Ratios (x)** | | | |
| CapEx / Revenue | 0.39 | 0.49 | -19% |
| CapEx / depreciation | 1.92 | 3.16 | -39% |
| **Capital Structure (%)** | | | |
| Net debt / (net debt + equity) | 0.56 | 0.55 | 3% |

The increases in solvability ratios in 2007, i.e. Debt to Equity Ratio, Net Debt to Equity Ratio and Total Liabilities/Equity were primarily due to increase in debts in 2007 as obtained from Mandiri and BNI, while in 2007 MedcoEnergi experienced a significant decrease in net income compared to 2006. The decreases in profitability ratios in 2007 were primarily due to MedcoEnergi's losses from its US assets.

# Supplementary Information

# The Advisors of MedcoEnergi





## Arifin Panigoro

The founder of Medco Group began to be involved in the oil and gas industry in 1980. In 1988, he withdrew from the Company's management and has since become an advisor, notably in identifying new oil and gas business opportunities.

Earned a bachelor degree in Electrical Engineering from Bandung Institute of Technology in 1973.

## Subroto

Former Minister of Mining and Energy of the Republic of Indonesia and former Secretary General of 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 and gas business.

Graduated from the Military Academy, Yogyakarta in 1948 and continued his study to earn a Bachelor of Arts degree in Economics from the University of Indonesia in 1952. 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 Standford University and in 1964 a post doctorate degree from Harvard University for International Teachers Programme.

## Alwi Shihab

Former Minister of Foreign Affairs of the Republic of Indonesia and Coordinating Minister of People's Welfare. He joined as the Company's advisor in March 2007 with the main role of providing advice in penetrating the international oil and gas market.

Earned a Bachelor of Arts degree and Master of Arts degree both from University of Al-Azhar, Cairo, Egypt in 1966 and 1968 respectively. Earned a Bachelor degree in Islamic Philosophy from IAIN Alauddin, Ujung Pandang, Indonesia in 1986. Received a Doctor of Philosophy degree from University of Ain Shams, Cairo, Egypt in 1990. Continued his study and received a Master of Arts degree from Temple University, USA in 1990 and followed by a Doctor of Philosophy degree from Temple University, USA in 1995. Received a post doctorate from the Center For the Study of World Religions in Harvard University, USA in 1996.

## Ismail Saleh

Former Minister of Justice of the Republic of Indonesia and Chairman of Investment Coordination Body. Since joining the Company in 1993 as an Advisor, he actively advised the Company in its business conduct mainly to ensure compliance with Indonesian business laws and regulations. He resigned from this position in December 2007.

Earned a Law degree from Military College, Indonesia in 1963 and also graduated from the Indonesian Army Commando's School in 1965.

# Board of Commissioners

## Arifin M. Siregar

*President Commissioner (Independent)*

Indonesian citizen born in 1934. Appointed as President Commissioner and Independent Commissioner in May 2006. Currently also a member of the Board of Commissioners of PT Austindo Nusantara Jaya and PT Cabot Indonesia. Served as an International Advisor of Goldman Sachs (Asia Pacific) LLC (January 1998-July 2006). Indonesian Ambassador to the United States of America (1993-1997), the Minister of Trade (1988-1993), Governor of Bank Indonesia (the Central Bank of Indonesia) (1983-1988), Deputy Governor of Bank Indonesia (1971-1983), Resident Representative of the International Monetary Fund (IMF) in Vientiane, Laos (1961-1971), IMF Economist in Washington D.C. (1965-1969), United Nations Economist in Beirut, Lebanon (1963-1965) and in New York (1961-1963).

At present, he is also involved in social activities, such as Co-Chairman of the United States Indonesia Society (USINDO), a member of the Board of Trustees of the World Wide Fund for Nature (WWF) and the Chairman of the Governing Board of the Indonesian Council on World Affairs (ICWA).

Received BA degree in economics from the Netherlands School of Economics, Rotterdam, Netherlands, obtained MA and PhD degrees in economics from Munster University, Germany.

**Main Role:**
Supervise and advise the Board of Directors with regard to the operation and business development of the Company and the subsidiaries, and the implementation of GCG and risk management policy. The Chairperson of the Board of Good Corporate Committee as well as the Risk Management Committee, a member of the Audit Committee and the Nomination Committee.

## Sudono N. Suryohudoyo

*Independent Commissioner*

Indonesian citizen. Born in 1936. Appointed as Independent Commissioner of the Company since 2003. Extensive experience in the oil and gas industry and held various positions since initially joining PT Stanvac Indonesia in 1961; Huffco/Vico in 1980-1992; Exspan/Medco E&P Indonesia in 1992-2003.

Received a Bachelor degree in Mining Engineering from Bandung Institute of Technology in 1960.

**Main Role:**
Supervise and advise the Board of Directors with regards to the operations and business development activities of the Company and its subsidiaries, the implementation of Corporate Governance and formulate the remuneration of the Boards. The Chairperson of Audit Committee and Remuneration Committee, and member of Risk Management Committee.

## Gustiaman Deru

*Independent Commissioner*

Indonesian citizen. Born in 1960. Appointed as Independent Commissioner since 2002. Currently also holds position in Matlin Patterson Advisers (Asia) Limited, Hong Kong as Director, Senior Investment Professional. Previously held positions as Director, Workout and Special Situation of Group in Credit Suisse First Boston, Hong Kong (1998-2002), Director, Asian Local Markets Trading of ING Barings, Hong Kong (1996-1998), Director of Peregrine Fixed Income Limited, Singapore and Hong Kong (1994-1996) and various important positions.

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 Parahyangan University, Bandung in 1985.

**Main Role:**
Supervise and advise the Board of Directors with regards to financial issues, and also a member of the Audit Committee and Nomination Committee.

## Yani Y. Rodyat

*Commissioner*

Indonesian citizen. Born in 1951. Appointed as Commissioner of the Company since 1998. Currently also holds positions as Director of PT Medco Duta and PT Medco Intidinamika, Commissioner of PT Sentrafood Indonusa, Professor in University of Indonesia and Commissioner of PT Sarana Jabar Ventura. She has extensive experience in the field of education and science, and is a lecturer at various reputable Universities in Indonesia. Also worked in the Indonesian Science Institute (1975-1982).

Received a Master degree in Management from Sekolah Tinggi Manajemen, Bandung in 1977, and a Bachelor degree in Electric Engineering from Bandung Institute of Technology in 1973.

**Main Role:**
As the Chairperson of the Nomination Committee, she supervises and advises the Board of Directors with regards 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. Also as a member of Risk Management Committee, she is responsible for monitoring the policy of Risk Management.

## Retno D. Arifin

*Commissioner*

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

Received a Bachelor degree in Architecture Engineering from Bandung Institute of Technology in 1972.

**Main Role:**
Supervise and advise the Board of Directors with regards to general business issues.

# Board of Directors

## Hilmi Panigoro

*President Director*

Indonesian citizen. Born in 1955. Re-appointed as the President Director of the Company since 2001. Currently holds positions as President Commissioner of PT Apexindo Pratama Duta Tbk, Commissioner of PT Meta Archipelago Hotels and President Director of PT Medco Duta and PT Medco Intidinamika. He has extensive experience in oil and gas industry and held various positions while working at VICO Indonesia between 1982-1996.

Received a Master of Science degree in Geological Science from Colorado School of Mines, USA, in 1988, and took core program in Business Administration at Thunderbird University, USA, in 1984, and received a Bachelor degree in Geological Science from Bandung Institute in 1981.

**Main Role:**
Together with the other Board members, he manages the Company's resources, especially in exploration and production of oil and gas; implementing audits to obtain the Company's objectives and goals in achieving profit in a productive way; creates a conducive working environment for employees in order to increase work productivity; and implement Corporate Social Responsibility activities, and manage the social impacts to environment without conflicting the Company's policy or the existing laws and regulations.

## Rashid I. Mangunkusumo

*Growth Director*

Indonesian citizen. Born in 1938. Appointed as Director of the Company since 2001. Currently also holds positions as Commissioner of PT Apexindo Pratama Duta Tbk. He has extensive experience in oil and gas industry and held various positions at PT Stanvac Indonesia for 30 years from 1960-1996.

Received a Master degree in Petroleum Engineering from Oklahoma University, USA in 1965, a Bachelor degree in Petroleum Engineering from Oklahoma University, USA, in 1963, and a Bachelor degree in Propaedeutic/General Engineering from Oklahoma City University, USA and Delft Institute of Technology, the Netherlands, in 1960.

**Main Role:**
Managing the Company's business development and portfolio management to support the Company's growth.

## Darmoyo Doyoatmojo

*Planning Director*

Indonesian citizen. Born in 1951. Appointed as Director of the Company since November 2004 and approved by the EGMS in March 2005. Currently holds positions as President Commissioner PT Pauwels Travo Asia and as Commissioner of PT Medco Duta and PT Medco Intidinamika.

Received a Master degree in Finance and Business Economic from University of Southern California, USA, in 1991, and a Master of Business Administration from the same University in 1990, and Bachelor degree in Electrical Engineering from Bandung Institute of Technology in 1975

**Main Role:**
Managing the Company's short-term and long-term strategic planning.

## D. Cyril Noerhadi

*Finance Director*

Indonesian citizen. Born in 1961. Appointed as Director of the Company since October 2005 and approved by the EGMS in November 2005. Formerly was the Corporate Finance Partner of PricewaterhouseCoopers (PwC) – Financial Advisory Services (July 1999-September 2005), President Director of PT Jakarta Stock Exchange (April 1996-April 1999), President Director PT Kliring Deposit Efek Indonesia (1993-May 1996), Director PT Danareksa Finance (December 1991-January 1993), Executive Director PT (Persero) Danareksa (March 1991-January 1993), Consultant and Researcher of Harvard Institute for International Development at The Indonesian Ministry of Finance (December 1988-March 1991)

Received a Master of Business Administration degree in Finance and Economics from University of Houston, USA, in 1988, and a Bachelor degree in Geological Science from Bandung Institute of Technology in 1985.

**Main Role:**
Managing the Company's resources especially in the Corporate Finance to increase the Company's share value for investors, and ensure proper financial reporting.

# Subsidiary Companies

## PT Medco E&P Indonesia

Standing from left to right; Edi Bambang, Budi Basuki, Syamsurizal Munaf and Lukman Mahfoedz.

**Lukman Mahfoedz**

*President Director*

Indonesian Citizen, Born in 1954. Accepted the position of President Director PT Medco E & P Indonesia in April 2005. Began his career with construction companies in 1980 – 1983 as a Construction Engineer, and then joined Huffco/VICO Indonesia in 1983. Held various positions in the Operation & Engineering, Project Construction, and General Support responsibilities in VICO Indonesia for almost 18 years. Before joining MedcoEnergi he held a position at BP Indonesia as Senior Vice President for the Tangguh LNG project.

He received a Bachelor Degree in Mechanical Engineering from the Sepuluh November Surabaya Institute of Technology ( ITS ) in 1980.

**Edi Bambang Setyobudi**

*Technical Shared Service Director*

Indonesian citizen. Born in 1953. Appointed as Director since 2001. Joined PT Stanvac Indonesia in 1980 as Geologist and he was appointed as the Vice President Exploration in 1998.

Received a Bachelor degree in Geological Science from Gadjah Mada University, Yogyakarta in 1979.

**Budi Basuki**

*Producing Asset Director*

Indonesian citizen. Born in 1953. Appointed as Director since 2003. Previously he served as the Vice President for Western Operation Area at PT Medco E&P Indonesia (2001-2002), Manager of Oil Movement at PT Medco E&P Indonesia (2000-2001), and Engineer at PT Stanvac Indonesia (1981-2000).

Received a Bachelor degree in Mechanical Engineering from Gadjah Mada University, Yogyakarta in 1980.

**Syamsurizal Munaf**

*Business Shared Service Director*

Indonesian citizen. Born in 1965. Appointed as Director since 2001. Joined MedcoEnergi in 1997. Previously held position as Senior Investment Analyst for Principle Investment at PT Bahana Artha Ventura (1995-1997).

Received a Magister Management degree from Prasetya Mulya School of Management in 1995 and Bachelor degree in Civil Engineering from Bandung Institute of Technology in 1989.

# PT Apexindo Pratama Duta Tbk

## Hertriono Kartowisastro

*President Director*

Indonesian Citizen. Born in 1946. President Director since 2001. Joined Medco Group in 1975. Formerly he served as the President Commissioner of MedcoEnergi (1998-2001), President Director of the Company (1993-1998) and the President Director of PT Medco Antareja (2001)

Received a Bachelor degree in Mechanical Engineering from Bandung Institute of Technology in 1974.

## Terrence M. Gott

*Business Development Director*

Australian Citizen. Born in 1949. Business Development Director since 2001. Joined Medco Group in 1981 with initial position as General Manager/Technical Consultant. Previously served as Resident Manager of Parker Drilling Indonesia (1980-1981).

Received a Bachelor degree from Nodree College, Australia in 1965.

## Agustinus B. Lomboan

*Finance Director*

Indonesian Citizen. Born in 1964. Finance Director since 2001. He has extensive experience in banking; Managing Partner, advisory Division PT PDFCI Tbk. (2000-2001), Managing Director- Credit and Finance PT Bank PDFCI Tbk. (1999), and Relationship Manager, Credit Division PT Bank Panin Tbk. (1989-1994).

Received a Magister Management degree from Indonusa Esa Unggul University in 1995 and a Bachelor degree in Mechanical Engineering from Trisakti University, Jakarta in 1988.

Standing from left to right; Terry Gott, Agus Lomboan, Hertriono Kartowisastro

# PT Medco Power Indonesia

## Fazil E. Alfitri

*President Director*

Indonesian Citizen. Born in 1966. President Director since December 2003. Previously served as the Country Manager for GE Power Systems Indonesia (2001-2003).

Received a Master of Science degree in Mechanical Engineering from Lehigh University, Pennsylvania, USA in 1990 and a BSc. degree in Mechanical Engineering from Wichita State University, Kansas, USA in 1988.

## Dean S. Achmad

*Business Development Director*

Indonesian Citizen. Born in 1948. Appointed as Operations Director in December 2003. Previously held positions as Senior Consultant at PT Singgar Mulia (2001-2003), Country representative at Dynegy Global Liquids Inc. (1998-2001) and various positions in Vico Indonesia.

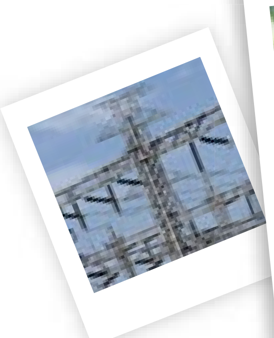
Earned an MBA degree from Thunderbird University, Arizona, USA in 1984 and a Bachelor and Master degree in Engineering Science from New South Wales Institute of Technology, Sydney, Australia in 1976.

## Aries Pardjimanto

*Operational Director*

Indonesian Citizen. Born in 1953. Director since December 2003. Joined Medco Group in 1997 and since then has held senior positions in Medco Holdings and its subsidiaries of the Company. Formerly held various positions in Vico Indonesia for 15 years.

Received a Bachelor degree in Translation from English Academy in 1982.



# PT Medco Downstream Indonesia

Standing from left to right; Noorzaman Rivai, Djatnika and Bambang Sugondo.

### Djatnika S. Puradinata
*President Director*

Indonesian citizen. Born in 1950. President Director since 2001. Previously, he served as the Advisor to the President Director of PT Pupuk Kujang (1999-2001).

Received a Master degree in Development Study Program, Management and Planning from Bandung Institute of Technology in 1998 and a Bachelor degree in Chemical Engineering from Bandung Institute of Technology in 1976.

### Bambang W. Sugondo
*Director*

Indonesian citizen. Born in 1951. Director since 1999. Previously served as the Vice President of Corporate Services at PT MedcoEnergi Internasional Tbk. (1997-1999).

Received a Bachelor degree in Physics Engineering from Bandung Institute of Technology in 1976.

### Noorzaman Rivai
*Director*

Indonesian Citizen. Born in 1968. Director since August 2007. Previously served as the President Director for Trada Group (2002-2007) and several key positions in several telecommunication companies.

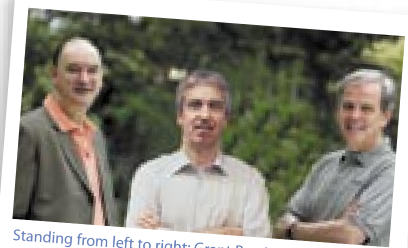
Received a Certificate State of the Art of Telecommunication from Northeastern University, Boston-Massachusetts, USA. Master of Business Administration in General Management from National University, Los Angeles-California, USA. And Bachelor of Science in Electrical Engineering from Case Western Reserve University - Ohio, USA in 1990.

# MedcoEnergi Global Pte. Ltd.

### Patrick Molliere
*President Director*

French citizen. Born in 1950. Appointed Director of Medco International in May 2006. Previously, he served as Consultant to MedcoEnergi for Middle East business development based in France and Middle East. Appointed Assistant to CEO on 2002. Also held various positions in companies based in Iran, and other Middle Eastern countries.

Received a Bachelor degree in Engineering Science & Technologies of Materials on 1974 at Montpellier, France.



Standing from left to right; Grant Bowler, Gilles Pinto and Patrick Molliere

### Grant Bowler
*Director*

United Kingdom citizen. Born in 1947. Director of MedcoEnergi since 2005. Previously held key positions in numerous organizations. Appointed Director of Operations Medco International Holdings on May 5, 2006.

Received a Bachelor Science (Hons) degree in Chemical Engineering, University of Wales, Swansea UK Chartered Engineer # 121436; Member Institution of Chemical Engineers (UK); and Member Society of Petroleum Engineers, Dallas.

### Gilles Pinto
*Director*

French Citizen. Appointed as Finance Director of MedcoEnergi Global in October 2007. Formerly was Chief Financial Officer & Vice President of Manpower Group USA, (2003 – 2007), Chief Financial Officer & Senior Vice President at Nylstar Group Holland (2001 - 2003), Unisys Corporation USA as Vice President Finance (2000 – 2001), Tower Semi Conductor Group USA as Group Chief Financial Officer (1997 – 2000), Penta Lesco Group as the Vice President (1993 – 1997), GS Thompson Group as Divisional Finance Director (1987 – 1993), Jacobs Suchard Group for 18 years long and worked in various positions such as Group Audit Development Director.

Received a Master of Business Administration degree from Manhattan Institute of Management, New York, USA, in 1978, Certified Public Accountant DECS – Universite Dauphine, Paris in 1976 - 1978, High Business School graduate (2nd cycle) – Institute Superieur de Gestion in 1977, Business Studies graduate (1st cycle) in 1975.

# Committees

## Audit Committee

**Sudono N. Suryohudoyo**
*Chairperson*

**Arifin M. Siregar**
*Member*

**Gustiaman Deru**
*Member*

**Djoko Sutardjo**
*Member*

**Zulfikri Aboebakar**
*Member*

**Robertus Wijang**
*Secretary*

## GCG Committee

**Arifin M. Siregar**
*Chairperson*

**Sudono N. Suryohudoyo**
*Member*

**Yani Y. Rodyat**
*Member*

**Hilmi Panigoro**
*Member*

**Darmoyo Doyoatmojo**
*Member*

**Lukman Mahfoedz**
*Member*

**Hertriono Kartowisastro**
*Member*

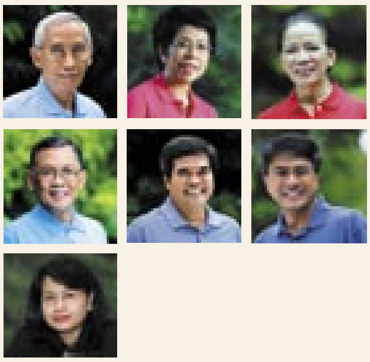
**Djatnika**
*Member*

**Fazil E. Alfitri**
*Member*

**Grant Bowler**
*Member*

**Cisca W. Alimin**
*Secretary*

## Remuneration Committee



**Sudono N. Suryohudoyo**
*Chairperson*

**Yani Y. Rodyat**
*Member*

**Retno D. Arifin**
*Member*

**Rashid I. Mangunkusumo**
*Member*

**Darmoyo Doyoatmojo**
*Member*

**D. Cyril Noerhadi**
*Member*

**Retno Perdanakusuma**
*Secretary*

## Risk Management Committee

**Arifin M. Siregar**
*Chairperson*

**Sudono N. Suryohudoyo**
*Member*

**Yani Y. Rodyat**
*Member*

**Darmoyo Doyoatmojo**
*Member*

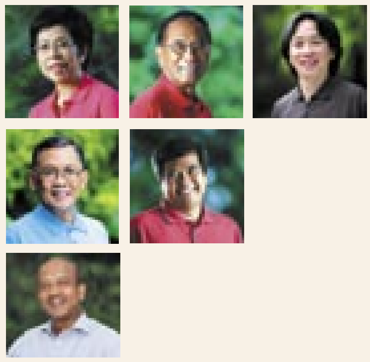
**D. Cyril Noerhadi**
*Member*

**Siendy K. Wisandana**
*Member*

**Robertus Wijang**
*Member*

**Muhariyanto**
*Secretary*

## Nomination Committee



**Yani Y. Rodyat**
*Chairperson*

**Arifin M. Siregar**
*Member*

**Gustiaman Deru**
*Member*

**Rashid I. Mangunkusumo**
*Member*

**Darmoyo Doyoatmojo**
*Member*

**Sapta P. Yadi**
*Secretary*

## Corporate Secretary

**Cisca W. Alimin**
*Head of Corporate Secretary*

Indonesian citizen, born in 1969. Served as Corporate Secretary since 2007.

Has been working closely with the management since 1995 and held various positions and previously served as Compliance Lead at MedcoEnergi. Prior to joining the Company, served as Assistant Executives in PT Trisaka Adireksa and various positions in Mobil Oil Indonesia Inc. in 1993.

Earned her Bachelor of Science degree in Business Administration from University of Indianapolis in 1992.

**Main Role:**
As Corporate Secretary, she is responsible for compliance to the capital market regulator, corporate communications, board administration and other institutional relations support.

# Corporate Structure

## Oil & Gas E&P Indonesia

- PT Medco E&P Simenggaris (99,9%)
- PT Medco E&P Kalimantan (99,99%)
  - PT Exspan Energi Nusantara (99%)
  - Exspan CumiCumi (L) Inc. (100%)
- PT Medco E&P Tarakan (99,99%)
- PT Medco E&P Indonesia (99.995%)
- PT Medco E&P Rimau (99.99%)
- PT Medco E&P Asahan (99.99%)
- PT Medco E&P Lematang (99.99%)
- PT Medco E&P Madura (99.9%)
- PT Medco E&P Tomori Sulawesi (95%)
- PT Medco E&P Yapen (99.99%)
- PT Medco E&P Tuban (99.99%)
- PT Medco E&P Merangin (99.9%)
- PT Medco E&P Kakap (99.9%)
- Medco Simenggaris Pty. Ltd. (60%)
- PT Medco E&P Nunukan (99.9%)
- PT Medco E&P Sampang (99.9%)
- Exspan Airlimau Inc. (100%)
- Exspan E&P Pasemah Ltd. (100%)
- Exspan Pasemah Inc. (100%)
- Medco Madura Pty. Ltd. (51%)
- Medco Far East Ltd. (100%)
  - Perkasa Equatorial Sembakung Ltd. (100%)
- PT Medco E&P Bengara (95%)
- PT Medco E&P Langsa (99.9%)
- PT Medco E&P Bangkanai (99%)
  - Bangkanai Petroleum (L) Berhad (100%)
- PT Medco E&P Natuna (99%)
- PT Medco E&P Bawean (99.99%)
- Camar Bawean Petroleum (Holdings) Pty. Ltd. (100%)
- Exspan Myanmar (L) Inc. (100%)
- Senoro Toili (Indonesia) Ltd. (100%)
- Exspan E&P International (M) Ltd. (100%)
  - Medco International (Sampang) Ltd. (100%)
  - Exspan International (Kakap) Ltd. (100%)
- Exspan Airsenda Inc. (100%)
- PT Medco E&P Sembakung (99.9%)
- PT Medco E&P Malaka (99%)
  - Aceh Blok A Ltd. (33.33%)
- Medco Bawean (Holding) Pte. Ltd. (100%)
  - Camar Bawean Petroleum Ltd. (100%)

## Downstream

- PT Medco Methanol Bunyu (99.99%)
- PT Medco LPG Kaji (99.99%)
- PT Medco Downstream Indonesia (99.9%)
  - PT Medco Ethanol Lampung (85%)
- PT Medco Sarana Balaraja (99.99%)
  - PT Medco Sarana Kalibaru (100%)

## Power

- PT Medco Power Indonesia (99.99%)
  - PT Dalle Panaran (99%)
  - PT Dalle Energy Batam (40%)
  - PT Medco Gajendra Power Services (51%)
    - PT TJB Power Services (80.1%)
  - PT Medco Power Sumatera (99.6%)
    - PT Indo Medco Power (64.98%)
  - PT Medco Sengkang (99.9%)
    - PT Energi Sengkang (5%)
  - PT MedcoEnergi Menamas (99.99%)
    - PT Mitra Energi Batam (54%)

## Geothermal

- PT Medco Geothermal Indonesia (99.9%)
  - PT Medco Geothermal Sarulla (99.9%)

MEDCOENERGI

## Oil & Gas E&P International

- Medco Strait Services Pte. Ltd. **(100%)**
  - Medco Kakap Holding Pte. Ltd. **(100%)**
    - Novus Petroleum Canada (Indonesia Holdings) **(100%)**
      - Novus Petroleum Canada (Kakap) Ltd. **(100%)**
      - Novus Petroleum Canada (Malacca Strait) Ltd. **(100%)**
    - Novus UK (Indonesia Holding) Ltd. **(100%)**
      - Novus UK (Malacca Strait) Ltd. **(100%)**
      - Novus UK (Kakap) Ltd. **(100%)**
  - Medco International Enterprise Ltd. **(100%)**
    - Medco LLC, Oman **(68%)**
  - Medco Energi Global Pte. Ltd. **(100%)**
    - Medco US Holdings Inc. **(100%)**
      - Medco Petroleum Management LLC **(100%)**
      - Medco Energi US LLC **(100%)**
    - Medco International Services Pte. Ltd. **(100%)**
    - Medco International Petroleum Ltd. **(100%)**
    - Medco International Venture Ltd. **(100%)**
      - EEX Asahan Limited Cayman **(100%)**
- Medco Energi (Australia) Pty. Ltd. **(100%)**
  - Novus Petroleum Limited **(100%)**
    - Novus Management Services Pty. Ltd. **(100%)**
    - Novus Finance Pty. Ltd. **(100%)**
    - Novus Australia Holding Pty. Ltd. **(100%)**
      - Novus Exploration Holding Pty Ltd. **(100%)**
        - Novus Australia Energy Company Pty Ltd. **(100%)**
          - Novus Group Holdings (Malaysia Sdn. Bdn. **(100%)**
            - Novus Lematang Company **(100%)**
          - Novus Overseas Holdings Ltd. **(100%)**
            - Novus Indonesia Brantas Company **(100%)**

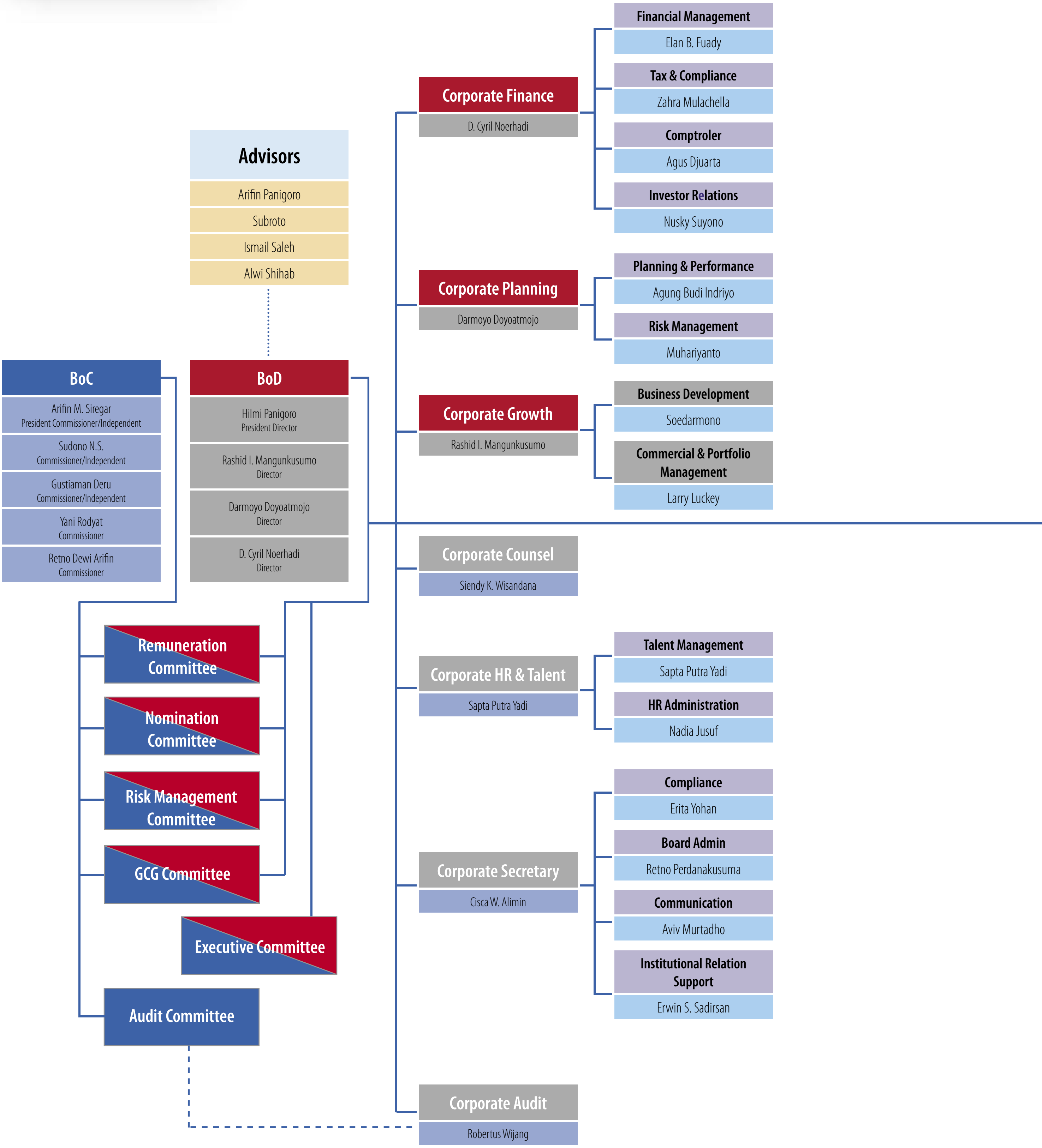
## Oil & Gas E&P Services

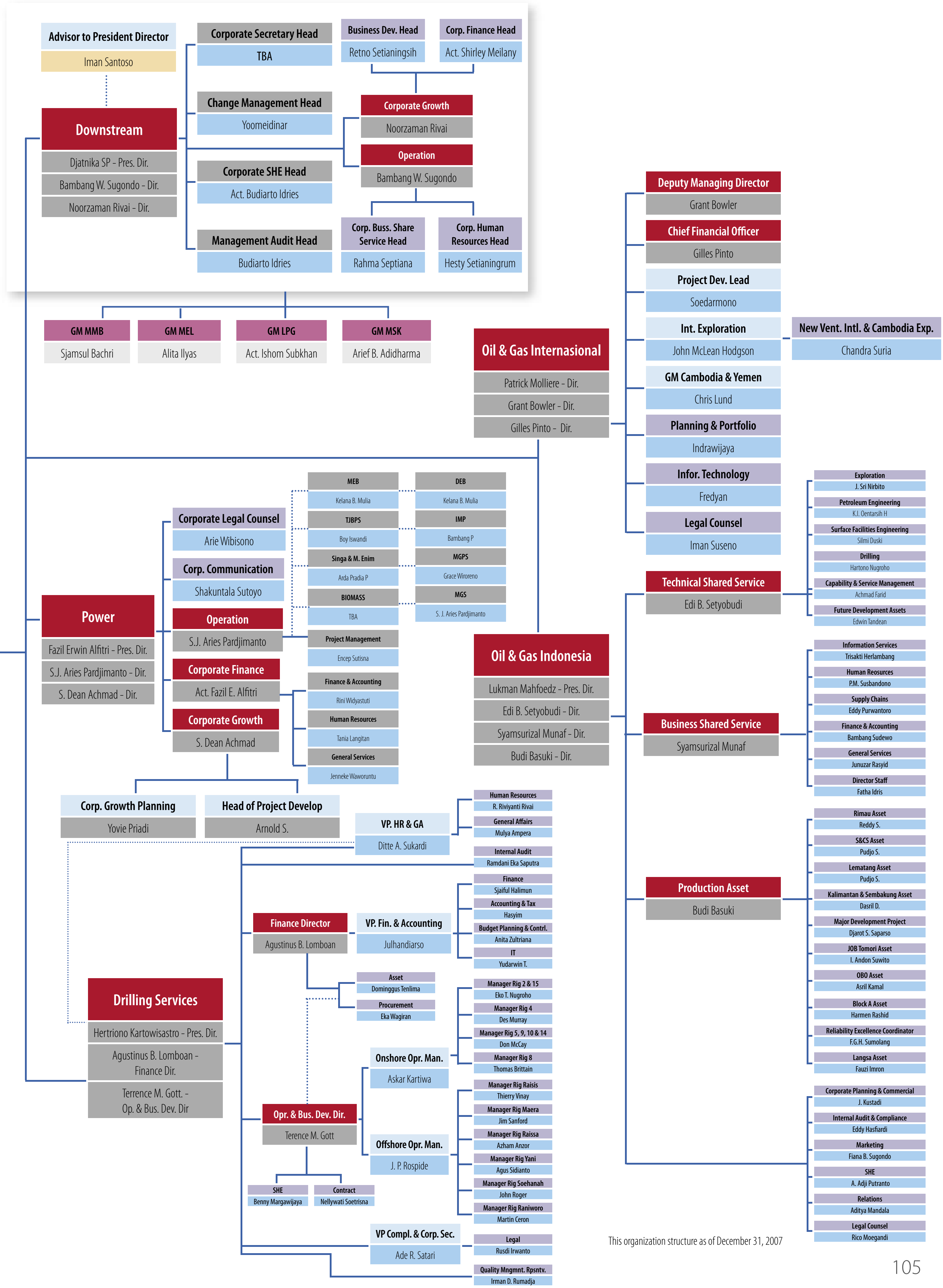
- PT Apexindo Pratama Duta Tbk. **(51.57%)**
  - PT Antareja Jasatama **(99.6%)**
  - Apexindo Asia Pacific BV **(100%)**
  - Apexindo Khatulistiwa BV **(100%)**
  - Apexindo Offshore Pte. Ltd. **(100%)**
- PT Exspan Petrogas Intranusa **(99.99%)**
  - PT Sistem Vibro Indonesia **(80%)**
  - PT Musi Raksa Buminusa **(99%)**
  - PT Satria Raksa Buminusa **(99%)**
  - PT Mahakam Raksa Buminusa **(99%)**
  - Medco Integrated Resources **(99.9%)**
- PT Medco Gas Indonesia **(99.9%)**
- PT Medco Services Indonesia **(99.9%)**

## Financial SPV

- Medco Energi Finance Overseas (BV) **(100%)**
- MEI Euro Finance Ltd. **(100%)**
  - Sarulla Geothermal Pte Ltd. **(100%)**
  - Medco E&P Langsa Pte Ltd. **(100%)**
- Medco CB Finance BV **(100%)**
- Medco Niaga Internasional **(99.9%)**

# Organization Structure






This organization structure as of December 31, 2007

# Glossary

| Abreviation | Defined Terms |
|---|---|
| ACE | Average Capital Employed |
| AGMS | Annual General Meeting Shareholders |
| AINC | Anadarko Indonesia Nunukan Company |
| AMDAL | Analysis on Environmental Impact |
| AoA | Artical 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 er 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, the non-profit Government-owned operating board that is succeeding to Pertamina's role as regulator of upstream oil and gas activities under the New Oil and Gas Law |
| 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 |
| 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 such as: names, total shares, tax, nationality of shareholders based on data given by the shareholders to KSEI |
| 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 |
| FID | Final Investment Decision |
| FOB | Free On Board |
| GCA | Gaffney, Cline & Associates Pte Ltd. as 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 | Head of Agreement |
| HR | Human Resources |
| HSD | High Speed Diesel |

| Abreviation | Defined Terms |
|---|---|
| IAI | Indonesian Institute of Accountants |
| ICP | Indonesian Crude Price |
| IDR | Indonesian's currency rupiah |
| 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 |
| JOC | Joint Operations Contract |
| JSX | Jakarta Stock Exchange |
| KL | Kilo Liter |
| KM | Knowledge Management |
| KPI | Key Performance Indicator |
| LTSA | Long Term Service Agreement |
| LuxSX | Luxembourg Stock Exhange |
| MBO | Management by Objective |
| MBOE | Million Barrel Oil Equivalent |
| MBOPD | Thousand Barrel of Oil Equivalent Per Day |
| MDI | Medco Downstream Indonesia |
| MEB | Medco Energi Batam |
| 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 Company 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 and gas company |
| PGE | Pertamina Geothermal Energy |

# Glossary

## Abreviation Defined Terms

| | |
|---|---|
| PGN | PT Perusahaan Gas Negara Indonesia Tbk. |
| PLN | PT PLN (Persero) |
| PMS | Performance Management System |
| POD | Plan of Development |
| PPA | Power Purchase Agreement |
| PSAK | Indonesian Statements of Financial Accounting Standard |
| RMC | Risk Management Committee |
| RoA | Return on Assets |
| ROCE | Return on Average Capital Employed |
| RoE | Return on Equity |
| RPJMN | 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 | Trilion British Thermal Unit |
| 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 |

## Oil and Gas Terms

| | |
|---|---|
| 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. |
| DME | means dimethyl-ether, a liquefied fuel derived from natural gas. |
| DMO | means domestic market obligations. |
| 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. |

## Oil and Gas Terms

| | |
|---|---|
| FPSO | means floating production, storage and offtake. |
| FSO | means floating storage and offloading vessel. |
| FTP | means first tranche petroleum. |
| gross production | represents the sum of the oil and 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. |
| JOB | means joint operating body. |
| lifting cost or production cost | means, for a given period, cost incurred to operate and maintain wells and related equipment and facilities. |
| LNG | means liquefied natural gas. |
| LPG | means liquefied petroleum gas. |
| 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. |
| PSC | means production sharing contract. |
| 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. |
| TAC | means technical assistance contract. |

# Consolidated Financial Statements

**With Independent Auditors' Report**
**Years Ended**
**December 31, 2007 and 2006**

## PT MEDCO ENERGI INTERNASIONAL Tbk
## AND SUBSIDIARIES

PT Medco Energi Internasional Tbk.
Graha Niaga 16th Fl.
Jl. Jend. Sudirman Kav. 58
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MEDCOENERGI

**FORM No. VIII.G.11-1**

**DIRECTORS' STATEMENT ON THE RESPONSIBILITY FOR PRESENTATION OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31st DECEMBER 2007 AND 2006 PT MEDCO ENERGI INTERNASIONAL TBK AND SUBSIDIARIES**

We the undersigned,

1. Name : Hilmi Panigoro
   Id Number : 09.5307.040455.7004
   Address : Jl. Patimura No. 9 RT 005 / RW 001
   Selong, Kebayoran Baru, Jakarta Selatan
   Title : President Director

2. Name : D. Cyril Noerhadi
   Id Number : 09.5301.110461.0273
   Address : Jl. Darmawangsa 12 No. 12 Rt. 010 / Rw. 001
   Pulo, Kebayoran Baru - Jakarta Selatan
   Title : Finance Director

hereby declare :

1. We are responsible towards the preparation and presentation of the Audited Consolidated Financial Statements of PT Medco Energi Internasional Tbk and Subsidiaries For the Years Ended 31st December 2007 and 2006 ("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 31, 2008
**PT Medco Energi Internasional Tbk**

6000
MEDCO ENERGI

**Hilmi Panigoro**
President Director

**D. Cyril Noerhadi**
Finance Director

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED FINANCIAL STATEMENTS**
**WITH INDEPENDENT AUDITORS' REPORT**
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

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*These consolidated financial statements are originally issued in Indonesian language.*

**ERNST & YOUNG**

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*This report is originally issued in Indonesian language.*

**Independent Auditors' Report**

Report No. RPC-8631

**The Stockholders, Boards of Commissioners and Directors**
**PT Medco Energi Internasional Tbk**

We have audited the consolidated balance sheets of PT Medco Energi Internasional Tbk (the "Company") and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Medco Energi Internasional Tbk and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in Indonesia.

**Purwantono, Sarwoko & Sandjaja**

**Drs. Hari Purwantono**
Public Accountant License No. 98.1.0065

March 31, 2008

The accompanying consolidated financial statements are not intended to present the 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 BALANCE SHEETS**
**December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 2e,2f,3,35 | 266,378,036 | 188,318,910 |
| Short-term investments | 2g,4 | 84,400,815 | 91,734,106 |
| Restricted cash in banks | 2e,2h,9,35 | 11,384,070 | 4,610,906 |
| Trade receivables - third parties - net of allowance for doubtful accounts of US$348,688 in 2007 and US$527,568 in 2006 | 2i,5,20 | 219,208,122 | 119,360,062 |
| Other receivables - third parties - net of allowance for doubtful accounts of US$1,780,586 in 2007 and US$144,585 in 2006 | 2i,6 | 66,107,348 | 71,879,349 |
| Inventories - net of allowance for decline in value of US$2,291,304 in 2007 and US$2,536,704 in 2006 | 2j,7 | 64,799,824 | 48,501,422 |
| Prepaid taxes | 2t,8,17 | 25,129,404 | 33,154,852 |
| Prepaid expenses | 2k | 4,395,305 | 6,531,444 |
| Derivative assets | 2u,9,19 | 293,463 | - |
| Other current assets | 14 | 1,139,318 | 2,742,369 |
| **Total Current Assets** | | **743,235,705** | **566,833,420** |
| **NON-CURRENT ASSETS** | | | |
| Other receivables - third parties - net of allowance for doubtful accounts of US$1,983,975 in 2007 and US$3,749,744 in 2006 | 2i,6 | 11,172,070 | 45,765,977 |
| Restricted cash in banks | 2e,2h,9,35 | 24,468,865 | 25,171,620 |
| Accounts receivable from related parties | 2e,10,35 | 312,070 | 11,184,933 |
| Deferred tax assets - net | 2t,31 | 82,221,979 | 56,884,730 |
| Investments in shares of stock | 2g,11a | 16,924,517 | 10,557,056 |
| Investments in projects | 2g,11b | 36,235,333 | 43,034,752 |
| Property, plant and equipment - net of accumulated depreciation of US$293,717,056 in 2007 and US$255,285,281 in 2006 | 2c,2l,2v,2x,12, 20,21,28a,29 | 506,608,477 | 469,533,870 |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (continued)**
**December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | Notes | 2007 | 2006 |
|---|---|---|---|
| Oil and gas properties - net of accumulated depreciation, depletion and amortization of US$753,381,801 in 2007 and US$585,462,387 in 2006 | 2c,2m, 2x,13 | 685,983,615 | 577,667,233 |
| Derivative assets | 2u,9,19 | 733,775 | 6,854,053 |
| Other assets - net | 2n,14 | 39,634,086 | 28,095,179 |
| **Total Non-current Assets** | | **1,404,294,787** | **1,274,749,403** |
| **TOTAL ASSETS** | | **2,147,530,492** | **1,841,582,823** |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (continued)**
**December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Short-term bank loans | 20 | 57,592,673 | - |
| Trade payables | | | |
| - Related parties | 2e,15,35 | 526,069 | 808,069 |
| - Third parties | 15 | 90,605,103 | 62,216,363 |
| Other payables | 16 | 53,830,640 | 53,015,304 |
| Taxes payable | 2t,17 | 51,043,140 | 41,849,118 |
| Accrued expenses | 2r,2bb,18 | 93,538,131 | 50,477,657 |
| Current maturities of long-term debt | | | |
| - Loans | 20 | 30,175,539 | 14,235,729 |
| - Other long-term obligations | 2o,21 | - | 25,772,818 |
| Deferred income | | - | 2,478,265 |
| Derivative liabilities | 2u,9,19 | 286,968 | - |
| **Total Current Liabilities** | | **377,598,263** | **250,853,323** |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities - net | 2t,31 | 115,412,683 | 123,517,995 |
| Employee benefits obligation | 2q,34 | 8,978,350 | 6,899,985 |
| Long-term debt - net of current maturities | | | |
| Loans | 2o,20 | 217,925,799 | 54,651,171 |
| Other long-term obligations | 2o,21 | | |
| - Notes payable | | 431,723,772 | 429,738,508 |
| - Rupiah bonds | | 201,566,071 | 209,238,087 |
| Payables under construction contracts | 12 | - | 100,695,866 |
| Derivative liabilities | 2u,9,19 | 1,896,271 | - |
| Advances from customer | 38 | 127,611,305 | - |
| Other payables | 16 | 12,776,577 | 7,437,116 |
| **Total Non-Current Liabilities** | | **1,117,890,828** | **932,178,728** |
| **NEGATIVE GOODWILL - Net** | 2c,22 | 844,364 | 898,940 |
| **MINORITY INTERESTS IN NET ASSETS OF SUBSIDIARIES** | 2b,23a | 126,493,308 | 121,794,081 |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (continued)**
**December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **EQUITY** | | | |
| Capital stock - Rp100 par value per share | | | |
| Authorized - 4,000,000,000 shares | | | |
| Issued and fully paid - 3,332,451,450 shares | 1,24 | 101,154,464 | 101,154,464 |
| Treasury stock - 223,597,000 shares | 2p,24 | (3,147,999) | (3,147,999) |
| Additional paid-in capital | 25 | 123,187,436 | 123,187,436 |
| Revaluation increment in property, plant and equipment | 2l | 99,597 | 99,597 |
| Effects of changes in equity transactions of subsidiaries/associated companies | 1d,2g,2y 26 | 15,858,446 | 15,472,122 |
| Translation adjustments | 2d | 570,230 | 850,456 |
| Retained earnings | | | |
| - Appropriated | | 6,492,210 | 6,492,210 |
| - Unappropriated | | 280,489,345 | 291,749,465 |
| **Equity - Net** | | **524,703,729** | **535,857,751** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,147,530,492** | **1,841,582,823** |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**Years Ended December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **Sales and Other Operating Revenues** | 2s,27,30 | | |
| Net oil and gas sales | | 648,534,457 | 568,327,034 |
| Revenues from drilling operations and related services | | 160,676,320 | 122,872,447 |
| Revenues from other contracts | | 70,260,339 | 41,135,097 |
| Net sales of chemical and other petroleum products | | 47,811,458 | 32,600,006 |
| Electric power sales | | 33,281,058 | 24,422,445 |
| Share of profits in joint ventures | | 21,312,902 | 3,048,458 |
| **TOTAL SALES AND OTHER OPERATING REVENUES** | | **981,876,534** | **792,405,487** |
| **PRODUCTION COST** | | | |
| Depreciation, Depletion and Amortization | 2l,2m,2n,2r, 2x,13,22,28a | (197,570,482) | (122,949,085) |
| Production and Lifting Costs | 2s,28b,34 | (147,015,270) | (106,068,124) |
| Exploration Costs | 2s,28c,34 | (48,132,465) | (41,236,464) |
| Cost of Crude Oil Purchases | 2s,28d | (39,982,381) | (30,943,198) |
| Drilling Operations Costs | 2s,28e,34 | (104,282,829) | (91,604,741) |
| Cost of Sales of Chemical and Other Petroleum Products | 2s,28f | (37,084,071) | (23,572,090) |
| Cost of Electric Power Sales | 2s,28g | (27,928,088) | (18,975,679) |
| Share of Losses in Joint Ventures | 30 | (11,592,856) | (69,597,886) |
| **GROSS PROFIT** | | **368,288,092** | **287,458,220** |
| **OPERATING EXPENSES** | 2s,29 | **(133,308,516)** | **(107,438,939)** |
| **INCOME FROM OPERATIONS** | | **234,979,576** | **180,019,281** |
| **Other Income (Expenses)** | 2s | | |
| Gains (losses) on foreign exchange - net | 2d | 6,448,146 | (12,341,917) |
| Gains on sales of marketable securities - net | 2g | 4,545,197 | 4,523,183 |
| Interest expense - net | 20,21 | (71,447,157) | (46,504,639) |
| Impairment of US assets | 13 | (25,937,125) | - |
| Loss on sale of US assets | 13 | (20,495,908) | - |
| Financing charges - net | | (10,111,452) | (1,987,121) |
| Gains (losses) from derivative transactions | 2u,19 | (8,010,055) | 39,548,063 |
| Equity in net losses of associated entities - net | 2g,11 | (193,795) | (2,765,546) |
| Others - net | | 1,973,562 | 9,058,456 |
| **OTHER EXPENSES - NET** | | (123,228,587) | (10,469,521) |
| **INCOME BEFORE TAX EXPENSE** | | **111,750,989** | **169,549,760** |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME (continued)**
**Years Ended December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **Tax Benefit/(Expense)** | 2t,31 | | |
| Current tax | | (121,678,661) | (113,719,931) |
| Deferred tax | | 36,450,944 | (5,318,897) |
| **TOTAL TAX EXPENSE** | | **(85,227,717)** | **(119,038,828)** |
| **INCOME BEFORE MINORITY INTEREST IN NET EARNINGS OF CONSOLIDATED SUBSIDIARIES** | | **26,523,272** | **50,510,932** |
| **MINORITY INTEREST IN NET EARNINGS OF CONSOLIDATED SUBSIDIARIES** | 2b,23b | **(19,978,764)** | **(12,340,564)** |
| **NET INCOME** | | **6,544,508** | **38,170,368** |
| **EARNINGS PER SHARE** | 2aa,32 | **0.0021** | **0.0123** |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

# PT MEDCO ENERGI INTERNASIONAL Tbk
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## Years Ended December 31, 2007 and 2006
## (Expressed in United States Dollars, unless otherwise stated)

| | Notes | Capital Stock | Additional Paid-in Capital | Revaluation Increment in Property, Plant and Equipment | Effects of Changes in Equity Transactions of Subsidiaries/ Associated Companies | Translation Adjustments | Retained Earnings Appropriated | Retained Earnings Unappropriated | Net |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2005 | | 98,006,465 | 123,187,436 | 99,597 | 17,483,742 | (520,427) | 6,492,210 | 288,421,752 | 533,170,775 |
| Effects of changes in equity transactions of subsidiaries/ associated companies | 2g,26 | - | - | - | (2,011,620) | - | - | - | (2,011,620) |
| Translation adjustments of subsidiaries' financial statements | 2d | - | - | - | - | 1,370,883 | - | - | 1,370,883 |
| Cash dividend | 33 | - | - | - | - | - | - | (34,842,655) | (34,842,655) |
| Net income | | - | - | - | - | - | - | 38,170,368 | 38,170,368 |
| **Balance, December 31, 2006** | | **98,006,465** | **123,187,436** | **99,597** | **15,472,122** | **850,456** | **6,492,210** | **291,749,465** | **535,857,751** |
| Effects of changes in equity transactions of subsidiaries/ associated companies | 2g,26 | - | - | - | 386,324 | - | - | - | 386,324 |
| Translation adjustments of subsidiaries' financial statements | 2d | - | - | - | - | (280,226) | - | - | (280,226) |
| Cash dividend | 33 | - | - | - | - | - | - | (17,804,628) | (17,804,628) |
| Net income | | - | - | - | - | - | - | 6,544,508 | 6,544,508 |
| **Balance, December 31, 2007** | | **98,006,465** | **123,187,436** | **99,597** | **15,858,446** | **570,230** | **6,492,210** | **280,489,345** | **524,703,729** |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | **2007** | **2006** |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers | 954,934,911 | 796,997,022 |
| Advances from customers | 102,717,456 | - |
| Cash paid to suppliers and employees | (519,105,462) | (458,471,953) |
| Cash receipts from Anadarko | 1,710,000 | 11,512,068 |
| Cash generated from operations | 540,256,905 | 350,037,137 |
| Income tax paid | (114,341,414) | (116,880,139) |
| **Net cash provided by operating activities** | **425,915,491** | **233,156,998** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 13,488,336 | 13,319,894 |
| Proceeds from disposal of property, plant, and equipment | 3,669,058 | 2,588,035 |
| Additions to oil and gas properties | (332,210,046) | (184,225,852) |
| Acquisitions of property, plant and equipment | (157,374,567) | (81,420,277) |
| Deductions of (additions to) short-term investments | 8,492,648 | (28,081,982) |
| Advances for investments in projects | (1,463,027) | (14,170,309) |
| Additions to other assets | (3,713,400) | (10,200,000) |
| Additions (deductions) to related parties accounts | - | (7,258,407) |
| Proceeds from disposal of subsidiaries working interest | 17,625,000 | 2,984,388 |
| Acquisition of subsidiaries- net of cash acquired - investments in shares of stock | (12,471,811) | (6,097,561) |
| Additions to other payables | 12,000,000 | - |
| **Net cash used in investing activities** | **(451,957,809)** | **(312,562,071)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from/(payments of) long-term obligations | (27,500,000) | 173,849,000 |
| Proceeds from loans | 276,066,440 | 39,755,654 |
| Withdrawal of (additions to) restricted cash in banks | (6,070,409) | 13,516,790 |
| Payments of loans | (32,158,002) | (17,793,071) |
| Dividends paid | (25,819,520) | (36,936,711) |
| Issuance of subsidiary's share options | 760,164 | 2,748,177 |
| Acquisition of treasury bonds | (13,000,000) | (6,492,986) |
| Interest and financing charges paid | (68,177,229) | (53,030,910) |
| **Net cash provided by financing activities** | **104,101,444** | **115,615,943** |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

**PT MEDCO ENERGI INTERNASIONAL Tbk**
**AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**
**Years Ended December 31, 2007 and 2006**
**(Expressed in United States Dollars, unless otherwise stated)**

| | 2007 | 2006 |
|---|---|---|
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **78,059,126** | **36,210,870** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 188,318,910 | 152,108,040 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **266,378,036** | **188,318,910** |
| **Supplemental Disclosures** | | |
| Acquisitions of assets through financing | 3,304,957 | 4,800,000 |
| Additions to property, plant and equipment through loans and payables under construction contracts | 724,692 | 74,987,123 |
| Capitalization of interest during construction | 701,840 | 6,028,112 |

The accompanying notes form an integral part of these consolidated financial statements.

*These consolidated financial statements are originally issued in Indonesian language.*

## 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 (MOJ) 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 have been amended several times, the latest amendments involved the roles and authority of the directors and commissioners, the authorized capital, and the rules on meetings of directors and commissioners. The latest amendments were covered by notarial deed No. 43 of Mrs. Indah Fatmawati, S.H., dated July 23, 2002, substitute notary of Mrs. Poerbaningsih Adi Warsito, S.H., which were approved by the MOJ in decision letter No. C-15374 HT.01.04 TH 2002 dated August 15, 2002 and were published in State Gazette No. 51, Supplement No. 457 dated June 27, 2003.

The Company is domiciled in Jakarta and its head office is located at Graha Niaga Building, $16^{th}$ Floor, Jalan Jenderal Sudirman, Kav. 58, Jakarta 12190.

In accordance with Article 3 of the Company's Articles of Association, the scope of its activities comprises among others, the 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 commercial operations on December 13, 1980.

The Company and its Subsidiaries (the Group) have approximately 2,259 (unaudited) and 2,194 (unaudited) employees as of December 31, 2007 and 2006, 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) 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-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.

On May 13, 2005, the Company submitted a letter to BAPEPAM-LK advising the latter of its plan to list existing shares in the form of Global Depository Receipts (GDR) on the Luxembourg Stock Exchange (LSE). The registration statement was declared effective by the LSE on July 29, 2005 and 288,100 GDRs (14,405,000 shares) were listed on the LSE.

As of December 31, 2007 and 2006, all of the Company's shares totaling 3,332,451,450 are listed on the Indonesia Stock Exchange (formerly JSE) (including 550,000 shares in the form of 11,000 GDRs as of December 31, 2007 and 890,000 shares in the form of 17,800 GDRs as of December 31, 2006).

**(Expressed in United States Dollars, unless otherwise stated)**

## 1. GENERAL (continued)

c. Directors, Commissioners, Audit Committee and Employees

The Company's Commissioners, Directors and members of the Audit Committee are as follows:

| | | December 31, 2007 and 2006 |
|---|---|---|
| Independent President Commissioner | : | Dr. Arifin M. Siregar |
| Independent Commissioners | : | Ir. Gustiaman Deru, MBA |
| | : | Ir. Sudono N. Suryohudoyo |
| Commissioners | : | Ir. Yani Yuhani Rodyat |
| | : | Ir. Retno Dewi Arifin |
| President Director | : | Ir. Hilmi Panigoro, MSc |
| Directors | : | Rashid Irawan Mangunkusumo, BSc, MEng |
| | | Ir. Darmoyo Doyoatmojo, MSc, MBA |
| | | Ir. Darwin Cyril Noerhadi, MBA |
| Chairman of Audit Committee | : | Ir. Sudono N. Suryohudoyo |
| Members of the Audit Committee | : | Ir. Gustiaman Deru, MBA |
| | | Dr. Arifin M. Siregar |
| | | Drs. Zulfikri Aboebakar |
| | | Drs. Djoko Sutardjo |

Salaries and other benefits paid to the commissioners and directors amounted to US$5,596,184 and US$5,900,294 for the years ended December 31, 2007 and 2006, respectively.

d. Subsidiaries

i. As of December 31, 2007 and 2006, the Company has ownership interests of more than 50%, directly or indirectly, in significant subsidiaries as follows:

| | Commencement of commercial operations | Effective percentage of ownership | | Total assets (before elimination) | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| **Exploration and production of oil and gas** | | | | | |
| PT Medco E&P Tarakan (MEPT) Indonesia | 1992 | 100.00 | 100.00 | 32,132,054 | 26,859,635 |
| PT Medco E&P Kalimantan (MEPK) Indonesia [1] [3] | 1992 | 100.00 | 100.00 | 104,041,190 | 95,469,987 |
| PT Medco E&P Indonesia (MEPI) Indonesia [3] | 1995 | 100.00 | 100.00 | 311,246,097 | 283,329,935 |
| PT Medco E&P Tomori Sulawesi Indonesia | 2005 | 100.00 | 100.00 | 42,937,469 | 82,162,572 |
| PT Medco E&P Tuban Indonesia | 2003 | 99.99 | 99.99 | 85,425,509 | 63,174,113 |
| PT Medco E&P Sembakung Indonesia | 2005 | 100.00 | 100.00 | 51,533,502 | 44,395,412 |
| Medco Far East Limited Cayman Islands [1] [3] | 1988 | 100.00 | 100.00 | 85,117,729 | 5,674,666 |

**(Expressed in United States Dollars, unless otherwise stated)**

## 1. GENERAL (continued)

### d. Subsidiaries (continued)

| | Commencement of commercial operations | Effective percentage of ownership 2007 | Effective percentage of ownership 2006 | Total assets (before elimination) 2007 | Total assets (before elimination) 2006 |
|---|---|---|---|---|---|
| **Exploration and production of oil and gas (continued)** | | | | | |
| Medco Simenggaris Pty., Ltd., Australia | Has not yet started commercial operations | 60.00 | 60.00 | 20,548,875 | 16,686,640 |
| Medco Madura Pty. Ltd., Australia | Has not yet started commercial operations | 51.00 | 51.00 | 383,659 | 555,842 |
| PT Medco E&P Bengara (formerly known as PT Petroner Bengara Energi Indonesia) Indonesia | Has not yet started commercial operations | 95.00 | 95.00 | 3,277,410 | 1,923,137 |
| PT Medco E&P Lematang (MEPL) Indonesia | 2003 | 100.00 | 100.00 | 36,835,030 | 31,965,096 |
| PT Medco E&P Yapen Indonesia | Has not yet started commercial operations | 100.00 | 100.00 | 1,957,654 | 2,109,946 |
| PT Medco E&P Brantas Indonesia [2]) | 2005 | 0.00 | 100.00 | - | 37,790,524 |
| PT Medco Energi Global Pte. Ltd., [1]) Singapore | 2006 | 100.00 | 100.00 | 246,226,713 | 42,473,590 |
| PT Medco E&P Merangin Indonesia | Has not yet started commercial operations | 100.00 | 100.00 | 4,450,940 | 3,678,353 |
| Medco Strait Services Pte. Ltd., Singapore [3]) | Has not yet started commercial operations | 100.00 | 100.00 | 708,515,091 | 425,864,824 |
| PT Medco E&P Malaka (formerly known as PT Exspan Simenggaris) Indonesia | Has not yet started commercial operations | 100.00 | 100.00 | 53,305,499 | 17,235,686 |
| PT Medco E&P Rimau Indonesia (MEPR) [3]) | 2005 | 99.99 | 99.99 | 578,580,771 | 316,163,597 |
| PT Medco E&P Nunukan Indonesia | Has not yet started commercial operations | 100.00 | 100.00 | 4,684,128 | 12,413,092 |
| Medco Energi (Australia) Pty., Ltd. (MEAPL), Australia [1]) [3]) | 2004 | 100.00 | 100.00 | 336,070,633 | 414,508,862 |
| Medco Bawean (Holdings) Pte. Ltd. (MBHPL), Singapore [1]) | Has not yet started commercial operations | 100.00 | 100.00 | 63,985,021 | 7,612,600 |
| Medco Kakap Holdings Pte. Ltd. (MKH), Singapore [1]) [3]) | 2006 | 100.00 | 100.00 | 103,200,281 | 41,597,209 |

*These consolidated financial statements are originally issued in Indonesian language.*

(Expressed in United States Dollars, unless otherwise stated)

## 1. GENERAL (continued)

d. Subsidiaries (continued)

| | Commencement of commercial operations | Effective percentage of ownership 2007 | 2006 | Total assets (before elimination) 2007 | 2006 |
|---|---|---|---|---|---|
| **Exploration and production of oil and gas (continued)** | | | | | |
| PT Medco E&P Bengkanai Indonesia | Has not yet started commercial operations | 100.00 | 100.00 | 3,321,117 | 27,716 |
| **Drilling and other support services for oil and gas activities** | | | | | |
| PT Apexindo Pratama Duta Tbk (Apexindo) Indonesia[1]) | 1992 | 51.37 | 51.57 | 489,316,289 | 449,349,161 |
| PT Exspan Petrogas Intranusa (EPI) Indonesia [1]) | 1999 | 99.99 | 99.99 | 24,131,277 | 20,472,031 |
| **Chemical Production** | | | | | |
| PT Medco LPG Kaji Indonesia (MLK) | 2004 | 100.00 | 100.00 | 17,005,087 | 22,482,881 |
| PT Medco Ethanol Indonesia Indonesia [1]) | Has not yet started commercial operations | 100.00 | 100.00 | 707,922 | 9,013,406 |
| PT Medco Methanol Bunyu (MMB) Indonesia | 1997 | 99.99 | 99.99 | 36,835,037 | 27,531,482 |
| PT Medco Sarana Balaraja Indonesia [1]) | 2007 | 100.00 | 100.00 | 57,066,281 | 10,987,821 |
| PT Medco Niaga Internasional Indonesia | 2006 | 99.90 | 99.90 | 805,654 | 293,979 |
| **Power Plant** | | | | | |
| PT Medco Power Indonesia (MPI) Indonesia [1]) | 2005 | 100.00 | 100.00 | 113,402,802 | 41,984,990 |
| **Others** | | | | | |
| MEI Euro Finance Limited (MEFL) [1]) [3]) Mauritius | 2002 | 100.00 | 100.00 | 184,081,026 | 219,426,284 |
| Medco CB Finance B.V. The Netherlands | 2006 | 100.00 | 100.00 | 199,787,632 | 185,338,000 |

1) and subsidiary/ subsidiaries
2) Medco E&P Brantas was divested in March 2007 (Note 30)
3) Significant portion of the total assets represents intercompany receivables in the Group that are eliminated in the consolidation

ii. On September 5, 2005, the Rights Issue I of Apexindo, a consolidated subsidiary, was declared effective by BAPEPAM-LK. The Rights Issue in which the Company did not participate was concluded on September 29, 2005. Accordingly, the Company's share ownership in Apexindo as of that date was diluted from 77.529% to 52.384%, and as a consequence the Company recognized a loss on dilution amounting to US$11,356,246. Apexindo has also distributed stock options totaling 8,063 in 2006 to its employees who fullfiled certain conditions at the date of the distribution of the options. Each stock option entitles the holder to 500 shares at an exercise price of Rp660 per share, exerciseable from 2005 to July 10, 2009.

The cumulative stock options exercised totaled 101,409 options (equivalent to 50,704,500 shares) at end of 2007 and 80,791 options (equivalent to 40,395,500 shares) at end of 2006. Accordingly, the Company's share ownership in Apexindo was further diluted to 51.37% and 51.57% in 2007 and 2006, respectively, and the Company recognized a loss on dilution of US$386,789 and US$1,624,831 in 2007 and 2006, respectively. The losses on dilution are reported under Equity, "Effects of Changes in Equity Transactions of Subsidiaries/Associated Entities".

## 1. GENERAL (continued)

d. Subsidiaries (continued)

iii. The Group has interests in the following overseas petroleum joint venture operations or Service Contracts/Participation and Economic Sharing Agreements in 2007 and 2006:

| Joint Venture | Country | Ownership Interest (%) 2007 | 2006 |
|---|---|---|---|
| Brazos Block 437 | USA | 100 | 100 |
| Brazos Block 435 | USA | 100 | 100 |
| Brazos Block 492 | USA | 100 | 100 |
| Brazos Block 514 | USA | 100 | 100 |
| Brazos Block 451 | USA | 100 | - |
| East Cameron (EC) 317/318 lease | USA | 75 | 75 |
| Main Pass (MP) 64/65 lease | USA | 75 | 65-66 |
| Mustang Island Block 758 | USA | 43.75 | 43.75 |
| West Delta 52 | USA | 35 | - |
| Block E Offshore | Cambodia | 90 | 90 |
| Block 12 | Cambodia | 52.50 | - |
| Nimr – Karim Area | Oman | 51 | 51 |
| Block 47 Ghadames Basin | Libya | 50 | 50 |
| Block 82 | Yemen | 45 | - |
| Block 83 | Yemen | 45 | - |
| Anaguid Block | Tunisia | 40 | - |

iv. The Group has undertaken several acquisitions and transfers of assets as disclosed in Note 38a.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles as promulgated by the Indonesian Statements of Financial Accounting Standards (PSAK) and the regulations of BAPEPAM-LK.

The consolidated financial statements, except for the consolidated statements of cash flows, have been prepared on the accrual basis using the historical cost concept, and certain accounts which are measured on the bases as described in the related accounting policies.

The consolidated statements of cash flows have been prepared using the direct method, which classifies cash flows into operating, investing and financing activities.

The reporting curency used in the preparation of the consolidated financial statements is the United States Dollar (US Dollar).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries wherein the Company has a direct or indirect ownership interest of more than 50%.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The results of subsidiaries acquired or disposed of during the year are consolidated from or to the effective dates of acquisition or disposal.

Minority interests represent the interests of the outside shareholders in the results and net assets of subsidiaries.

All significant intercompany balances and transactions are eliminated to reflect the financial position and the results of operations of the Group as one business entity.

c. Business Acquisitions

Acquisitions are accounted for by use of the purchase method in accordance with the requirements of PSAK No. 22 on “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.

Goodwill of the acquired oil and gas companies is reported under Oil and Gas Properties to the extent applicable for capitalization and is amortized over the life of the asset using the units of production method or equivalent contract agreements 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)

d. Foreign Currency Transactions and Balances

Transactions during the year involving currencies other than US Dollar are recorded in US Dollar at the prevailing rates of exchange in effect on the date of the transactions.

As of the balance sheet date, all monetary assets and liabilities denominated in currencies other than the US Dollar are translated 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 balance sheet 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 Equity. The books/accounts of several entities are maintained in Indonesian Rupiah, Euro and in Australian Dollars, but their functional currency is the US Dollars. For consolidation purposes, the accounts of these entities have been remeasured into US Dollars in order to reflect more closely their economic substance.

As of December 31, 2007 and 2006, the rates of exchange used are as follows:

| | **2007** | **2006** |
|---|---:|---:|
| Rupiah/US$1 | 9,419 | 9,020 |
| Euro/US$1 | 1.4609 | 1.3147 |
| Australian Dollar/US$1 | 0.8737 | 0.7908 |
| Singapore Dollar/US$1 | 0.6904 | 0.6517 |
| Japanese Yen 100/US$1 | 1.1340 | 1.1900 |
| Arab Emirates Dirham/US$1 | 3.67 | 3.67 |
| British Pound Sterling/US$1 | 1.9964 | 1.9619 |
| Omani Rial/US$1 | 0.3848 | 0.3846 |
| Libyan Dinar/US$1 | 1.2760 | 1.37 |

e. Transactions with Related Parties

The Group recognised transactions with parties which are related to them as defined in PSAK No. 7, "Related Party Disclosures".

All significant transactions 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 period of three months or less at the time of placement which are not used as collateral or are not restricted, are classified as "Cash Equivalents".

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

g. Investments

Investments consist of:

i. Marketable securities in the form of debt and equity securities

The Group applies PSAK No. 50, "Accounting for Investments in Certain Securities", which classifies marketable securities into three categories, trading, held-to maturity and available for sale. To determine any realized gains or losses from trading and available for sale securities, the costs of securities sold are determined using the last-in, first-out method.

Trading

Investments classified as trading are stated at fair value. The unrealized gain/loss on the appreciation/decline in the market value of the investments at the balance sheet date is credited or charged to current operations.

Held to maturity

Investments in debt securities which are held to maturity are stated at cost, adjusted for amortization of premiums or accretion of discounts to maturity.

Available for sale

Investments classified as available for sale are stated at fair value. Any unrealized gain/loss on the appreciation/decline in the market value of available for sale investments at the balance sheet date is credited/charged to "Unrealized Gain/Loss from Securities", under the Equity section of the consolidated balance sheets.

ii. Time deposits

Time deposits which are either used as collateral or with maturity periods of greater than three months but not more than one year from the time of placement are stated at cost.

iii. Long-term investments in shares of stock

Investments in shares of stock wherein the Group has an ownership interest of at least 20% but not exceeding 50% are accounted for under the equity method.

Under this method, the cost of the investment is adjusted for the Group's share in the net earnings (losses) of the associated companies after acquisition, dividends received, foreign currency translation adjustments, and straight-line amortization over a five (5) year period of the difference between the cost of such investment and the Group's proportionate share in the underlying net assets of the investee at date of acquisition. The Group periodically evaluates the carrying values of goodwill, taking into consideration current results and future prospects of the associated entity.

The changes in the equity transactions of subsidiaries/associated companies are reflected as additions to or reductions of Equity under the account "Effects of Changes in Equity Transactions of Subsidiaries/Associated Companies" in the consolidated balance sheets. In accordance with the requirements of PSAK No. 40, "Accounting for a Change in the Value of Equity of a Subsidiary/Associated Company", gains or losses are recognized when the investments are disposed of.

The net book value of newly acquired subsidiaries which are primarily intended for immediate disposal or sale, are presented under Other Assets.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

h. 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 restricted in use are presented under non-current assets.

i. Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on a review of the status of the individual receivable accounts at the end of the year.

j. 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 the value of inventories is provided based on the review of the individual inventory items at the end of the year.

k. Prepaid Expenses

Prepaid expenses are amortized over their beneficial periods using the straight-line method.

l. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation except for certain assets which have been revalued in accordance with Indonesian government regulations. Any increment arising from the revaluation of the assets is credited to “Revaluation Increment in Property, Plant and Equipment” under Equity.

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 |
| Offshore drilling rigs | 20 - 21 |
| Control panel equipment | 12 |
| Onshore drilling rigs | 4 - 8 |
| Rig equipment | 4 - 10 |
| Telecommunication equipment | 5 |
| Vehicles | 4 - 5 |
| Leasehold improvements | 3 - 8 |
| Office and other equipment | 3 - 5 |

Land is stated at cost and is not depreciated.

The cost of maintenance and repairs is charged to operations as incurred; expenditures which extend the useful life of the asset or result in an increase in future economic benefits are capitalized. When assets are retired or disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in current operations.

Construction in progress is stated at cost. The accumulated costs are reclassified to the appropriate property, plant and equipment accounts when the construction is completed and the asset is ready for its intended use.

*These consolidated financial statements are originally issued in Indonesian language.*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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. Unoperated acreage is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

n. Intangible Assets

Costs to acquire and prepare software for use are recorded as intangible assets and amortized over four to five years using the straight-line method.

o. Issuance Costs

i. Bonds/Notes Payable

Bonds/notes payable issuance costs are deducted directly from the proceeds of the related bonds/notes payable to determine the net proceeds. The difference between the net proceeds and face value of the obligations represents a discount or premium which is amortized using the straight-line method over the term of the bonds/notes.

ii. Loan Transaction Costs

Transaction costs of bank loans, which consist of fees paid to advisers, are deducted from the proceeds of bank loans and are amortized over the term of the related loans using the straight-line method.

iii. Shares Issuance Costs

Shares issuance costs are presented as a reduction to additional paid-in capital under Equity.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

p. 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.

q. Pension and Other Employee Benefits

The Group apply PSAK No. 24 (Revised 2004), “Employee Benefits”, in recognizing liabilities and expenses relating to pension and other employee benefits.

i. 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. Other Employee Benefits

The Group recognize employee benefits liabilities in accordance with the requirements of Labor Law No. 13 Year 2003 (Law No. 13/2003).

Under the Revised PSAK No. 24, the cost of providing employee benefits under the Law 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 gain 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 working lives of the employees. Further, 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.

r. Abandonment and Site Restoration Obligation

The Group recognize their obligations for future removal and 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 obligations are recognized and expensed on incremental basis commencing from the time of installation of the assets, except for its US assets. The obligations for US assets are recognized in full in accordance with Statement of Financial Accounting Standards No. 143, whereby a corresponding amount is recognized as part of the costs of the related asset at an amount equal to the provision, which is subsequently depreciated as part of the capital costs of the asset.

In most instances, the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgments regarding the timing of removal, the extent of restoration activities required and future removal technologies. Such estimates are reviewed on an annual basis and adjusted each year as required.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### s. Revenue and Expense Recognition

Revenue from sales of crude oil and gas is recognized based on delivery to the customer. For lifting imbalances with the Government when 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 drilled well.

Revenues from sales of chemicals and other petroleum products are recognized upon delivery to the customer.

Revenues from sale of electric power supply are recognized upon delivery to the customer.

Share of profits (losses) in joint ventures is recognized to the extent of the Group's working interests in non-company operated joint ventures.

Other income/revenues are recognized when earned.

Expenses are recognized as incurred on an accrual basis.

### t. Income Tax

The Group determine 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 carry-forward 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 period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date. The deferred tax assets and liabilities of each entity are shown at the applicable 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 corporate income tax ranging from 3% to 50%.

Subsidiaries involved in non-oil and gas activities in Indonesia are subject to corporate tax at a maximum rate of 30%.

Amendments to tax obligations (i.e. tax assessments or claims) are recorded when an assessment is received 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Derivative Instruments

As part of its financial risk management, the Group enters into foreign currency and interest rate swaps for hedging purposes with external counterparties. These contracts represent derivative instruments.

The Group applies PSAK No. 55 (Revised 1999), "Accounting for Derivative Instruments and Hedging Activities", to account for its derivative transactions. For a derivative to qualify for hedge accounting, PSAK No. 55 requires certain criteria to be met.

Changes in the fair value of derivatives that do not meet the criteria of a hedge are recorded in the consolidated statements of income. Changes in the fair value of derivatives that meet the criteria of a hedge are generally treated in accordance with the treatment of the hedged item.

v. Capitalization of Borrowing Costs and Foreign Exchange Losses

In accordance with PSAK No. 26 (Revised 1997), "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.

w. Employee Stock Option Program

Compensation expense for programs providing equity instruments to an employee is recognized over the term of the employee's service period, i.e., by recognizing compensation expense and crediting paid-in capital if such equity instrument involves an employee's future service. If the employee's service period is not set for an earlier or shorter period, it would be considered the same as the period from date of granting until the period such compensation becomes the employee's right as its exercise is no longer dependent on whether the service period is continued or not. If the compensation program is awarded for past service, compensation expense is recognized in the period of granting such compensation.

x. Impairment of Asset Value

In accordance with PSAK No. 48, "Impairment of Asset Values", asset values are reviewed for any impairment and possible write-down to fair values whenever events or changes in circumstances indicate that their carrying values may not be fully recovered.

y. 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 realized from a restructuring of entities under common control is recognized as a gain or loss if the conditions are met. Otherwise, any unrealized difference is recorded in Equity in the consolidated balance sheet.

z. Segment Information

Segment information is prepared using the accounting policies adopted for preparing and presenting the consolidated financial statements. The primary basis of reporting segment information is based on business segments, while secondary segment information is based on geographical segments.

(Expressed in United States Dollars, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Earnings per Share

In accordance with PSAK No. 56, “Earnings per Share”, basic earnings per share is 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.

bb. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in Indonesia requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported therein and the disclosures of contingent assets and liabilities at the date of the financial statements. While management uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur, particularly in respect of oil and gas reserves, government audit claims, and litigation.

## 3. CASH AND CASH EQUIVALENTS

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Cash on hand | 66,966 | 53,144 |
| Banks | | |
| Related party | | |
| Rupiah | | |
| PT Bank Himpunan Saudara 1906 Tbk | 1,606,718 | 1,485,233 |
| Third parties | | |
| Rupiah | | |
| Citibank, N.A. | 4,643,577 | 1,126,787 |
| PT Bank Mandiri (Persero) Tbk | 2,591,582 | 1,628,125 |
| PT Bank Danamon Indonesia Tbk | 2,110,085 | 154,807 |
| PT Bank Niaga Tbk | 1,087,356 | 401,078 |
| Standard Chartered Bank | 663,136 | 304,466 |
| PT Bank Negara Indonesia (Persero) Tbk | 528,384 | 2,034,373 |
| PT Bank Internasional Indonesia Tbk | 428,013 | 422,572 |
| PT Bank Central Asia Tbk | 192,983 | 158,261 |
| The Hongkong and Shanghai Banking Corporation Ltd. | 36,632 | 1,874,403 |
| Others (each below US$100,000) | 192,469 | 124,520 |

(Expressed in United States Dollars, unless otherwise stated)

## 3. CASH AND CASH EQUIVALENTS (continued)

| | 2007 | 2006 |
|---|---|---|
| Banks (continued) | | |
| Third parties (continued) | | |
| United States Dollars | | |
| Citibank, N.A. | 49,367,728 | 48,378,800 |
| Standard Chartered Bank | 3,302,841 | 5,674,639 |
| The Hongkong and Shanghai Banking Corporation Ltd. | 2,517,423 | 2,387,733 |
| PT Bank Central Asia Tbk | 2,230,557 | 1,537,574 |
| Capital One, N.A. (formerly Hibernia Bank) | 1,359,935 | 1,636,513 |
| PT Bank Niaga Tbk | 1,049,027 | 959,229 |
| PT Bank Mandiri (Persero) Tbk | 568,411 | - |
| Deutsche Bank | 469,273 | - |
| PT Bank Danamon Indonesia Tbk | 143,465 | - |
| Others (each below US$100,000) | 18,611 | 254,875 |
| Australian Dollars | | |
| Australia New Zealand (ANZ) Bank | 4,308,142 | 132,468 |
| AED Dirham | | |
| Citibank, N.A. | - | 219,272 |
| Euro | | |
| Fortis Bank S.A/N.V. | 7,540 | 39,159 |
| LYD | | |
| Bank of Commerce and Development | - | 74,078 |
| OMR | | |
| The Hongkong and Shanghai Banking Corporation Ltd. Middle East | - | 54,951 |
| Omar Arab Bank Smart Gird | - | 2,392 |
| Pound Sterling | | |
| Nat West Bank PLC | 6,284 | 78,357 |
| Sub-total | 79,430,172 | 71,144,665 |
| Cash Equivalents | | |
| Related party | | |
| Rupiah | | |
| PT Bank Himpunan Saudara 1906 Tbk | 5,667,481 | 2,106,430 |
| Third parties | | |
| Rupiah | | |
| PT Bank Niaga Tbk | 1,114,768 | - |
| Citibank, N.A. | - | 1,108,647 |
| PT Bank Bukopin Tbk | - | 609,756 |

*These consolidated financial statements are originally issued in Indonesian language.*

**(Expressed in United States Dollars, unless otherwise stated)**

## 3. CASH AND CASH EQUIVALENTS (continued)

| | 2007 | 2006 |
|---|---|---|
| Cash Equivalents (continued) | | |
| Third parties (continued) | | |
| United States Dollars | | |
| Citibank, N.A. | 77,830,146 | 75,771,362 |
| Deutsche Bank | 35,157,449 | 20,592,103 |
| PT Bank Mandiri (Persero) Tbk | 30,000,000 | - |
| PT Bank Mega Tbk | 19,211,054 | 6,266,241 |
| PT Bank Niaga Tbk | 17,900,000 | - |
| Standard Chartered Bank | - | 8,409,801 |
| PT Bank Central Asia Tbk | - | 1,505,396 |
| The Hongkong and Shanghai Banking Corporation Ltd. | - | 751,365 |
| Sub-total | 186,880,898 | 117,121,101 |
| **Total** | **266,378,036** | **188,318,910** |
| Interest rate per annum | | |
| Time deposits | | |
| Rupiah | 3.88% - 8.25% | 5.75% - 13% |
| US Dollar | 3.7% - 5.5% | 1.81% - 7.5% |

## 4. SHORT-TERM INVESTMENTS

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Medium-term bonds (MTB) | | |
| Dana Ganesa Abadi | 933,750 | 329,961 |
| Marketable Securities | | |
| Goldman Sachs | 43,342,952 | 36,139,998 |
| PT Kresna Graha Sekurindo Tbk | 29,805,597 | 18,336,508 |
| Kapital Asia | 6,896,934 | 6,100,000 |
| PT Insight Management | 2,527,530 | 20,120,526 |
| PT Niaga Aset Manajemen | 894,052 | 899,863 |
| Andalas Artha Advice Securities | - | 9,807,250 |
| **Total** | **84,400,815** | **91,734,106** |
| Interest rate per annum | | |
| Bonds | 5.12% - 13.74% | 13.74% |

(Expressed in United States Dollars, unless otherwise stated)

## 5. TRADE RECEIVABLES - Net

The details of this account are as follows:

a. By Debtor

| | 2007 | 2006 |
|---|---|---|
| Third parties | | |
| Local debtors | 146,184,602 | 85,995,733 |
| Foreign debtors | 73,372,208 | 33,891,897 |
| Sub-total | 219,556,810 | 119,887,630 |
| Allowance for doubtful accounts | (348,688) | (527,568) |
| **Net** | **219,208,122** | **119,360,062** |

b. By Aging Category

| | 2007 | 2006 |
|---|---|---|
| Not yet due | 155,787,277 | 92,323,823 |
| 1 - 30 days past due | 53,638,041 | 21,265,014 |
| 31 - 60 days past due | 3,701,329 | 908,567 |
| 61 - 90 days past due | 5,166,541 | 1,344,762 |
| 91 - 120 days past due | 99,858 | 353,921 |
| More than 120 days past due | 1,163,764 | 3,691,543 |
| Total | 219,556,810 | 119,887,630 |
| Allowance for doubtful accounts | (348,688) | (527,568) |
| **Net** | **219,208,122** | **119,360,062** |

c. By Currency

| | 2007 | 2006 |
|---|---|---|
| United States Dollars | 193,580,490 | 111,548,813 |
| Rupiah | 25,976,320 | 8,338,817 |
| Total | 219,556,810 | 119,887,630 |
| Allowance for doubtful accounts | (348,688) | (527,568) |
| **Net** | **219,208,122** | **119,360,062** |

The changes in the allowance for doubtful accounts are as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | 527,568 | 3,217,458 |
| Provisions during the year | 348,688 | 178,372 |
| Write-off during the year | (527,568) | (2,868,262) |
| **Balance at end of year** | **348,688** | **527,568** |

(Expressed in United States Dollars, unless otherwise stated)

## 5. TRADE RECEIVABLES - Net (continued)

As of December 31, 2007 and 2006, certain trade receivables related to Dalle Energi Batam, Mitra Energi Batam, and Apexindo were used as collateral for loans (Note 20).

Management also 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 doubtful accounts is adequate to cover possible losses on uncollectible accounts.

## 6. OTHER RECEIVABLES - Net

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| BP Migas | 26,435,478 | 40,771,118 |
| Joint Venture receivables | 20,453,955 | 3,301,909 |
| PT Pelayanan Listrik Nasional Batam (PLN Batam) | 4,165,373 | 4,319,469 |
| PT Dalle Energy | 2,949,729 | 3,080,210 |
| Loans to employees | 1,909,561 | 3,879,917 |
| PT Pertamina (Persero) | 1,464,222 | 32,757,566 |
| Tax office | 1,457,484 | 718,422 |
| Interest receivable | 1,453,885 | - |
| Anadarko Petroleum Corporation | 1,366,906 | 8,107,897 |
| YPK PLN Batam | 129,154 | 134,867 |
| Others (each below US$1,000,000) | 19,258,232 | 24,468,280 |
| **Total** | **81,043,979** | **121,539,655** |
| Long-term portion | 13,156,045 | 49,515,721 |
| Allowance for doubtful accounts | (1,983,975) | (3,749,744) |
| **Long-term portion - net** | **11,172,070** | **45,765,977** |
| Current portion | 67,887,934 | 72,023,934 |
| Allowance for doubtful accounts | (1,780,586) | (144,585) |
| **Current portion - net** | **66,107,348** | **71,879,349** |

Accounts receivable from PT Pertamina (Persero) (Pertamina) mainly consist of advances made by a subsidiary for PT Pertamina field operation expenses in accordance with the provisions under Senoro Toili PSC-JOB. The receivables shall be collected through Pertamina's share of liftings after adjustment with several costs as stated in the PSC.

Accounts receivable from BP Migas represents Value Added Tax (VAT) that has been paid by subsidiaries involved in oil and gas exploration and production which is reimbursable from BP Migas, as well as advances by subsidiaries for BP Migas field operational expenses.

Joint venture receivables represent receivables for exploration and production activities related to certain non-company operated joint ventures.

(Expressed in United States Dollars, unless otherwise stated)

## 6. OTHER RECEIVABLES - Net (continued)

Receivables from Anadarko arise from expenses advanced by the Company in connection with the Exploration Joint Venture Agreement and related Agreements as discussed in Note 38a.

Receivables from PLN Batam consisted of amounts advanced by Subsidiaries to install a Gas Turbine Genset Dual Fuel system on behalf of PLN Batam amounting to US$4,165,373 in 2007 and US$2,257,385 in 2006, and receivables totaling to US$2,062,084 arising from a capital stock subscription of PLN Batam to a Subsidiary in 2006. These advances will be repaid by PLN Batam on an installment basis at a fixed amount per production output of electricity as stated in a related agreement (Note 38c).

Based on the review of the other receivables account at the end of the year, management is of the opinion that the allowance for doubtful accounts is adequate to cover possible losses from uncollectible accounts.

## 7. INVENTORIES - Net

Inventories consist of:

| | 2007 | 2006 |
|---|---|---|
| Spareparts, well supplies and others | 48,665,590 | 49,664,447 |
| High Speed Diesel (HSD), crude oil, and methanol | 18,425,538 | 919,640 |
| Materials in transit | - | 454,039 |
| Total | 67,091,128 | 51,038,126 |
| Allowance for decline in value | (2,291,304) | (2,536,704) |
| **Net** | **64,799,824** | **48,501,422** |

The movements in the allowance for decline in value of inventories are as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | 2,536,704 | 1,063,620 |
| Write-offs | (695,188) | - |
| Provision during the year | 449,788 | 1,473,084 |
| **Balance at end of year** | **2,291,304** | **2,536,704** |

All inventories were insured with various insurance companies as of December 31, 2007 and 2006.

Based on the review of the physical condition of inventories at the end of the year, management is of the opinion that the allowance for decline in value of inventories is adequate.

(Expressed in United States Dollars, unless otherwise stated)

## 8. PREPAID TAXES

The details of this account are as follows:

| | 2007 | 2006 |
|---|---|---|
| Company | | |
| Corporate income tax overpayments | 6,327,529 | 5,138,686 |
| Value added tax | 645,164 | - |
| Sub-total | 6,972,693 | 5,138,686 |
| Subsidiaries | | |
| Corporate income tax overpayments | 10,361,752 | 19,160,860 |
| Value added tax | 7,794,959 | 7,552,698 |
| Claim for US tax refund (Note 17h) | - | 1,302,608 |
| Sub-total | 18,156,711 | 28,016,166 |
| **Total** | **25,129,404** | **33,154,852** |

## 9. RESTRICTED CASH IN BANKS

The details of this account are as follows:

| | 2007 | 2006 |
|---|---|---|
| Current | | |
| Third parties | | |
| United States Dollars | | |
| Natixis Bank, Hong Kong | 9,528,769 | - |
| PT Bank Internasional Indonesia Tbk | 261,546 | - |
| PT Bank Central Asia Tbk | 1,593,755 | 4,610,906 |
| **Total** | **11,384,070** | **4,610,906** |
| Non-current | | |
| Related party | | |
| Rupiah | | |
| PT Bank Himpunan Saudara 1906 Tbk | 8,469,770 | 7,528,550 |
| Third parties | | |
| Rupiah | | |
| PT Bank Niaga Tbk | 4,509,750 | 5,591,841 |
| PT Bank Central Asia Tbk | 2,438,700 | - |
| PT Bank Mega Tbk | 1,658,217 | 1,731,569 |
| PT Bank Negara Indonesia (Persero) Tbk | 687,011 | 922,949 |
| PT Bank Mandiri (Persero) Tbk | 384,515 | 401,468 |
| PT Bank Syariah Mega Indonesia | 780,338 | 814,856 |
| PT Bank Rakyat Indonesia (Persero) Tbk | - | 171,382 |

(Expressed in United States Dollars, unless otherwise stated)

## 9. RESTRICTED CASH IN BANKS (continued)

| | 2007 | 2006 |
|---|---|---|
| Non-current (continued) | | |
| Third parties (continued) | | |
| United States Dollars | | |
| Standard Chartered Bank | 4,000,000 | 4,000,000 |
| PT Bank Niaga Tbk | 1,483,712 | - |
| Citibank, N.A. | 56,852 | 1,453,883 |
| PT Bank Central Asia Tbk | - | 2,555,122 |
| **Total** | **24,468,865** | **25,171,620** |

The funds placed at Natixis Bank represent an escrow account in relation to Apexindo Offshore Pte. Ltd. debt (Note 20).

Restricted time deposits in Citibank, N.A. represent eligible collateral in connection with derivative transactions between the Company and the bank (Note 19).

A portion of the restricted cash in bank in PT Bank Central Asia Tbk, PT Bank Niaga Tbk, PT Bank Internasional Indonesia Tbk and PT Bank Rakyat Indonesia (Persero) Tbk represents escrow accounts or Cash Waterfall accounts in relation to bank loans obtained by Subsidiaries from such banks (Note 20).

Restricted cash in banks (Rupiah) in PT Bank Himpunan Saudara 1906 Tbk, PT Bank Negara Indonesia (Persero) Tbk, PT Bank Mandiri (Persero) Tbk and PT Bank Niaga Tbk represent Subsidiaries' time deposits and current accounts used as employee loans collateral.

The restricted time deposits placed with PT Bank Mega Tbk and PT Bank Syariah Mega Indonesia represent the sinking fund for a Subsidiary's bonds (Note 21).

The funds placed in Standard Chartered Bank are in relation to the Group's bank guarantee facilities (Note 20).

| | 2007 | 2006 |
|---|---|---|
| Interest rate per annum | | |
| Time Deposits | | |
| Rupiah | 7.25% - 8.25% | 9.75% - 12% |
| United States Dollars | 4% -5.12% | 4.8% |

## 10. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

As of December 31, 2006, this account mainly consists of receivables from Medco E&P Langsa Limited (MEPL) (formerly Medco Moeco Langsa Limited) representing an unsecured revolving credit facility provided by Medco Euro Finance Ltd. (MEFL), a subsidiary.

The loan bears interest of 1% above the cost of funds of MEFL. Initially all shares of MEPL were owned by the Company and Mitsui Oil Exploration Co. Ltd. (MOECO), each having 50% ownership interest. In November 2007, MEFL acquired 50% of the shares in MEPL from MOECO (Note 38a). With the acquisition, MEPL directly/indirectly became a subsidiary. As such the loan was eliminated and is no longer presented as a receivable from a related party in the Company's consolidated balance sheet as at December 31, 2007.

**(Expressed in United States Dollars, unless otherwise stated)**

## 11. INVESTMENTS

This account consists of the following:

a. Investments in Shares of Stock

| | December 31, 2007 | | | |
|---|---|---|---|---|
| | Percentage of Ownership (%) | Cost | Accumulated Equity in Net Earnings | Total |
| Equity Method | | | | |
| PT Trada International (Trada) (Trada) (Note 38a) | 28.3 | 12,255,812 | 692,705 | 12,948,517 |
| Conoco Phillips Aceh Ltd (CPAL) (Note 38a) | 50 | 216,000 | - | 216,000 |
| Cost Method | | | | |
| PT Energi Sengkang (ES) | 5 | 3,760,000 | - | 3,760,000 |
| **Total** | | **16,231,812** | **692,705** | **16,924,517** |

| | December 31, 2006 | | | |
|---|---|---|---|---|
| | Percentage of Ownership (%) | Cost | Accumulated Equity in Net Earnings | Total |
| Equity Method | | | | |
| Medco Moeco Langsa Limited (MML) (Note 38a) | 50 | 1 | 6,797,055 | 6,797,056 |
| Cost Method | | | | |
| PT Energi Sengkang (ES) | 5 | 3,760,000 | - | 3,760,000 |
| **Total** | | **3,760,001** | **6,797,055** | **10,557,056** |

The equity in net earnings (losses) of associated entities for the years ended December 31, 2007 and 2006 is as follows:

| | **December 31,** | |
|---|---|---|
| | **2007** | **2006** |
| MML | (886,500) | (2,765,546) |
| Trada | 692,705 | - |
| **Net** | **(193,795)** | **(2,765,546)** |

b. Investments in Projects

Investments in projects consist of the following:

| | **2007** | **2006** |
|---|---|---|
| Jeruk Project | 35,324,414 | 34,604,905 |
| Other Power Projects | 910,919 | 167,401 |
| Bangkanai Project | - | 2,429,054 |
| Bawean Project | - | 5,833,392 |
| **Total** | **36,235,333** | **43,034,752** |

(Expressed in United States Dollars, unless otherwise stated)

## 11. INVESTMENTS (continued)

b. Investments in Projects (continued)

i. Jeruk Project

This account represents disbursements for the Jeruk Project made by Medco Straits Service Pte., Ltd. (Medco Straits), a consolidated subsidiary, to Cue Sampang Pty., Ltd. (Cue) and Singapore Petroleum Company Ltd. (SPC), in accordance with the Jeruk Project Agreement entered into by Medco Straits with Cue and SPC on January 4, 2006 (Note 38a).

ii. Bawean Project

This account represents advances to the Bawean Project made by the Company in accordance with the agreement entered into by the Company with Camar Resources Canada Inc.

In 2007, all the advances have been converted and presented as a working interest in the Bawean PSC.

iii. Bangkanai Project

This account represents expenditures relating to the Bangkanai PSC. In 2007, this balance was converted and presented as a working interest in the PSC.

iv. Power Projects

This account represents advances for several power projects under early development.

## 12. PROPERTY, PLANT AND EQUIPMENT - NET

This account consists of the following:

| | December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Reclassifications | Translation Adjustments | Ending Balance |
| Carrying value | | | | | | |
| Land | 5,525,219 | 56,973 | - | 2,733,167 | (52,478) | 8,262,881 |
| Buildings and land improvements | 7,873,740 | 140,600 | - | 12,301,688 | (219,714) | 20,096,314 |
| Machinery | 79,930,390 | 6,885,653 | (636,082) | 11,414,309 | (3,088,590) | 94,505,680 |
| Control panel equipment | 5,811,192 | 249,433 | - | 7,572,546 | (134,514) | 13,498,657 |
| Drilling rigs and equipment | 419,810,371 | 25,307,858 | (3,055,199) | 168,343,085 | - | 610,406,115 |
| Vehicles | 9,082,877 | 655,894 | (255,467) | 50,842 | (10,314) | 9,523,832 |
| Office and other equipment | 7,035,998 | 2,331,855 | (83,489) | 1,095,685 | (34,766) | 10,345,283 |
| Leasehold improvements | 6,297,203 | 49,223 | - | - | - | 6,346,426 |
| Telecommunication equipment | 38,859 | - | - | - | (1,646) | 37,213 |
| Construction in progress | 183,413,302 | 47,772,157 | (259,551) | (203,511,322) | (111,454) | 27,303,132 |
| Total Carrying Value | 724,819,151 | 83,449,646 | (4,289,788) | - | (3,653,476) | 800,325,533 |
| Accumulated Depreciation | | | | | | |
| Buildings and land improvements | 2,173,976 | 831,434 | - | (4,702) | (8,311) | 2,992,397 |
| Machinery | 11,756,578 | 5,213,850 | (562,197) | 11,119 | (282,216) | 16,137,134 |
| Control panel equipment | 744,329 | 2,423,443 | - | (4,698) | - | 3,163,074 |
| Drilling rigs and equipment | 223,949,360 | 28,814,370 | - | - | - | 252,763,730 |
| Vehicles | 8,529,256 | 465,860 | (228,882) | (677) | (8,292) | 8,757,265 |
| Office and other equipment | 4,065,797 | 1,060,814 | (79,685) | (1,042) | (16,121) | 5,029,763 |
| Leasehold improvements | 4,057,293 | 800,346 | - | - | - | 4,857,639 |
| Telecommunication equipment | 8,692 | 7,970 | - | - | (608) | 16,054 |
| Total Accumulated Depreciation | 255,285,281 | 39,618,087 | (870,764) | - | (315,548) | 293,717,056 |
| **Net Book Value** | **469,533,870** | | | | | **506,608,477** |

(Expressed in United States Dollars, unless otherwise stated)

## 12. PROPERTY, PLANT AND EQUIPMENT - NET (continued)

| | December 31, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Reclassifications | Translation Adjustments | Ending Balance |
| Carrying value | | | | | | |
| Land | 1,034,387 | 3,285,756 | - | 1,205,076 | - | 5,525,219 |
| Buildings and land improvements | 6,605,568 | 1,225,715 | (20,206) | - | (62,663) | 7,873,740 |
| Machinery | 44,107,482 | 33,906,231 | (6,425) | - | (1,923,102) | 79,930,390 |
| Control panel equipment | 2,622,245 | 3,912,772 | (959,304) | - | (235,479) | 5,811,192 |
| Drilling rigs and equipment | 408,654,390 | 10,811,936 | (4,535,625) | 4,879,670 | - | 419,810,371 |
| Vehicles | 8,541,307 | 637,965 | (111,883) | - | (15,488) | 9,082,877 |
| Office and other equipment | 5,748,294 | 1,326,836 | (45,990) | - | (6,858) | 7,035,998 |
| Leasehold improvements | 5,018,518 | 1,278,685 | - | - | - | 6,297,203 |
| Telecommunication equipment | 10,173 | 27,772 | - | - | (914) | 38,859 |
| Construction in progress | 69,551,281 | 129,869,063 | (10,780,762) | (6,084,746) | (858,466) | 183,413,302 |
| Total Carrying Value | 551,893,645 | 186,282,731 | (16,460,195) | - | (3,102,970) | 724,819,151 |
| Accumulated Depreciation | | | | | | |
| Buildings and land improvements | 1,850,293 | 319,227 | - | - | (4,456) | 2,173,976 |
| Machinery | 7,009,304 | 4,626,738 | - | - | (120,536) | 11,756,578 |
| Control panel equipment | 253,119 | 462,746 | - | - | (28,464) | 744,329 |
| Drilling rigs and equipment | 205,902,789 | 22,524,286 | (4,477,715) | - | - | 223,949,360 |
| Vehicles | 8,226,310 | 411,990 | (111,883) | - | (2,839) | 8,529,256 |
| Office and other equipment | 3,474,117 | 632,997 | (43,407) | - | (2,090) | 4,065,797 |
| Leasehold improvements | 3,510,145 | 547,148 | - | - | - | 4,057,293 |
| Telecommunication equipment | 1,695 | 6,754 | - | - | (243) | 8,692 |
| Total Accumulated Depreciation | 230,227,772 | 29,531,886 | (4,633,005) | - | (158,628) | 255,285,281 |
| **Net Book Value** | **321,665,873** | | | | | **469,533,870** |

Allocation of depreciation expense is as follows:

| | 2007 | 2006 |
|---|---|---|
| Cost of sales | 36,764,205 | 28,476,713 |
| Operating expenses (Note 29) | 2,853,882 | 1,055,173 |
| **Total** | **39,618,087** | **29,531,886** |

PT Medco Sarana Kalibaru (MSK), PT Medco Methanol Bunyu (MMB) and Apexindo own several pieces of land located in Cilincing, Jakarta, Pondok Pinang, Jakarta, and at Balikpapan with Building Use Rights (Hak Guna Bangunan or HGB) for periods of 20 years until 2012, 2018 and 2008, respectively. Management believes that the HGB certificates can be extended upon their expiration.

Construction in progress as of December 31, 2007 mainly represents the construction of an ethanol plant. The balance as of December 31, 2006 mainly consisted of the construction of an offshore jack-up rig, power turbine, and mooring which were completed in 2007.

Interest and other financing costs capitalized as part of property, plant and equipment amounted to US$701,840 and US$6,028,112 as of December 31, 2007 and 2006, respectively.

In 2004, Apexindo, a consolidated subsidiary, and PPL Shipyard Pte., Ltd. (PPL) entered into a Rig Construction Agreement for a (revised) contract price of US$133,726,250, whereby the construction was completed in April 2007. The payable under construction as of December 31, 2006 amounting to US$100,695,866 was settled in 2007.

Certain property and equipment are used as collateral for the loans obtained by the Subsidiaries (Note 20).

(Expressed in United States Dollars, unless otherwise stated)

## 12. PROPERTY, PLANT AND EQUIPMENT - NET (continued)

All property, plant and equipment, except land, and inventories were insured against fire, theft and other possible risks for US$769,831,672 and Rp313,159,002 thousand as of December 31, 2007 and US$673,880,875 and Rp32,350,225 thousand as of December 31, 2006. Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

Based on the review of the property, plant and equipment at the end of the year, the management is of the opinion that no provision for decline in the value of property, plant and equipment is necessary as of December 31, 2007 and 2006.

## 13. OIL AND GAS PROPERTIES - Net

This account consists of the following:

| | 2007 | 2006 |
|---|---|---|
| Operated acreage | 64,896,006 | 78,319,564 |
| Unoperated acreage | 38,103,828 | 4,903,221 |
| Wells and related equipment and facilities | 1,111,639,215 | 863,945,140 |
| Office equipment | 10,465,186 | 9,615,228 |
| Vehicles | 3,237,635 | 3,399,509 |
| Uncompleted wells, equipment and facilities | 109,847,251 | 83,583,079 |
| Fair value adjustments | 101,176,295 | 119,363,879 |
| Total | 1,439,365,416 | 1,163,129,620 |
| Accumulated depreciation, depletion and amortization | (753,381,801) | (585,462,387) |
| **Net Book Value** | **685,983,615** | **577,667,233** |

a. Movements of Oil and Gas Properties by Block

| Area of Interest | Location | Beginning Balance December 31, 2006 | Additions | Deductions | Ending Balance December 31, 2007 |
|---|---|---|---|---|---|
| Langsa | Aceh | - | 43,512,244 | 4,602,721 | 38,909,523 |
| Block A | Aceh | 17,208,270 | 35,895,103 | - | 53,103,373 |
| Kampar/S.S. Extension | South Sumatera | 117,608,352 | - | 29,885,284 | 87,723,068 |
| Rimau | Sumatera | 109,423,065 | 39,582,394 | 30,093,313 | 118,912,146 |
| Tomori | Sulawesi | 33,155,505 | 10,440,711 | 8,064,906 | 35,531,310 |
| Lematang | Sumatera | 1,236,893 | 5,218,980 | - | 6,455,873 |
| Tuban | East Java | 19,502,094 | 4,363,928 | 1,883,956 | 21,982,066 |
| Sanga-Sanga/Samboja | Kalimantan | 18,434,354 | 3,317,551 | 18,874,411 | 2,877,494 |
| Tarakan | Kalimantan | 12,170,917 | 17,659,862 | 12,360,227 | 17,470,552 |
| Merangin-I | Sumatera | 1,250,037 | 1,567,637 | - | 2,817,674 |
| Bawean | East Java | 1,739,013 | 48,960,427 | - | 50,699,440 |
| Simenggaris | Kalimantan | 12,566,993 | 2,685,837 | - | 15,252,830 |
| Bengara | Kalimantan | 2,055,232 | - | 2,004,626 | 50,606 |
| Nunukan | Kalimantan | 2,131,722 | 802,625 | - | 2,934,347 |
| Bangkanai | Kalimantan | - | 3,294,625 | - | 3,294,625 |
| Sembakung | Kalimantan | 26,574,810 | 2,220,738 | 9,757,603 | 19,037,945 |
| Yapen | Papua | 1,539,652 | - | - | 1,539,652 |
| Far East | Far East | - | 7,951,225 | - | 7,951,225 |
| Sorrento | USA | 20,495,908 | - | 20,495,908 | - |
| Main Pass | USA | 38,103,187 | - | 3,564,405 | 34,538,782 |
| East Cameron | USA | 71,751,831 | 9,579,460 | 71,954,839 | 9,376,452 |
| Mustang | USA | 6,207,209 | 23,032,312 | 8,868,444 | 20,371,077 |
| Brazos | USA | 3,032,119 | 23,567,982 | 7,119,251 | 19,480,850 |
| West Delta | USA | - | 3,663,291 | - | 3,663,291 |

## 13. OIL AND GAS PROPERTIES - Net (continued)

a. Movements of Oil and Gas Properties by Block (continued)

| Area of Interest | Location | Beginning Balance December 31, 2006 | Additions | Deductions | Ending Balance December 31, 2007 |
|---|---|---|---|---|---|
| Area 47 Libya | Libya | 11,504,905 | 39,859,467 | - | 51,364,372 |
| Yemen | Yemen | - | 1,311,768 | - | 1,311,768 |
| Block E Cambodia | Cambodia | 4,800,001 | - | 1,600,000 | 3,200,001 |
| Block 12 Cambodia | Cambodia | - | 3,300,454 | - | 3,300,454 |
| Tunisia | Tunisia | - | 10,168,195 | - | 10,168,195 |
| Kakap | Natuna | 45,175,164 | 11,324,628 | 13,835,168 | 42,664,624 |
| | | **577,667,233** | **353,281,444** | **244,965,062** | **685,983,615** |

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 | Exploration license year | Contract expiry | Working interest 2007 | Accumulated exploration cost capitalised as oil and gas property 2007 (In thousands) |
|---|---|---|---|---|---|
| **Indonesia** | | | | | |
| Kampar/S.S. Extension | PT Medco E&P Indonesia | 1993 | 2013 | 100% | 2,591 |
| Rimau | PT Medco E&P Rimau | 2003 | 2023 | 95% | 1,862 |
| Lematang | PT Medco E&P Lematang | 1987 | 2017 | 74% | 572 |
| Kakap | PT Medco E&P Kakap | 2005 | 2028 | 16% | 1,411 |
| Tarakan | PT Medco E&P Tarakan | 2002 | 2022 | 100% | 3,623 |
| Merangin-I | PT Medco E&P Merangin | 2003 | 2013 | 41% | 1,778 |
| Simenggaris | Medco Simenggaris Pty. Ltd. | 1998 | 2028 | 42% | 10,846 |
| Bengara | PT Petroner Bengara Energi | 1999 | 2009 | 95% | 13 |
| Senoro Toili | PT Medco E&P Tomori Sulawesi | 1997 | 2027 | 50% | 5,394 |
| Nunukan | PT Medco E&P Nunukan | 2004 | 2034 | 40% | 803 |
| **Sub-total Indonesia** | | | | | **28,893** |
| **International** | | | | | |
| Area 47 Libya | Medco International Venture Ltd. | 2006 | 2035 | 50% | 51,573 |
| **Total** | | | | | **80,466** |

*These consolidated financial statements are originally issued in Indonesian language.*

**(Expressed in United States Dollars, unless otherwise stated)**

## 13. OIL AND GAS PROPERTIES - Net (continued)

c. Others

In 2007, Medco Energi US LLC (MEUS) recognized a loss of US$20.5 million from disposal of its Sorrento asset. This loss is presented within other expenses in the 2007 consolidated statement of income.

In 2007, MEUS also recognized a loss from impairment of US$25.9 million for its East Cameron assets. Value in use was utilized to determine the recoverable amount. The impairment loss reflects the portion of the book value of the assets that is not expected to be recovered, calculated based on oil and gas reserves and production from that field in the future. The discount rate used in determining the value in use was 9%, whereby the period of projection was 14 years in line with the expected life of the existing oil and gas reserves. The impairment loss is presented within other expenses in the 2007 consolidated statement of income. The net book value of the East Cameron assets as of December 31, 2007 after the recognition of impairment is US$9.4 million.

As a result of the reserve decline in the US assets, total depletion expense for the year related to the US assets increased from US$19.8 million to US$50.5 million.

As of December 31, 2007 and 2006, all wells and related equipment and facilities of subsidiaries involved in oil and gas exploration and production activities were insured for US$454,399,212 and US$523,812,233, respectively.

Based on the review of the individual oil and gas properties at the end of the year, the management is of the opinion that no further provision for decline in value of oil and gas properties is necessary as of December 31, 2007.

## 14. OTHER ASSETS

This account consists of the following:

| | 2007 | 2006 |
|---|---|---|
| Current | | |
| Assets for disposal/sale | | |
| Total assets | - | 37,790,524 |
| Total liabilities | - | 37,790,524 |
| Net Book Value | - | - |
| Advances | 1,139,318 | 2,742,369 |
| **Total** | **1,139,318** | **2,742,369** |

(Expressed in United States Dollars, unless otherwise stated)

## 14. OTHER ASSETS (continued)

Assets for disposal/sale as of December 31, 2006 represent the net assets and working interest of PT Medco E&P Brantas. As discussed further in Note 30, 100% of the shares in PT Medco E&P Brantas were sold to a third party in March 2007 and there are no further liabilities or obligations related to this asset.

| | 2007 | 2006 |
|---|---|---|
| Non-current | | |
| Advance payments for purchase/rental of property and equipment | 14,208,268 | 12,960,620 |
| Signing bonus | 17,240,800 | 8,427,400 |
| Security deposits | 1,194,051 | 1,192,798 |
| Others | 6,990,967 | 5,514,361 |
| **Total** | **39,634,086** | **28,095,179** |

Advance payments for property, plant and equipment represent payments in relation with the acquisition/rental of various assets, which includes advances for the purchase/rental of office space in The Energy building located at Jalan Jenderal Sudirman Kav. 58, Jakarta.

The signing bonus relates to a service contract entered into with Oman Oil Company and Petroleum Development Oman LLC (Note 37b).

## 15. TRADE PAYABLES

The details of this account are as follows:

a. By Supplier

| | 2007 | 2006 |
|---|---|---|
| Related party | 526,069 | 808,069 |
| Third parties | | |
| Local suppliers | 60,407,485 | 40,409,624 |
| Foreign suppliers | 30,197,618 | 21,806,739 |
| Sub-total | 90,605,103 | 62,216,363 |
| **Total** | **91,131,172** | **63,024,432** |

b. By Aging Category

| | 2007 | 2006 |
|---|---|---|
| Up to 1 month | 52,003,331 | 44,578,369 |
| 1 - 3 months | 30,361,305 | 16,069,340 |
| 3 - 6 months | 2,963,196 | 1,676,832 |
| 6 months - 1 year | 4,336,304 | 546,683 |
| More than 1 year | 1,467,036 | 153,208 |
| **Total** | **91,131,172** | **63,024,432** |

(Expressed in United States Dollars, unless otherwise stated)

## 15. TRADE PAYABLES (continued)

c. By Currency

| | 2007 | 2006 |
|---|---|---|
| United States Dollar | 70,744,754 | 47,682,341 |
| Rupiah | 19,514,441 | 15,093,310 |
| Singapore Dollar | 458,916 | 247,304 |
| Euro | 413,061 | 1,477 |
| **Total** | **91,131,172** | **63,024,432** |

Purchases of materials and services, both from local and foreign suppliers, have credit terms of 30 to 60 days.

## 16. OTHER PAYABLES

| | 2007 | 2006 |
|---|---|---|
| Current | | |
| BP MIGAS | 21,665,476 | 14,478,968 |
| Overlifting to Pertamina | 13,224,915 | - |
| Joint Venture payables | 417,371 | 5,104,711 |
| Anadarko Petroleum Corporation (Anadarko) | 118,202 | 2,724,743 |
| McGriff, Siebels & Williams of Texas Inc. | - | 2,575,083 |
| Falcon Oil Ltd. | - | 1,008,980 |
| Praj Industries, Ltd. | - | 802,500 |
| ENPRIMA | - | 572,007 |
| PT Rekayasa Industri | - | 397,239 |
| Others | 18,404,676 | 25,351,073 |
| **Total** | **53,830,640** | **53,015,304** |
| Non-Current | | |
| Third parties | | |
| BP | 4,542,110 | 4,536,217 |
| PLN Batam | 1,120,371 | - |
| Falcon Oil Pte., Ltd. | 785,730 | - |
| PT Elnusa Petroteknik | 495,218 | 759,611 |
| PT Amigas Jaya Sejahtera | 90,584 | 452,198 |
| PT Unitrada Komatama | 1,404,940 | 1,467,021 |
| Others | 4,337,624 | 222,069 |
| **Total** | **12,776,577** | **7,437,116** |

Accounts payable to BP Migas represent overlifts of crude oil in the Rimau and Tuban Blocks in 2007 and in the Rimau and Senoro Toili Blocks in 2006.

The overlifting to Pertamina primarily relates to the Tuban and Kakap Blocks in 2007 and the Tomori and South Central Sumatra Blocks in 2006.

Joint venture payables represent payables for exploration and production activities related to certain non-company operated joint ventures.

**(Expressed in United States Dollars, unless otherwise stated)**

## 16. OTHER PAYABLES (continued)

Payable to Anadarko represents cash received from Anadarko in connection with the Exploration Joint Venture Agreement and related agreements as discussed further in Note 38a.

Payable to British Petroleum (BP) represents the amount to be paid by PT Medco E&P Tomori Sulawesi, a subsidiary, once the petroleum production from the Senoro-Toili Block has reached the volume as stipulated in the agreement.

## 17. TAXES PAYABLE

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Company | | |
| Income tax | | |
| Article 4(2) | 8,331 | 9,099 |
| Article 15 | 23,900 | 12,784 |
| Article 21 | 2,795,083 | 1,316,843 |
| Article 23 | 77,565 | 71,520 |
| Article 25 | - | 2,500,849 |
| Article 26 | 700,734 | 114,867 |
| Value added tax | - | 184,996 |
| Tax penalty | 181,805 | - |
| Sub-total | 3,787,418 | 4,210,958 |
| Subsidiaries | | |
| Corporate income tax | 33,055,027 | 25,270,023 |
| Income tax | | |
| Article 4(2) | 4,906 | 5,343 |
| Article 15 | 31,380 | 29,951 |
| Article 21 | 1,971,801 | 1,791,250 |
| Article 22 | 8,101 | - |
| Article 23 | 1,323,401 | 3,421,158 |
| Article 25 | 13,534 | 154,283 |
| Article 26 | 5,302,230 | 203,838 |
| Value added tax | 3,838,256 | 6,622,021 |
| Tax penalty | 1,707,086 | 140,293 |
| Sub-total | 47,255,722 | 37,638,160 |
| **Total** | **51,043,140** | **41,849,118** |

## 17. TAXES PAYABLE (continued)

Tax Assessments

Summarised below are the current significant tax audits and outstanding tax assessments of the Group:

a. The Company

In 2007, the Company received several assessment letters (referred to as the "Assessments") for the fiscal year 2005 from the Indonesian Tax Office ("ITO"). The Company disagreed with some of the Assessments on Value Added Tax ("VAT") and Income Tax Article 26 amounting to Rp2.51 billion and Rp5.47 billion, respectively. The Company paid the assessments and filed objections to the ITO.

The Company also has two pending appeals to the Tax Court regarding its objection for assessments for fiscal year 2004 that were rejected by the ITO, amounting to Rp4.51 billion and Rp7.41 billion for VAT and income tax Article 26, respectively.

No decisions have been received on the appeals and objections. Nevertheless, management believes that the Company has a strong position and will be able to recover the paid amounts.

The tax audit on 2006 fiscal year is still on-going and no assessments have been received to date.

b. Apexindo and its subsidiaries

The tax audits by the ITO for Apexindo have been closed for the years up to 2005, while for 2006, the audit is still on-going and no assessments have been received to date.

c. PT Exspan Petrogas Intranusa (EPI)

In 2007, EPI received several assessments from the Tax Office for the fiscal year 2004. EPI filed objections on some of the assessments for VAT, corporate income tax, Income Tax Article 21, and Income Tax Article 23 totaling approximately Rp10.2 billion. The objections are still on going and no decisions have been received. Nevertheless, management believes that EPI has a strong position and will be able to recover the amount, therefore no provisions have been made on paid assessments that are currently recorded as prepaid taxes.

The tax audits by the ITO have been closed for years up to 2003.

d. PT Medco Power Indonesia (MPI)

The tax audits by the ITO have been closed for the years up to 2005.

e. PT Medco LPG Kaji (MLK)

The tax audits by the ITO have been closed for the years up to 2005.

f. PT Medco E&P Indonesia (MEPI)

The tax audits by the ITO for 2005 and 2006 are still on-going, and no assessments have been received to date.

**(Expressed in United States Dollars, unless otherwise stated)**

## 17. TAXES PAYABLE (continued)

Tax Assessments (continued)

g. PT Medco E&P Rimau (MEPR)

The ITO is currently performing tax audits for the 2005 and 2006 fiscal years. To date, the ITO has not issued assessments for such audits.

h. Exspan Airsenda Inc. (EAS) & Exspan Airlimau Inc. (EAL)

The Internal Revenue Service of the United States ("IRS") is currently performing tax audits on EAS and EAL for 2004 fiscal year. To date, the IRS has not issued the results of the audits.

EAS and EAL received a tax refund of US$1.3 million from the IRS in 2007.

The ITO is currently performing tax audits on the Permanent Establishment ("PE") of EAS and EAL for 2005 and 2006. To date, no tax assessments have been issued by the ITO.

i. Exspan Cumi-Cumi and Medco Lematang Ltd.

Exspan Cumi-Cumi Inc. (ECCI) and Medco Lematang Ltd. (MLL), subsidiaries, received tax assessments totaling Rp16.7 billion in 2002 for the underpayment of Value Added Tax (VAT) for years prior to the acquisition of these working interests under the previous operators of the respective PSCs. Subsequently ECCI has relinquished the PSC to the Government of Indonesia.

The respective Sales and Purchase Agreements with the 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 for these assessments by ECCI and MLL.

j. Administration

Under 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 taxation laws of Indonesia. The ITO may assess or amend taxes within ten years from the date the tax became due. Management believes it has fully complied with its tax filing requirements in Indonesia.

For other tax jurisdictions, management believes it has substantially complied with the applicable laws in regard to tax filing requirements.

## 18. ACCRUED EXPENSES

| | 2007 | 2006 |
|---|---:|---:|
| Interest | 10,842,197 | 10,435,938 |
| Severance | 1,716,416 | 8,096,597 |
| Asset retirement obligations on US assets (Note 40) | 12,419,760 | 6,718,771 |
| Rentals | 26,655,812 | 6,504,540 |
| Abandonment and site restoration on Indonesian assets (Note 40) | 23,831,935 | 4,615,916 |
| Joint venture | 4,235,642 | 2,090,721 |
| Labor supply | 1,585,313 | 694,917 |
| Others | 12,251,056 | 11,320,257 |
| **Total** | **93,538,131** | **50,477,657** |

**(Expressed in United States Dollars, unless otherwise stated)**

## 19. DERIVATIVES

| | | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|---|
| Counterparties | Type | Derivative Assets | Derivative Liabilities | Gain (Loss) | Derivative Assets | Derivative Liabilities | Gain (Loss) |
| **Company** | | | | | | | |
| Standard Chartered Bank | Cross-currency interest rate swap | 175,730 | - | (1,573,696) | 1,749,426 | - | 5,858,284 |
| Citibank, N.A. | Cross-currency interest rate swap | 102,248 | - | (1,278,866) | 1,381,114 | - | 5,691,368 |
| Standard Chartered Bank | Currency option contract | - | 716 | (716) | - | - | - |
| Standard Chartered Bank, Merrill Lynch Capital Services, Inc * | Cross-currency interest rate swap | - | - | - | - | - | 8,737,971 |
| Standard Chartered Bank | Forward contract | 293,463 | - | 293,463 | - | - | - |
| Citibank, N.A. | Forward contract | - | 286,252 | (286,252) | - | - | - |
| **Subsidiaries** | | | | | | | |
| Apexindo Standard Chartered Bank | Cross-currency interest rate swap | 455,797 | - | (3,267,717) | 3,723,513 | - | 19,260,440 |
| Natixis Bank | Cross-currency interest rate swap | - | 1,896,271 | (1,896,271) | - | - | - |
| Total | | 1,027,238 | 2,183,239 | (8,010,055) | 6,854,053 | - | 39,548,063 |
| Less current portion | | 293,463 | 286,968 | | - | - | |
| **Long-term** | | **733,775** | **1,896,271** | | **6,854,053** | **-** | |

* Swap agreement was settled in mid-year.

The Group entered into cross-currency interest rate swaps, currency option contracts, and foreign currency forward contracts as hedging instruments to manage their currency and interest expense risk exposures. The entire 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** | | | | | | |
| Standard Chartered Bank | Cross-currency interest rate swap | 25,000,000 | 228,125,000,000 | Aug-5-04 | Jul-10-09 | The Company shall receive a fixed rate of 13.125% per year on the Rupiah notional amount and pay a fixed rate of 7.23% per year on the US Dollar notional amount every October 10, January 10, April 10 and July 10. On the final exchange date, the Company shall pay the US Dollar notional amount and receive the Indonesian Rupiah mark to market notional amount. Under the agreement, if the US Dollar/Indonesian Rupiah spot rate is at or above Rp10,000 at any time during the term of the agreement, the mark to market provisions shall apply. |

*These consolidated financial statements are originally issued in Indonesian language.*

## 19. DERIVATIVES (continued)

| Counterparties | Type | Notional Amount In US$ | Notional Amount In IDR | Initial exchange date | Final exchange date | Terms and Conditions |
|---|---|---|---|---|---|---|
| **Company (continue)** | | | | | | |
| Citibank, N.A. | Cross-currency interest rate swap | 25,000,000 | 226,250,000,000 | Oct-19-04 | Jul-12-09 | The Company shall receive a fixed rate of 13.125% per year on the Rupiah notional amount and pay a floating rate of equivalent to US Dollar Libor-BBA plus 2.45% on the US Dollar notional amount per three months every January 12, April 12, July 12 and October 12. On the final exchange date, the Company pays the US Dollar and receives the Indonesian Rupiah notional amount. Under the agreement, Citibank may demand collateral in US Dollars if its mark to market exposure is higher than US$1,250,000. |
| Standard Chartered Bank | Forward contract | 5,000,000 | 44,413,000,000 | May-24-07 | Various dates up to May-29-08 | Sell Rupiah/Purchase Dollar |
| Citibank, N.A. | Forward contract | 5,000,000 | 44,543,000,000 | May-24-07 | Various dates up to May-29-08 | Sell Dollar/Purchase Rupiah |
| Standard Chartered Bank | Currency option contract | 250,000 | 2,350,000,000 | Jan-30-07 | Jan-30-08 | The Company shall sell to/ or buy from the bank US$250,000 at a strike price of Rp9,400 to US$1, based on the conditions and scenarios as stated in the contract, determined at each of the 12 trigger periods from February 2007 to January 2008. |
| **Apexindo** | | | | | | |
| Standard Chartered Bank | Cross-currency swap | 78,947,368 | 750,000,000,000 | Apr-8-05 | Apr-7-10 | Apexindo will receive interest of 12.25% per year on the total Rupiah nominal amount and will pay interest on the total US Dollar notional amount as follows:8.65% per year on US$27,631,579; 8.45% per year on US$11,842,105 and three months US Dollar Libor BBA plus 4.65% per year on US$39,473,684. On the final exchange date, Apexindo shall pay the total US Dollar notional amount and receive the total Indonesia Rupiah notional amount. |
| Natixis Bank | Interest rate swap | 37,500,000 | NA | Apr-11-07 | Apr-11-17 | Apexindo Offshore will pay quarterly fixed interest at the rate of 4.995% per annum and receive quarterly floating interest at the rate of US Dollar LIBOR BBA per annum. |

(Expressed in United States Dollars, unless otherwise stated)

## 20. LOANS

| | 2007 | 2006 |
|---|---|---|
| Short-Term Bank Loans | 57,592,673 | - |
| Long-Term Loans | | |
| Bank Loans | 248,101,338 | 52,628,914 |
| Others | - | 16,257,986 |
| Sub-total | 248,101,338 | 68,886,900 |
| **Less current portion** | 30,175,539 | 14,235,729 |
| **Long-term portion** | 217,925,799 | 54,651,171 |
| **Total** | **305,694,011** | **68,886,900** |

a. Bank Loans

| Lenders | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Total | Current | Non-current | Total | Current | Non-current |
| **US Dollar** | | | | | | |
| PT Bank Mandiri (Persero) Tbk | 86,300,000 | 56,300,000 | 30,000,000 | - | - | - |
| PT Bank Negara Indonesia (Persero) Tbk | 50,000,000 | - | 50,000,000 | - | - | - |
| Natixis Bank | 113,989,219 | 21,060,722 | 92,928,497 | - | - | - |
| PT Bank Central Asia Tbk | 858,573 | - | 858,573 | 4,031,738 | 4,031,738 | - |
| PT Bank Niaga Tbk | 1,292,673 | 1,292,673 | - | - | - | - |
| **Sub-total** | **252,440,465** | **78,653,395** | **173,787,070** | **4,031,738** | **4,031,738** | **-** |
| **IDR** | | | | | | |
| PT Bank Central Asia Tbk (In original currency 2007: Rp139.7 billion 2006: Rp145.8 billion) | 14,833,870 | 3,041,303 | 11,792,567 | 16,163,252 | - | 16,163,252 |
| PT Bank Bukopin Tbk (In original currency 2007: Rp0.4 billion 2006: nil) | 47,875 | 16,608 | 31,267 | - | - | - |
| PT Bank Niaga Tbk (In original currency 2007: Rp216.3 billion 2006: Rp117.9 billion) | 22,963,796 | 2,227,837 | 20,735,959 | 13,080,248 | 4,360,974 | 8,719,274 |
| PT Bank Internasional Indonesia Tbk (In original currency 2007: Rp107.6 billion 2006: Rp118.32 billion) | 11,426,691 | 1,838,412 | 9,588,279 | 13,117,535 | - | 13,117,535 |
| PT Bank Rakyat Indonesia (Persero) Tbk (In original currency 2007: Rp37.5 billion 2006: Rp56.2 billion) | 3,981,314 | 1,990,657 | 1,990,657 | 6,236,141 | 2,078,714 | 4,157,427 |
| **Sub-total** | **53,253,546** | **9,114,817** | **44,138,729** | **48,597,176** | **6,439,688** | **42,157,488** |
| **Total** | **305,694,011** | **87,768,212** | **217,925,799** | **52,628,914** | **10,471,426** | **42,157,488** |

(Expressed in United States Dollars, unless otherwise stated)

## 20. LOANS (continued)

Further information relating to bank loans is as follows:

| Lenders | Repayment schedule | Security |
|---|---|---|
| **Company** | | |
| PT Bank Mandiri (Persero) Tbk<br>Working Capital Credit Facility<br><br>Investment Credit Facility | Mar-2008<br>and<br>Dec-2012 | The Loan Facility is not collateralized by any asset, revenue or other asset and not guaranteed by other parties but secured by all movable and non-movable properties of the Company that exist and will be owned in the future with certain exception as stated in the agreement (Note 12). |
| PT Bank Negara Indonesia (Persero) Tbk<br><br>General Corporate Facility | June-2010 | The Loan Facility is not collateralized by any asset, revenue or other asset and not guaranteed by other parties but secured by all movable and non-movable properties of the Company that exist and will be owned in the future with certain exception as stated in the agreement. |
| **Apexindo** | | |
| PT Bank Central Asia Tbk<br><br>Investment Credit Facility | 2003-2007<br><br>Fully paid in Aug-2007 | Collateralized by Apexindo's drilling rigs, receivables from Total E&P Indonesie and cash flow waterfall retained from the operations of the Maera and Raisis rigs, to be placed in an escrow account (Notes 5, 9 and 12). |
| Natixis Bank<br><br>Project Financing | Several installments (2007-2017) | Drawdowns from this facility are secured by, among others, the following: mortgage of Rig Soehanah; mortgage of the shares of Apexindo Offshore; assignment of the drilling contract, drilling contract guarantee, receivables and all moneys (i.e., debt service accounts) from the drilling contract of Rig Soehanah, assignment of installment sales agreement of Rig Soehanah and cash flow waterfall retained from Rig Soehanah, which was placed in an escrow account. Escrow account is presented as "Restricted Cash in Bank" account (Notes 5, 9 and 12). |
| **Mitra Energi Batam (MEB)** | | |
| PT Bank Central Asia Tbk<br><br>Project Financing | Several installments (2005-2011) | Collateralized by all of MEB's property and equipment, rights over receivables from the Panaran I Project, shares of stock of MEB, advance payment guarantee for Rolls Royce, performance bonds, rights on project insurance, and all BCA accounts related to the project (Notes 5, 9 and 12). |
| PT Bank Central Asia Tbk<br><br>Consumer Credit Facility | Several installments (2005-2009) | Collateralized by a guest house (Note 12). |
| PT Bank Bukopin Tbk<br><br>Consumer Credit Facility | Several installments (2006-2010) | Collateralized by time deposits (Note 9). |
| **Dalle Energy Batam (DEB)** | | |
| PT Bank Niaga Tbk<br><br>Syndicated Loans | Several installments (2006-2013) | Collateralized by third party receivables, machinery, shares of stock of DEB, an Engineering, Procurement and Construction Contract (EPC) and Power Purchase Agreement (PPA) (Notes 5, 9 and 12). |
| PT Bank Internasional Indonesia Tbk<br><br>Syndicated Loans | Several installments (2006-2013) | Collateralized by third party receivables, machinery, shares of stock of DEB, an Engineering, Procurement and Construction Contract (EPC) and Power Purchase Agreement (PPA) (Notes 5, 9 and 12). |
| PT Bank Niaga Tbk<br><br>Special Finance Transactions | Nov-2008 | Collateralized by assignment of insurance proceeds (Construction Erection All Risk, All Risk Property Machinery, Business Interruption and Machinery Breakdown) with minimum collateral at 100% of credit facility amount. |

(Expressed in United States Dollars, unless otherwise stated)

## 20. LOANS (continued)

### a. Bank Loans (continued)

| Lenders | Repayment schedule | Security |
|---|---|---|
| **Medco Power Indonesia** | | |
| PT Bank Niaga Tbk<br><br>Project Financing | Tranche A<br>Several installments<br>(2011-2014)<br><br>Tranche B<br>Several installments<br>(2008-2013) | Collateralized by fiduciary right over TM 2500 machine, 125% of amount of Power Sale and Purchase agreement with PLN, insurance claim, restricted cash in bank. The Tranche A facility is also collateralized with Standby Letter of Credit (SBLC) (Note 12). |
| PT Bank Mandiri (Persero) Tbk<br><br>Trust Receipt | Jan-2008 | The Loan Facility is not collateralized by any asset, revenue or other asset and not guaranteed by other parties but secured by all movable and non-movable properties of the Company that exist and will be owned in the future with certain exception as stated in the agreement (Note 12). |
| **Medco Sarana Kalibaru (MSK) (formerly Usaha Kita Makmur Bersama)** | | |
| PT Bank Rakyat Indonesia (Persero) Tbk<br><br>Investment Credit Facility | Several installments<br>(2007-2009) | Collateralized by land and building owned by MSK in Kali Baru including the blending plant, docking area (Jetty), machinery, and piping equipment (Note 12). |
| **Medco E&P Lematang** | | |
| PT Bank Central Asia Tbk<br><br>Project Financing | Several installments<br>(2009-2014) | Collateralized with receivables of gas sales from the Singa Field in the Lematang Block, South Sumatra, Escrow accounts, Debt Service Account and Operating Account in BCA (Notes 5 and 9). |

### b. Others

| Lenders | 2006 | | |
|---|---|---|---|
| | Total | Current | Non-current |
| GE Capital Service Pte. Ltd. | 11,457,986 | 1,264,303 | 10,193,683 |
| DEG - DeutscheInvestitions - Und Entwicklungsgesellschaft MBH | 4,800,000 | 2,500,000 | 2,300,000 |
| **Total** | **16,257,986** | **3,764,303** | **12,493,683** |

Further information relating to other loans is as follows:

| Lenders | Repayment schedule | Security |
|---|---|---|
| **Medco Power Indonesia** | | |
| GE Capital Services Pte. Ltd. | Fully paid in May-2007 | Secured by a standby letter of credit from Standard Chartered Bank covering 100% of the loan principal and interest. |
| **Medco LPG Kaji** | | |
| DEG - DeutscheInvestitions - Und Entwicklungsgesellschaft MBH<br><br>Project Financing | Fully paid in Sep-2007 | Collateralized by a fiduciary transfer of movable property and insurance coverage on assets. |

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(Expressed in United States Dollars, unless otherwise stated)

## 20. LOANS (continued)

b. Others (continued)

| | 2007 | 2006 |
|---|---|---|
| Interest rate per annum | | |
| Rupiah | 11% - 17.75% | 13% - 16.96% |
| United States Dollars | 6.84% - 10% | 7.75% - 7.88% |

c. Bank Facilities

As of December 31, 2007, the Group have the following outstanding bank facilities:

| Bank | Facility | Maximum Facility Limit/Amount | Unused Portion of the Facility as of December 31, 2007 |
|---|---|---|---|
| **General Banking Facility** | | | |
| Standard Chartered Bank | Banking Facilities | US$39,000,000 | US$16,926,150 |
| PT Bank Danamon Indonesia Tbk | Bank Guarantee Facility, Standby Letter of Credit | US$50,000,000 | US$21,917,126 |
| The Hongkong and Shanghai Banking Corporation Ltd | Bank Guarantee Facility, Standby Letter of Credit, and Import Letter of Credit Facility | US$14,000,000 | US$6,707,735 |
| PT Bank Mandiri (Persero) Tbk | Non-cash Loan Facility | US$50,000,000 | US$34,107,336 |
| Citibank, N.A. (Indonesia Branch) | Opening Letter of Credit Facility | US$15,000,000 | US$11,000,000 |
| PT Bank Central Asia Tbk | Bonds and Guarantees Facility | US$28,000,000 | US$9,969,650 |
| **General Corporate Facility and Refinancing USD Bond** | | | |
| PT Bank Negara Indonesia (Persero) Tbk | Term Loan Facility Agreement | US$125,000,000 | US$125,000,000 |
| Sumitomo Mitsui Banking Corporation, Singapore Branch | Term Loan Facility Agreement | US$40,000,000 | US$40,000,000 |
| PT Bank Mandiri (Persero) Tbk | Investment Loan Facility | US$125,000,000 | US$95,000,000 |

The Group, under the loan agreements, are subject to various restrictive covenants, amongst others to obtain written approval from their lenders before they enter into certain transactions such as merger, takeover, liquidation or change in status and Articles of Association, reducing the authorized capital, issued and fully paid capital; restrictions on lending money to third parties; negative pledge, and some case collateralizing their assets or revenue with certain exceptions; change in core business; restriction on payments of dividends, and are required to comply with certain financial ratios.

In management's opinion, the Group are in compliance with the covenants of all existing bank loan facilities, except DEB.

As of December 31, 2007, DEB did not meet the financial ratio requirements of the loan obtained from PT Bank Niaga Tbk, nevertheless, on March 18, 2008, DEB has obtained a waiver for this financial ratio covenant which exempted DEB from meeting the related financial ratio covenant.

(Expressed in United States Dollars, unless otherwise stated)

## 21. OTHER LONG-TERM OBLIGATIONS

| | 2007 | 2006 |
|---|---|---|
| Notes Payable | | |
| Guaranteed Notes (GN) due in 2010 | 325,411,000 | 325,411,000 |
| Senior Guaranteed Notes (SGN) due in 2007 | - | 27,500,000 |
| Guaranteed Convertible Bonds due in 2011 | 198,746,497 | 185,121,000 |
| Treasury notes | (87,863,000) | (75,863,000) |
| Net | 436,294,497 | 462,169,000 |
| Less unamortized discounts | 4,570,725 | 6,657,674 |
| Net | 431,723,772 | 455,511,326 |
| Less curent portion | - | 25,772,818 |
| **Long-term portion** | **431,723,772** | **429,738,508** |
| Rupiah Bonds | | |
| Due in 2009 | 143,327,317 | 149,667,406 |
| Treasury bonds | (17,836,288) | (18,625,277) |
| Net | 125,491,029 | 131,042,129 |
| Less unamortized discounts | 348,069 | 657,115 |
| Net | 125,142,960 | 130,385,014 |
| Due in 2010 | 79,626,287 | 83,148,559 |
| Treasury bonds | (2,548,041) | (3,325,943) |
| Net | 77,078,246 | 79,822,616 |
| Less unamortized discounts | 655,135 | 969,543 |
| Net | 76,423,111 | 78,853,073 |
| **Total Rupiah Bonds** | **201,566,071** | **209,238,087** |
| Interest rates per annum | | |
| Rupiah | 12.25% - 13.125% | 12.25% - 13.125% |
| United States Dollars | 7.25% - 10% | 7.25% - 10% |

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(Expressed in United States Dollars, unless otherwise stated)

## 21. OTHER LONG-TERM OBLIGATIONS (continued)

Further information relating to other long-term obligations is as follows:

| Long- Term Obligation | Bond Principal | Corporate Rating | Listed | Maturity | Interest Rates | Security |
|---|---|---|---|---|---|---|
| Convertible Bonds | US$176,900,000 | Standard & Poor's : B+ (2007) Moody's Investor Services: B1 (2006) | Singapore Stock Exchange | May 12, 2011 (the maturity date) at 142.77% (effective interest rate of 7.25% per year), but the holders of the bonds have the right to require the issuer to redeem all or some of the bonds at 123.82% of the principal amount on May 11, 2009. | 0% | Provided to the bondholders an unconditional and irrevocable guarantee with respect to the due and punctual payment by Medco CB of all amounts at any time becoming due and payable in respect of the initial bonds.<br><br>The convertible bonds, at the option of the holder, can be converted to the Company's shares at an initial conversion price of Rp6,923 per share. |
| Guaranteed Notes | US$325,411,000 | Standard & Poor's : B+ (2007)<br><br>Moody's Investor Services : B1 (2006) | Singapore Stock Exchange | 2010<br><br>Put date: May 22, 2008 | 8.75%<br><br>Payable semi-annually | The Guaranteed Notes (GN) issued by MEFL are guaranteed by the Company. Negative pledge on all movable and non-movable properties of the Company to the bond holders as stated in the Jumbo Bond Certificate except excluded in the agreement (Note 12). |
| Senior Guaranteed Notes | US$27,500,000 | Standard & Poor's: B+ (2007)<br><br>Moody's Investor Services : B1 (2006) | Singapore Stock Exchange | 2007 | 10%<br><br>Payable semi-annually | The Guaranteed Notes (GN) issued by MEFL are guaranteed by the Company. Negative pledge on all movable and non-movable property of the Company to the bond holders as stated in the Jumbo Bond Certificate except excluded in the agreement (Note 12). |
| Rupiah Conventional and Syariah Bonds | Rp750,000,000,000 | PT Pemeringkat Efek Indonesia (PEFINDO) : A- (2006) | Indonesia Stock Exchange | 2010 | 12.25%<br><br>Payable quarterly | The loan facility is not collateralized by any asset, revenue or other asset and not guaranteed by other parties but secured by all movable and non-movable properties of the Company that exist and will be owned in the future with certain exception as stated in the agreement. |
| Rupiah Bonds | Rp1,350,000,000,000 | PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2006) | Indonesia Stock Exchange | 2009 | 13.125%<br><br>Payable quarterly | The loan facility is not collateralized by any asset, revenue or other asset and not guaranteed by other parties but secured by all movable and non-movable properties of the Company that exist and will be owned in the future with certain exception as stated in the agreement. |

(Expressed in United States Dollars, unless otherwise stated)

## 21. OTHER LONG-TERM OBLIGATIONS (continued)

a. Debt Covenants

Under the terms and conditions of these long-term obligations, the Group are subject to various restrictive covenants, among others, from undertaking the following actions, without prior approval from the lenders/designated trustees such as: mergers or acquisitions, reducing the authorized, issued and fully paid capital stock, changing of main business, restrictions on granting loans to third parties, pledging and transferring the Company's assets, issuing bonds or obtaining loans from other parties, proposing to file for bankruptcy or delay loan payments prior to the payment of bond interest and principal, and declaring and paying dividends in excess of certain percentage of consolidated net income, and are required to comply with certain financial ratios.

In management's opinion, the Group are in compliance with the covenants of all respective long-term obligations, except as stated below:

At December 31, 2007, the Group did not meet the financial ratio requirement under their USD and IDR bonds, i.e., a maximum Debt-Equity Ratio (DER) of 1.75x. On March 26, 2008, the Company sold 2.5% interest in Apexindo triggering the deconsolidation of US$190 million in debt. This sale of Apexindo shares and the related impact placed the Group back into compliance with the bond covenant. Accordingly, the Company will inform the Trustee of this matter in accordance with the respective Bond Agreements.

On March 28, 2008, the Group withdrew US$95 million under a facility from PT Bank Mandiri (Persero) Tbk. The Group intend to use the proceeds in the event the put option under the US Dollar bond is exercised. Should the put option be not exercised, the Group may use the proceeds to repay loans or for other general corporate purposes. This drawdown coupled with the deconsolidation of the Apexindo debt of US$190 million places the Group well below the maximum DER of 1.75x.

## 22. NEGATIVE GOODWILL

Negative goodwill arose from the acquisition of the following subsidiaries:

| | 2007 | 2006 |
|---|---|---|
| Medco Far East Ltd. | 1,337,421 | 1,337,421 |
| PT Medco E&P Kalimantan | 1,012,044 | 1,012,044 |
| Exspan Airsenda, Inc. | 729,857 | 729,857 |
| Exspan Airlimau, Inc. | 729,857 | 729,857 |
| PT Apexindo Pratama Duta Tbk | 339,215 | 339,215 |
| PT Medco Sarana Balaraja | 213,445 | 213,445 |
| PT Medco E&P Tarakan | 79,555 | 79,555 |
| Total | 4,441,394 | 4,441,394 |
| Less accumulated amortization | (3,597,030) | (3,542,454) |
| **Net book value** | **844,364** | **898,940** |

## 23. MINORITY INTERESTS

a. Minority interests in net assets of subsidiaries:

| | 2007 | 2006 |
|---|---|---|
| PT Apexindo Pratama Duta Tbk | 113,713,683 | 104,516,989 |
| PT Medco Energi Menamas | 5,099,251 | 5,796,246 |
| PT Dalle Energy Batam | 4,138,064 | 3,876,460 |
| Medco LLC | 2,685,178 | 981,394 |
| PT Medco Gajendra Power Services | 841,091 | 274,018 |
| PT Dalle Panaran | 11,458 | 11,530 |
| PT Medco Methanol Bunyu | 2,242 | 2,080 |
| PT Medco Power Sumatra | 2,060 | - |
| PT Medco Power Sengkang | 107 | - |
| PT Exspan Petrogas Intranusa | 174 | 557 |
| Camar Bawean Petroleum, Ltd. | - | 6,334,807 |
| **Total** | **126,493,308** | **121,794,081** |

b. Minority interests in net losses (earnings) of subsidiaries:

| | 2007 | 2006 |
|---|---|---|
| PT Dalle Energy Batam | (604,641) | 311,855 |
| PT Medco Power Sumatra | 136,263 | 61,399 |
| PT Exspan Petrogas Intranusa | 94 | 7 |
| PT Apexindo Pratama Duta Tbk | (16,615,186) | (12,166,261) |
| Medco LLC | (1,703,784) | (856,594) |
| PT Medco Energi Menamas | (594,741) | (797,738) |
| PT Medco Gajendra Power Services | (596,606) | (167,827) |
| PT Medco Methanol Bunyu | (163) | (153) |
| Camar Bawean Petroleum, Ltd. | - | 1,274,748 |
| **Net** | **(19,978,764)** | **(12,340,564)** |

## 24. CAPITAL STOCK

| | 2007 | | | |
|---|---|---|---|---|
| **Shareholder** | **Number of Shares** | **Ownership Percentage** | **Amount** | |
| | | | Rp '000 | US$ |
| Encore Energy Pte. Ltd. | 1,689,393,006 | 50.70% | 168,939,301 | 51,280,460 |
| PT Medco Duta | 55,404,801 | 1.66% | 5,540,480 | 1,681,778 |
| PT Multifabrindo Gemilang | 2,000,000 | 0.06% | 200,000 | 60,709 |
| Public | 1,585,653,643 | 47.58% | 158,565,364 | 48,131,517 |
| Total | 3,332,451,450 | 100.00% | 333,245,145 | 101,154,464 |
| Less treasury stock (Note 21) | (223,597,000) | (6.71%) | (22,359,700) | (3,147,999) |
| **Net** | **3,108,854,450** | **93.29%** | **310,885,445** | **98,006,465** |

## 24. CAPITAL STOCK (continued)

| | 2006 | | | |
|---|---|---|---|---|
| Shareholder | Number of Shares | Ownership Percentage | Amount | |
| | | | Rp '000 | US$ |
| Densico Energy Resources Pte. Limited | 1,113,641,792 | 33.42% | 111,364,179 | 33,805,822 |
| Aman Energy Resources Pte. Ltd. | 575,751,214 | 17.28% | 57,575,121 | 17,479,491 |
| PT Medco Duta | 37,177,091 | 1.12% | 3,717,709 | 1,132,914 |
| PT Multifabrindo Gemilang | 2,000,000 | 0.06% | 200,000 | 60,709 |
| Public | 1,603,881,353 | 48.12% | 160,388,136 | 48,675,528 |
| Total | 3,332,451,450 | 100.00% | 333,245,145 | 101,154,464 |
| Less treasury stock (Note 21) | (223,597,000) | (6.71%) | (22,359,700) | (3,147,999) |
| **Net** | **3,108,854,450** | **93.29%** | **310,885,445** | **98,006,465** |

On May 5, 2006, in an Extraordinary Shareholders' Meeting, the shareholders approved 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.

The shareholders also 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 stock exchange regulations.

On July 15, 2005, Densico Energy Resources Pte. Limited (Densico), through the Company, undertook an offering of common shares directly or in the form of Global Depository Shares (GDS). The GDS have been listed on the Luxembourg Stock Exchange and included for trade in the Internal Order Book System of the London Stock Exchange and the portal market of the Nasdaq Stock Market. No proceeds from the offering of common shares or GDS went to the Company (Note 1).

The shares outstanding in 2007 and 2006 are 3,108,854,450.

Outstanding treasury shares totaled 223,597,000 shares as of December 31, 2007 and 2006, respectively.

## 25. ADDITIONAL PAID-IN CAPITAL

This account consists of:

| | Total | |
|---|---|---|
| | **2007** | **2006** |
| 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) |
| Additional paid - in capital on treasury shares | (19,040,298) | (19,040,298) |
| **Total** | **123,187,436** | **123,187,436** |

(Expressed in United States Dollars, unless otherwise stated)

## 26. EFFECTS OF CHANGES IN THE EQUITY TRANSACTIONS OF SUBSIDIARIES/ASSOCIATED COMPANIES

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Revaluation increment converted into capital stock | 28,753,083 | 28,753,083 |
| Conversion of additional paid-in capital into common stock by a subsidiary | 1,697,294 | 1,697,294 |
| Additional paid-in capital resulting from employee stock options | 677,738 | 677,738 |
| Donated capital | 107,870 | 107,870 |
| Unrealized gain in market value of short-term investments | 2,783 | 2,783 |
| Effect of new shares issued in relation to initial public offering of a subsidiary | (2,769,920) | (2,769,920) |
| Effect of new shares issued by a subsidiary | (12,223,613) | (12,609,937) |
| Translation adjustment | (386,789) | (386,789) |
| **Total** | **15,858,446** | **15,472,122** |

## 27. SALES AND OTHER OPERATING REVENUES

Sales and other operating revenues were derived from the following:

| | 2007 | 2006 |
|---|---|---|
| Oil and gas sales | 648,534,457 | 568,327,034 |
| Drilling operations and related services | 160,676,320 | 122,872,447 |
| Other contracts | 70,260,339 | 41,135,097 |
| Sales of chemical and other petroleum products | 47,811,458 | 32,600,006 |
| Electric power sales | 33,281,058 | 24,422,445 |
| Share of profits in joint ventures (Note 30) | 21,312,902 | 3,048,458 |
| **Total** | **981,876,534** | **792,405,487** |

Details of net oil and gas sales for the years ended December 31, 2007 and 2006 which represent a significant portion of sales and other operating revenues, are as follows:

| | 2007 | 2006 |
|---|---|---|
| Mitsui Oil (Asia) Hongkong Ltd. | 184,370,579 | - |
| Itochu Petroleum Co. (S) Pte. Ltd. | 171,104,234 | 336,052,730 |
| PT Pertamina (Persero) | 135,316,027 | 106,384,465 |
| BP Migas | 52,181,915 | 46,656,304 |
| Petro Diamond Co. Ltd., Hong Kong | 38,176,610 | 30,042,912 |
| Medco US Energy's customers | 24,441,040 | 24,738,022 |
| PT Perusahaan Listrik Negara (Persero) | 21,971,209 | 23,461,346 |
| Pertamina Energi Trading Ltd. | 12,112,793 | - |
| PT Metaepsi Pejebe Power - Generation | 5,629,459 | - |
| Others | 3,230,591 | 991,255 |
| **Total** | **648,534,457** | **568,327,034** |

(Expressed in United States Dollars, unless otherwise stated)

## 28. COST OF SALES

The Group incurred the following expenses to operate, process and sell their products and services:

a. Depreciation, Depletion and Amortization

This account represents depreciation, depletion and amortization for the following:

| | 2007 | 2006 |
|---|---|---|
| Oil and gas operations (Note 13) | 160,255,989 | 94,472,372 |
| Drilling and related services | 30,388,626 | 22,665,843 |
| Chemicals | 3,016,930 | 3,207,850 |
| Electric power | 3,908,937 | 2,603,020 |
| **Total** | **197,570,482** | **122,949,085** |

b. Production and Lifting Costs

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Field operations overhead | 75,043,309 | 40,216,627 |
| Operations and maintenance | 44,197,981 | 46,845,126 |
| Pipeline and transportation fees | 20,861,451 | 14,164,209 |
| Operational support | 6,912,529 | 4,842,162 |
| **Total** | **147,015,270** | **106,068,124** |

c. Exploration Costs

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Dry hole costs | 21,606,923 | 29,966,983 |
| Seismic | 16,098,460 | 4,820,188 |
| Exploration overhead | 5,625,648 | 5,092,414 |
| Geological and geophysical | 4,801,434 | 1,356,879 |
| **Total** | **48,132,465** | **41,236,464** |

Dry hole costs in 2006 primarily resulted from Madura Block of approximately US$27 million.

Dry hole costs in 2007 primarily resulted from wells in the US blocks of approximately US$15 million.

d. Cost of Crude Oil Purchases

This account consists of cost of crude oil purchased by the Company from BP Migas.

(Expressed in United States Dollars, unless otherwise stated)

## 28. COST OF SALES (continued)

e. Drilling Operations Costs

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Labor | 29,719,234 | 26,926,825 |
| Drilling equipment | 21,172,536 | 19,737,124 |
| Rental | 18,919,313 | 15,012,714 |
| Repairs and maintenance | 12,497,189 | 11,145,282 |
| Insurance | 5,433,315 | 5,372,142 |
| Catering | 5,122,200 | 4,948,559 |
| Rigs movement | 2,661,009 | 2,303,554 |
| Transportation | 4,793,538 | 4,661,527 |
| Others | 3,964,495 | 1,497,014 |
| **Total** | **104,282,829** | **91,604,741** |

f. Cost of Sales of Chemical and Other Petroleum Products

This account consists of:

| | 2007 | 2006 |
|---|---|---|
| Cost of High Speed Diesel sales | 13,374,096 | - |
| Feed gas | 10,245,815 | 8,568,253 |
| Rentals | 7,684,250 | 8,246,822 |
| Processing plant operational costs | 1,930,614 | 2,846,128 |
| Salaries and other allowances | 2,303,066 | 2,553,142 |
| Fuel | 550,562 | 613,454 |
| Materials and supplies | 175,176 | 476,399 |
| Contract labor | 170,363 | 251,252 |
| Others | 182,268 | 58,932 |
| Total production costs | 36,616,210 | 23,614,382 |
| Inventories: | | |
| At beginning of year | 919,640 | 877,348 |
| At end of year | (451,779) | (919,640) |
| **Total** | **37,084,071** | **23,572,090** |

g. Cost of Electric Power Sales

This account consists of the following:

| | 2007 | 2006 |
|---|---|---|
| Maintenance costs | 26,165,286 | 18,816,639 |
| Salaries and benefits | 1,762,802 | 159,040 |
| **Total** | **27,928,088** | **18,975,679** |

*These consolidated financial statements are originally issued in Indonesian language.*

(Expressed in United States Dollars, unless otherwise stated)

## 29. OPERATING EXPENSES

This account consists of:

| | 2007 | 2006 |
|---|---:|---:|
| General and administrative | | |
| Salaries, wages and other employee benefits | 51,552,066 | 42,447,355 |
| Professional fees | 12,436,686 | 11,186,106 |
| Rental | 11,478,904 | 6,329,720 |
| Insurance | 3,896,174 | 2,250,744 |
| Depreciation (Note 12) | 2,853,882 | 1,055,173 |
| Repairs and maintenance | 853,123 | 1,314,973 |
| Contract charges | 7,781,687 | 9,731,531 |
| Office supplies and equipment | 4,739,588 | 2,677,767 |
| Provision for doubtful accounts | 711,355 | 3,446,528 |
| Others (each below US$100,000) | 12,803,872 | 9,497,446 |
| Total | 109,107,337 | 89,937,343 |
| Selling | | |
| Export expenses | 14,523,854 | 12,215,809 |
| Business travel | 7,287,202 | 4,629,524 |
| Entertainment | 1,583,359 | 415,751 |
| Advertising and promotion | 806,764 | 240,512 |
| Total | 24,201,179 | 17,501,596 |
| **Total Operating Expenses** | **133,308,516** | **107,438,939** |

## 30. SHARE OF PROFITS (LOSSES) IN JOINT VENTURES

This account consists of the Group non-operating share of profits/(losses) in the following joint ventures:

| | 2007 | 2006 |
|---|---:|---:|
| PSC Kakap | 13,257,163 | - |
| PSC JOB Tuban | 8,055,739 | 3,048,458 |
| **Net Income** | **21,312,902** | **3,048,458** |
| Area 47 Libya EPSA | (11,592,856) | (6,134,309) |
| PSC Kakap | - | (1,802,970) |
| PSC Brantas | - | (61,660,607) |
| **Net Loss** | **(11,592,856)** | **(69,597,886)** |

In light of the divestment of PT Medco Brantas in March 2007, as of December 31, 2006, the Company recorded its investment in PT Medco E&P Brantas as Assets Held for Disposal/Sale with a net book value of US$0 (Note 14) in line with its eventual economic value, and recognized a loss from joint venture operations of US$61,660,607. Subsequent to the divestment of PT Medco Brantas and recognition of related losses in 2006 as noted above, management believes that the Banjar Panji-1 well incident will have no further material negative impact to the Company.

**(Expressed in United States Dollars, unless otherwise stated)**

## 31. INCOME TAX

Tax expenses of the Company and Subsidiaries consist of the following:

| | 2007 | 2006 |
|---|---|---|
| Current tax expense | | |
| Subsidiaries | (121,678,661) | (113,719,931) |
| Deferred tax (expense) benefit | | |
| Company | 18,531,499 | 5,607,352 |
| Subsidiaries | 17,919,445 | (10,926,249) |
| Sub-total | 36,450,944 | (5,318,897) |
| **Tax Expense - Net** | **(85,227,717)** | **(119,038,828)** |

a. Current Tax

A reconciliation between income before tax expense per the consolidated statements of income and the Company's fiscal loss, is as follows:

| | 2007 | 2006 |
|---|---|---|
| Income before tax expense per consolidated statements of income | 111,750,989 | 169,549,760 |
| Less income before tax expense of Subsidiaries | (121,253,856) | (225,796,174) |
| Loss before tax expense of the Company | (9,502,867) | (56,246,414) |
| Temporary differences | | |
| Allowance for doubtful accounts | - | 34,992,719 |
| Other employee benefits | 371,696 | 174,967 |
| Depreciation and depletion | (17,268) | 10,960 |
| Unrealized gain from marketable securities | (1,159,357) | (4,794,367) |
| Amortization of deferred charges | (1,624,599) | - |
| Permanent differences | | |
| Loss on disposal of investment | (65,375,216) | - |
| Interest expense | 13,947,006 | - |
| Non - deductible expenses | 1,198,167 | 6,451,756 |
| Net loss from Medco Moeco Langsa Pty. Ltd. | 423,346 | 1,561,019 |
| Income subject to final income tax | (12,008,698) | (6,426,771) |
| Tax loss for the year | (73,747,790) | (24,276,131) |
| Prior years tax losses | (24,562,008) | (3,077,035) |
| Adjustment to prior year tax loss | (4,815,277) | - |
| Expired tax losses carried forward | 285,877 | 2,791,158 |
| **Tax losses carried forward at end of year** | **(102,839,198)** | **(24,562,008)** |

No provision for current income tax was made for the years ended December 31, 2007 and 2006 because the Company is still in a tax loss position.

(Expressed in United States Dollars, unless otherwise stated)

## 31. INCOME TAX (continued)

b. Deferred Tax

The details of the Group deferred tax assets and liabilities are as follows:

| | December 31, 2007 | | | |
|---|---|---|---|---|
| | December 31, 2006 | Cumulative deferred tax assets/liabilities of acquired subsidiaries | Charged (credited) to statements of income | December 31, 2007 |
| Deferred Tax Assets | | | | |
| Company | | | | |
| Tax losses | 7,912,996 | - | (17,822,047) | 25,735,043 |
| Employee benefits liability | 199,862 | - | (111,509) | 311,371 |
| Depreciation of property and equipment | 111,085 | - | 5,180 | 105,905 |
| Sub-total | 8,223,943 | - | (17,928,376) | 26,152,319 |
| Deferred Tax Liabilities | | | | |
| Company | | | | |
| Amortisation of deferred interest | - | - | 487,380 | (487,380) |
| Unrealized gain from marketable securities | (1,438,310) | - | (1,090,503) | (347,807) |
| Sub-total | (1,438,310) | - | (603,123) | (835,187) |
| Net | 6,785,633 | - | (18,531,499) | 25,317,132 |
| Subsidiaries | 50,099,097 | (5,020,592) | (11,826,342) | 56,904,847 |
| **Deferred Tax Assets - Net** | **56,884,730** | **(5,020,592)** | **(30,357,841)** | **82,221,979** |
| **Subsidiaries Deferred Tax Liabilities - Net** | **(123,517,995)** | **(939,488)** | **(9,044,800)** | **(115,412,683)** |
| **Deferred Tax Benefit** | | | **(39,402,641)** | |
| **Joint Venture Presentation** | | | **(2,951,697)** | |
| **Net Deferred Tax Benefits** | | | **(36,450,944)** | |

*These consolidated financial statements are originally issued in Indonesian language.*

(Expressed in United States Dollars, unless otherwise stated)

## 31. INCOME TAX (continued)

b. Deferred Tax (continued)

| | December 31, 2006 | | | |
|---|---|---|---|---|
| | December 31, 2005 | Cumulative deferred tax assets/liabilities of acquired subsidiaries | Charged (credited) to statements of income | December 31, 2006 |
| Deferred Tax Assets | | | | |
| Company | | | | |
| Tax losses | 923,111 | - | (6,989,885) | 7,912,996 |
| Employee benefits liability | 147,372 | - | (52,490) | 199,862 |
| Depreciation of property and equipment | 107,798 | - | (3,287) | 111,085 |
| Sub-total | 1,178,281 | - | (7,045,662) | 8,223,943 |
| Deferred Tax Liabilities | | | | |
| Company | | | | |
| Unrealized gain from marketable securities | - | - | 1,438,310 | (1,438,310) |
| Net | 1,178,281 | - | (5,607,352) | 6,785,633 |
| Subsidiaries | 32,304,809 | 10,884,508 | (6,909,780) | 50,099,097 |
| **Deferred Tax Assets - Net** | **33,483,090** | **10,884,508** | **(12,517,132)** | **56,884,730** |
| **Subsidiaries Deferred Tax Liabilities - Net** | **(110,827,230)** | **1,180,175** | **13,855,459** | **(123,517,995)** |
| **Deferred Tax Expense** | | | **1,338,327** | |
| **Joint Venture Presentation** | | | **3,980,570** | |
| **Net Deferred Tax Expense** | | | **5,318,897** | |

A reconciliation between the tax expense and the amount computed by applying the statutory tax rates to income before tax expense, is as follows:

| | 2007 | 2006 |
|---|---|---|
| Income before tax expense per consolidated statements of income | 111,750,989 | 169,549,760 |
| Less income before tax expense of Subsidiaries | (121,253,856) | (225,796,174) |
| Loss before tax benefit (expense) of the Company | (9,502,867) | (56,246,414) |
| Tax benefit (expense) using statutory tax rates | 2,850,860 | 16,873,924 |
| Tax effects of permanent differences: | | |
| Loss on investment | 19,612,565 | - |
| Income already subjected to final income tax | 3,602,609 | 1,928,031 |
| Non-deductible expenses | (359,450) | (1,935,527) |
| Loss from Medco Moeco Langsa Ltd. | (127,004) | (468,306) |
| Interest expense | (4,184,102) | - |

(Expressed in United States Dollars, unless otherwise stated)

## 31. INCOME TAX (continued)

b. Deferred Tax (continued)

| | 2007 | 2006 |
|---|---|---|
| Utilization of prior years tax losses | - | 923,110 |
| Expired tax loss carried forward | (85,763) | (837,347) |
| Adjustment to fiscal loss | 1,444,583 | - |
| Deferred tax adjustments - tax loss | (4,222,799) | (10,876,533) |
| Tax benefit (expense): | | |
| Company | 18,531,499 | 5,607,352 |
| Subsidiaries | (103,759,216) | (124,646,180) |
| **Tax Expense - Net** | **(85,227,717)** | **(119,038,828)** |

## 32. EARNINGS PER SHARE

a. Earnings per share

The computation of basic earnings per share is based on 3,108,854,450 shares, representing the weighted average number of shares in 2007 and 2006, respectively.

| | 2007 | 2006 |
|---|---|---|
| Earnings per share | | |
| Net income for the year | 6,544,508 | 38,170,368 |
| Basic earnings per share | 0.0021 | 0.0123 |

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no dilutive potential ordinary shares in the two years presented.

## 33. CASH DIVIDENDS

On May 28, 2007, the Company's Stockholders in the Annual General Meeting approved the distribution of cash dividends amounting to US$0.0057 per share or equivalent to US$19,085,184. Net dividend paid is US$17,804,628 net of treasury stock.

On May 5, 2006, the Company's stockholders in the Annual General Meeting approved the distribution of cash dividends amounting to US$0.0112 per share or equivalent to US$34,842,655.

**(Expressed in United States Dollars, unless otherwise stated)**

## 34. PENSION AND OTHER EMPLOYEE BENEFITS

a. Pension Plans

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 Tugu Mandiri (DPLK Tugu Mandiri) whose deed of establishment was approved by the Minister of Finance of the Republic of Indonesia in its decision letter No. Kep. 234/KM.17/1995 dated August 16, 1995. The pension plans are funded by contributions from both the Subsidiaries at 6% of gross salaries and their employees at 2% of gross salaries.

The movements of liability of the defined contribution pension plans of the Subsidiaries involved in the oil and gas exploration and production are as follows:

| | 2007 | 2006 |
|---|---|---|
| Beginning balance | 63,532 | 51,685 |
| Pension cost | 897,838 | 781,653 |
| Pension contributions paid | (888,234) | (771,889) |
| (Gain) loss on foreign exchange | (267) | 2,083 |
| **Ending balance** | **72,869** | **63,532** |

b. Other Employee Benefits

The Group also recognize employee benefit obligations for their qualifying employees in accordance with applicable regulations. The post retirement benefits of the employees involved in oil and gas operations are being funded by placing funds in PT AIG Life and PT Asuransi Allianz Life Indonesia.

The number of employees eligible for the benefits is 2,259 and 2,194 in 2007 and 2006, respectively.

i. An analysis of employee benefits obligations recognized in the consolidated balance sheets is as follows:

| | 2007 | 2006 |
|---|---|---|
| Present value of employee benefits obligations | 58,250,003 | 54,980,563 |
| Fair value of plan assets | (45,913,484) | (37,229,831) |
| Unfunded employee benefits obligations | 12,336,519 | 17,750,732 |
| Unrecognized past service cost - non vested | (1,205,886) | (1,586,955) |
| Unrecognized actuarial loss | (435,867) | (1,263,647) |
| Adjustment to termination plan | - | 96,452 |
| Employee benefits obligations | 10,694,766 | 14,996,582 |
| Presented as accrued expenses (Note 18) | (1,716,416) | (8,096,597) |
| **Employee benefits obligations - net** | **8,978,350** | **6,899,985** |

(Expressed in United States Dollars, unless otherwise stated)

## 34. PENSION AND OTHER EMPLOYEE BENEFITS (continued)

b. Other Employee Benefits (continued)

ii. An analysis of the employee benefits costs in the consolidated statements of income is as follows:

| | 2007 | 2006 |
|---|---|---|
| Actuarial loss recognized | 3,988,289 | 5,300,639 |
| Interest expense | 5,412,584 | 4,638,531 |
| Current service costs | 5,111,496 | 3,965,336 |
| Termination costs | 347,499 | 285,659 |
| Amortization of transitional liabilities | 92,510 | 222,878 |
| Immediate recognition of past service costs | 159,375 | 124,327 |
| Amortization of past service costs | 310,748 | 21,928 |
| Amortization of actuarial losses | 13,358 | 5,702 |
| Expected return on plan assets | (2,235,970) | (1,877,492) |
| Curtailment | (86,334) | (99,089) |
| Others | 117,584 | 329,649 |
| **Total** | **13,231,139** | **12,918,068** |

iii. An analysis of the movements of employee benefits obligations in the consolidated balance sheets is as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | 14,996,582 | 9,979,821 |
| Employee benefits costs | 13,231,139 | 12,918,068 |
| Loss (gain) on foreign exchange | (1,373,415) | 928,186 |
| Contributions for the year | (14,519,043) | (8,000,000) |
| Benefits paid to employees | (1,640,497) | (1,015,290) |
| Adjustments due to new acquisitions | - | 94,926 |
| Net adjustments to current year - employee benefits | - | 90,871 |
| Balance at end of year | 10,694,766 | 14,996,582 |
| Presented as accrued expenses (Note 18) | 1,716,416 | 8,096,597 |
| Employee benefits obligations | 8,978,350 | 6,899,985 |

iv. The present value of the employee benefits obligations was calculated by independent actuaries, using the following assumptions:

| | 2007 | 2006 |
|---|---|---|
| Discount rates | 10% - 11% | 8% - 11% |
| Expected rate of return on assets: | | |
| - IDR Portfolio | 0 % - 6% | 0% - 6% |
| Salary increment rate | 8% -12% | 8% -12% |
| Mortality rate | TMI 1999 and CSO'80 | TMI 1999 and CSO'80 |
| Morbidity rate (disability rate) | 0,03%-10% mortality rate | 0,03% - 10% mortality rate |
| Resignation rate: | 0% - 2% primarily in line with age profile | 0% - 2% primarily in line with age profile |
| Proportion of early retirement | - | - |
| Proportion of normal retirement | 100% | 100% |

## 35. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

a. Nature of Relationships

i. Companies whose major stockholder and management are the same as the Company:

- PT Bank Himpunan Saudara 1906 Tbk

ii. Companies which partly have the same key members of management as the Company:

- PT Andrawina Praja Sarana (APS)
- PT Multifabrindo Gemilang
- PT Medco Inti Dinamika (INTI)

iii. PT Medco Duta (DUTA) is a stockholder of the Company.

iv. INTI is the major stockholder of PT Bank Himpunan Saudara 1906 Tbk.

b. Transactions with Related Parties

In the normal course of business, the Group has entered into certain transactions with related parties. These transactions included the following:

i. Placement of time deposits and current accounts in PT Bank Himpunan Saudara 1906 Tbk.

ii. APS rendered catering services amounting to US$5,122,200 and US$5,003,665 in 2007 and 2006, respectively. The outstanding liabilities for these services were presented as Trade Payables which constituted approximately 1% of the total trade payables as of December 31, 2007 and 2006.

iii. Apexindo rents office building from INTI at an annual rental cost of US$189,396 and US$153,594 in 2007 and 2006, respectively.

Transactions with related parties were undertaken on an arm's length basis, at same prices and conditions as those with third parties.

## 36. SEGMENT INFORMATION

The Group classifies and evaluates their 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. Drilling and other related services

iii. Chemicals production

**(Expressed in United States Dollars, unless otherwise stated)**

## 36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

iv. Electric power generation

v. Trading

vi. Finance

Segment information of the Group is as follows:

| 2007 | Exploration for and production of oil and gas | Drilling and other related services | Chemical | Electric Power generation | Trading | Finance | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| External sales | 300,022,653 | 193,927,791 | 48,400,646 | 51,764,442 | 387,761,002 | - | - | 981,876,534 |
| Inter-segment sales | 423,308,970 | 21,371,528 | 7,240,317 | - | 195,480 | - | (452,116,295) | - |
| Total revenues | 723,331,623 | 215,299,319 | 55,640,963 | 51,764,442 | 387,956,482 | - | (452,116,295) | 981,876,534 |
| **RESULTS** | | | | | | | | |
| Segment results | 169,073,134 | 67,807,614 | 2,702,757 | 7,198,962 | (8,131,632) | (116,500) | (3,554,759) | 234,979,576 |
| Income from operations | | | | | | | | 234,979,576 |
| Loss from derivative transactions | - | (5,163,987) | - | - | (2,846,068) | - | - | (8,010,055) |
| Loss on disposal of assets | (20,495,908) | - | - | - | - | - | - | (20,495,908) |
| Gains (losses) on foreign exchange - net | (3,505,249) | 998,203 | 283,237 | 485,438 | 8,207,420 | (20,903) | - | 6,448,146 |
| Interest expense - net | (5,243,046) | (15,126,699) | (1,365,780) | (6,206,090) | (16,691,860) | (26,813,682) | - | (71,447,157) |
| Equity in net income (losses) of associated entities - net | - | - | 692,705 | - | (886,500) | - | - | (193,795) |
| Gains on sales of marketable securities - net | - | - | - | - | 4,545,197 | - | - | 4,545,197 |
| Financing charges - net | - | (782,651) | - | (347,947) | (7,341,347) | (1,639,507) | - | (10,111,452) |
| US assets impairment | (25,937,125) | - | - | - | - | - | - | (25,937,125) |
| Others - net | 1,482,069 | (4,200,245) | (1,068,577) | 892,554 | 3,251,254 | 1,616,507 | - | 1,973,562 |
| Income before tax expense | 115,373,875 | 43,532,235 | 1,244,342 | 2,022,917 | (19,893,536) | (26,974,085) | (3,554,759) | 111,750,989 |
| Tax benefit (expense) | (91,336,776) | (10,717,081) | (1,431,777) | (145,356) | 18,475,746 | (72,473) | - | (85,227,717) |
| Minority interest in losses (earnings) of consolidated subsidiaries | (1,703,784) | 94 | - | (1,381,591) | - | - | (16,893,483) | (19,978,764) |
| **NET INCOME** | 22,333,315 | 32,815,248 | (187,435) | 495,970 | (1,417,790) | (27,046,558) | (20,448,242) | 6,544,508 |
| **OTHER INFORMATION** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Segment assets | 3,088,718,187 | 513,447,566 | 128,682,921 | 112,198,878 | 1,002,895,583 | 376,222,029 | (3,127,794,522) | 2,094,370,642 |
| Investments in shares of stock | - | - | 12,948,626 | 4,827,280 | 498,310,424 | 8,139,409 | (507,301,222) | 16,924,517 |
| Investments in projects | 33,780,390 | - | 14,359 | 1,379,881 | 1,060,703 | - | - | 36,235,333 |
| **TOTAL ASSETS** | 3,122,498,577 | 513,447,566 | 141,645,906 | 118,406,039 | 1,502,266,710 | 384,361,438 | (3,635,095,744) | 2,147,530,492 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | 2,057,998,938 | 280,312,937 | 121,183,839 | 96,546,728 | 1,548,045,955 | 534,053,828 | (3,142,653,134) | 1,495,489,091 |
| Capital expenditures | 312,640,000 | 47,257,250 | 19,686,576 | 2,930,004 | 2,304,471 | - | - | 384,818,301 |
| Depreciation, depletion, and amortization | 160,255,989 | 30,962,925 | 4,364,167 | 4,420,584 | 420,699 | - | - | 200,424,364 |
| Non-cash expenses other than depreciation and amortization | 54,715,526 | 12,746,421 | 17,798,986 | 1,414,532 | 4,761,497 | 3,070,939 | - | 94,507,901 |

**(Expressed in United States Dollars, unless otherwise stated)**

## 36. SEGMENT INFORMATION (continued)

### a. Business Segment (continued)

| 2006 | Exploration for and production of oil and gas | Drilling and other related services | Chemical | Electric Power generation | Trading | Finance | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| External sales | 214,372,392 | 146,134,115 | 32,600,006 | 39,261,970 | 360,037,004 | - | - | 792,405,487 |
| Inter-segment sales | 318,118,166 | 23,081,841 | 9,199,506 | - | 183,500 | - | (350,583,013) | - |
| Total revenues | 532,490,558 | 169,215,956 | 41,799,512 | 39,261,970 | 360,220,504 | - | (350,583,013) | 792,405,487 |
| **RESULTS** | | | | | | | | |
| Segment results | 119,726,525 | 44,004,264 | 4,669,490 | 6,711,538 | (16,881,137) | (174,956) | 21,963,557 | 180,019,281 |
| Income from operations | | | | | | | | 180,019,281 |
| Gains from swap transactions | - | 19,260,440 | - | - | 20,287,623 | - | - | 39,548,063 |
| Gains (losses) on foreign exchange - net | 3,099,100 | (5,711,436) | (72,799) | 1,971,925 | (11,798,767) | 1,000 | 169,060 | (12,341,917) |
| Interest expense - net | (592,038) | (5,714,127) | (1,151,916) | (4,047,432) | (2,150,095) | (31,760,172) | (1,088,859) | (46,504,639) |
| Equity in net losses of associated entities - net | - | - | - | - | (1,561,019) | - | (1,204,527) | (2,765,546) |
| Gains on sales of marketable securities - net | 143,067 | - | - | - | 4,380,116 | - | - | 4,523,183 |
| Financing charges - net | (38,994) | (708,082) | - | (476,483) | (1,642,327) | (1,235) | 880,000 | (1,987,121) |
| Others - net | 70,139,130 | 275,110 | (275,433) | (917,368) | 11,688,826 | (272,338) | (71,579,471) | 9,058,456 |
| Income before tax expense | 192,476,790 | 51,406,169 | 3,169,342 | 3,242,180 | 2,323,220 | (32,207,701) | (50,860,240) | 169,549,760 |
| Tax benefit (expense) | (95,904,371) | (19,978,560) | (1,269,681) | (908,171) | (978,045) | - | - | (119,038,828) |
| Minority interests in net losses (earnings) of consolidated subsidiaries | 418,112 | (5) | - | (592,259) | - | - | (12,166,412) | (12,340,564) |
| **NET INCOME** | 96,990,531 | 31,427,604 | 1,899,661 | 1,741,750 | 1,345,175 | (32,207,701) | (63,026,652) | 38,170,368 |
| **OTHER INFORMATION ASSETS** | | | | | | | | |
| Segment assets | 1,741,465,060 | 472,480,961 | 61,506,975 | 102,312,559 | 576,070,899 | 405,258,876 | (1,571,104,315) | 1,787,991,015 |
| Investments in shares of stock | 83,110 | - | - | - | 566,642,060 | - | (556,168,114) | 10,557,056 |
| Investments in projects | 42,867,351 | - | - | 167,401 | - | - | - | 43,034,752 |
| **TOTAL ASSETS** | 1,784,415,521 | 472,480,961 | 61,506,975 | 102,479,960 | 1,142,712,959 | 405,258,876 | (2,127,272,429) | 1,841,582,823 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | 781,226,577 | 255,230,141 | 39,724,694 | 93,996,667 | 1,093,915,527 | 534,441,023 | (1,492,809,557) | 1,305,725,072 |
| Capital expenditures | 156,510,369 | 97,037,314 | 11,428,154 | 43,102,843 | 21,349,448 | - | - | 329,428,128 |
| Depreciation, depletion, and amortization | 94,068,688 | 22,665,843 | 3,207,850 | 2,603,020 | - | - | 403,683 | 122,949,084 |
| Non-cash expenses other than depreciation and amortization | 4,281,032 | 561,754 | - | - | 76,827 | - | - | 4,919,613 |

(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:

| Geographical segment | 2007 | 2006 |
|---|---|---|
| Indonesia | 553,344,510 | 379,304,155 |
| Overseas | | |
| Asia | 386,196,091 | 359,333,742 |
| Middle East | 17,894,893 | 29,029,568 |
| United States of America | 24,441,040 | 24,738,022 |
| **Total** | **981,876,534** | **792,405,487** |

The Group activities are concentrated into several major geographic locations (Asia, USA and Middle East). The main concentration of activities is in Indonesia.

## 37. 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 BP Migas. 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, 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.

## 37. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

a. Production Sharing Arrangements - Indonesia (continued)

i. Production Sharing Contracts (PSC) - Indonesia (continued)

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.

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. 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.

iii. 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, 50% of the production is retained by Pertamina, and the balance is the shareable portion which is split between the parties in same way as for a PSC.

Contractors are obliged to pay a production bonus to Pertamina 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 contract proposals.

The Group currently has 14 PSCs, 2 TACs, and 2 JOBs in Indonesia.

The remaining commitment for exploration and development expenditures relating to the above contracts as of December 31, 2007 is US$124 million.

(Expressed in United States Dollars, unless otherwise stated)

## 37. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

b. Production Sharing Arrangements - International

The Group has production sharing arrangements in Libya, Tunisia, Yemen and Cambodia, and a service contract in Oman with the following fiscal arrangements:

| | | | | Production Sharing Agreement | |
|---|---|---|---|---|---|
| Subsidiary | Block Ownership | Country | Contract Term | Local Government | Subsidiary |
| Medco International Petroleum Ltd. and Medco Cambodia Tonle Sap | Blok12 and Blok E (both contracts have the same terms and fiscal arrangements) | Cambodia | 25 years | 42% of profit oil (for production over 10,000 bopd) | 58% of profit oil (for production over 10,000 bopd) |
| Medco International Venture Ltd. | Blok 47 | Libya | 5 years | 86.3% of total production | 13.7% of total production |
| Medco Yemen Amed Ltd. | Blok 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. | Blok 83 | Yemen | 20 years | 75% of profit oil (for production over 25,000 bopd) | 25% of profit oil (for production over 25,000 bopd) |
| Medco Tunisia Anaguid Ltd. | Blok Anaguid | Tunisia | 2 years for exploration | | |
| Medco Oman LLC | Karim Small Field | Oman | 10 years | 96.02% of profit oil | 3.98% of profit oil |

The total remaining commitment for exploration expenditures relating to the above contracts as of December 31, 2007 is US$213.5 million.

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS

a. Acquisitions and Transfers

i. In November, 2006, the Group acquired 100% shares in PT Usaha Kita Makmur Bersama (“UKMB”) for Rp165 billion. UKMB owns Fuel Blending Plant and Storage facilities at Tanjung Priok, North Jakarta. The fair values of the net assets of UKMB is equal to the acquisition price paid by the Group.

ii. In January 2007, the Group and its partner, Premier Oil Sumatra (North) BV (“Premier”), signed a Share Sale and Purchase Agreement and acquired 100% shares in ConocoPhillips (Aceh) Ltd. (“CPAL”) for US$72 million, which held a 50% working interest in and acted as the Operator for the Block A Production Sharing Contract (Block A PSC) located in Nanggroe Aceh Darussalam province, Indonesia. With this acquisition, the Group effectively acquired a 25% working interest in the Block A PSC. In 2006 the Group also acquired a 16.67% working interest in Block A, and therefore the Group’s effective working interest in Block A PSC is now 41.67%. The Group is also now the operator of Block A.

iii. In April 2007, the Group acquired 10% ownership interest in PT Mitra Energi Batam (“MEB”) from YPK-PLN for Rp11.2 billion. Prior to the acquisition, the Group had already consolidated MEB with 54% ownership.

**38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)**

a. Acquisitions and Transfers (continued)

iv. In May 2007, the Group, through a Deed of Assignment of Interest, assigned a 1% interest in the Merangin-I PSC to PTTEP Merangin I Company Limited, a subsidiary of PTTEP Offshore Company Limited, a Thailand-based oil and gas company.

v. In May 2007, the Group acquired the remaining 49.99% shares of a majority owned subsidiary, i.e., Camar Bawean Petroleum Ltd (CBPL), for US$22 million. CBPL holds a 65% participating interest in the Bawean PSC. Camar Resources Canada, a controlled affiliate, holds the remaining 35% working interest in the Bawean PSC.

In June 2007, CBPL entered into a Sale and Purchase Agreement with Kuwait Bawean Indonesia (KBI), an affiliated company of Kuwait Energy Company, to sell a 35% non-operating interest in the Bawean PSC for a total consideration of US$23.5 million, which will be executed in two payments subject to certain conditions as prescribed in the agreement. The first payment of US$14.5 million has been made, while the remaining payment of US$9 million is still outstanding as a condition precedent has not been met as of December 31, 2007. Accordingly, as of December 31, 2007, the sale of 35% working interest to KBI is considered not yet concluded, and the US$14.5 million received from KBI is presented as part of other payables in the consolidated balance sheet. As such, the Group continues to consolidate 100% of the Bawean PSC working interest.

vi. In May 2007, the Group entered into a Framework Agreement with PT Pertamina (Persero) (“Pertamina”) and Mitsubishi Corporation (“Mitsubishi”) in relation to the potential development of a Liquefied Natural Gas (LNG) project in Sulawesi. The LNG projects plan to utilize gas reserves from the Senoro Field in Senoro Block which is operated by a Joint Operating Body/JOB between PT Medco E&P Tomori Sulawesi and Pertamina, and gas reserves from the Donggi Matindok, Maleo-Raja and Minahaki Fields in Matindok Block which is operated by PT Pertamina EP.

In December 2007, the Group signed a Shareholders Agreement with Mitsubishi and Pertamina to establish a limited liability company under name of PT Donggi Senoro LNG (“DSLNG”), which is designated as the company to construct and operate a LNG plant with gas from the Senoro field. In this venture, the Group owns a 20% share of DSLNG.

vii. In June 2007, the Group signed a Sales and Purchase Agreement to acquire a 40% non-operating interest in the Convention, Permit, and Joint Operating Agreement related to the Anaguid Block in Tunisia with Anadarko Tunisia Anaguid for a price of US$10 million.

viii. In June 2007, the Group signed a Sale and Purchase Agreement with Salamander Energy (Simenggaris) Ltd. to sell a 21% non-operating interest in the Simenggaris JOB. Subsequent to the sale, the Group holds 41.5% interest in the JOB.

ix. In March 2007, the Group acquired a non-operating working interest of 52.84 % in the West Delta 52 Block located in the Gulf of Mexico for approximately US$1.4 million. Red Willow Offshore LLC is the operator with a 47.16% working interest.

x. In June 2007, the Group acquired a 100% interest in the Brazos 451 Block from Apache Corporation with the consideration to be paid in the future.

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Acquisitions and Transfers (continued)

xi. In July and December 2007, the Group, through a Sale and Purchase Agreement, sold a 60% working interest in the PSC Nunukan Block to Anadarko Indonesia Nunukan Company ("AINC"). Subsequent to the transfer, the Group owns a 40% working interest, and AINC became the operator of the Nunukan Block.

xii. In August 2007, the Group acquired 28.375% shares of PT Trada International ("TI") for a total price of US$12.3 million, which is accounted for as an investment under equity method. TI's main business is oil tanker transportation services.

xiii. In September 2007, the Group, together with its partner, i.e. JHL Limited, signed a Petroleum Agreement with the Royal Government of Cambodia to carry out its exploration and exploitation activities for Block 12 where the Group act as the Operator. The Group's working interest in the block is 52.5%, while Cambodian National Petroleum Authority holds a 40% interest in the block. The Group paid a signature bonus of US$3 million, a goodwill payment of US$0.3 million, and a firm expenditure commitment of US$4 million for 3 years.

xiv. In October 2007, the Group transferred 24% of 86% interest in Sarulla Geothermal Power Project of 300 MW, in North Sumatra ("Sarulla Project") to Itochu Corporation (Itochu), for a total consideration of US$1 million which is payable in line with the terms and conditions in the related transfer agreement.

In the same month, the Group also transferred 25% of its remaining 62.2% participating interest (after sale to Itochu) in the Sarulla Project to Kyuden International Corporation (Kyushu), for a total consideration of US$6 million, which is payable in line with terms and conditions in the related transfer agreement.

The Group's remaining participating interest in the Sarulla project subsequent to the above transfers is approximately 37.2%.

xv. In October 2007, the Group transferred 21.25% participating interest in the Block E in Cambodia to Lundin Cambodia BV., in return for a proportionate portion of the Group's acquisition costs of Block E (including signature bonus, goodwill payment and expenses).

The Group's remaining participating interest in the block subsequent to this transfer is 41.25%.

xvi. In November 2006, the Group signed a Farmout Agreement with PTTEP Bengara 1 Company Limited to sell 40% participating interest in the Bengara 1 Block. Subsequent to this transfer, the Group held 60% participating interest in the Block. BP Migas approved the transfer of such working interest in October 2007.

xvii. In November 2007, the Group signed a subscription agreement for the acquisition of the majority shares in Biofuel Power Pte. Ltd. ("BP"), which is established to undertake the development and construction of a 25 MW biomass power plant and facilities in Singapore, for a price of approximately SG$15.3 million. The subscription agreement is still subject to certain conditions precedent, which have not been fully met as of the financial statement issuance date, accordingly, the transaction has not been made effective as of December 31, 2007.

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Acquisitions and Transfers (continued)

xviii. In November 2007, the Group acquired a 50% share in Medco Moeco Langsa Limited (MML) from Mitsui Oil Exploration Co. Ltd (Moeco) through a Share Transfer, Release and Indemnification Agreement with Moeco. Subsequent to this transfer, the Group owns all of the shares of MML, whose name was subsequently changed to Medco E&P Langsa Limited, which is consolidated as of December 31, 2007 (2006: investment under equity method).

xix. In 2005, the Group signed an Exploration Joint Venture Agreement (”Agreement”) with Anadarko Global Holdings Company (”Anadarko”). Under the Agreement, the Company and Anadarko agreed to jointly develop exploration programs covering Seismic, Geological & Geophysical, and Exploration Drilling activities, whereby Anadarko agreed to spend US$80 million for such joint development exploration.

In return for the expenditures to be assumed by Anadarko, the Group is bound to release to Anadarko a maximum of 40% of its economic interests over any new reserves discovered from the joint explorations, convertible into working interest ownerships in the contract areas where the new reserves were discovered.

As of December 31, 2007, Anadarko has spent US$24.7 million against this commitment.

xx. In 2003, Santos, the Operator of Sampang PSC (located in Madura, Indonesia), opted to sole-risk the drilling of an exploration well, Jeruk-1. Singapore Petroleum Company (“SPC”) and Cue Energy Resources Limited (“Cue”) as the partners in the Sampang PSC elected not to participate. Santos subsequently farmed-out 50% of the drilling risk in the Jeruk-1 well to the Group. This farmout was approved by the Indonesian Authorities, nevertheless direct participation in the Sampang PSC remained unchanged.

The Joint Operation Agreement (“JOA”) of Sampang PSC contained provisions for back-in rights for those partners electing not to participate in the event of well success and future field development. Following the successful discovery of the Jeruk Field in 2004, SPC and Cue determined to reinstate their interests in Jeruk-1, thereby terminating the Group’s involvement. For the reinstatement, SPC and Cue were obligated to pay certain premiums to the Group.

In early 2006, SPC and Cue entered into a commercial agreement (“economic agreement”) with the Group involving the transfer of 18.2% and 6.8% interest from 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. As part of the economic agreement, the Group reimbursed its proportionate share of Jeruk costs and agreed to waive the back-in premium due from SPC and Cue.

Whilst the Indonesia Authorities have sanctioned the commercial agreement between the participants, Sampang PSC interests (including Jeruk Field interests) remain unchanged. In line with this, all Jeruk costs can be recovered from the Sampang PSC cost pool.

In early 2008, Santos, the operator of the Jeruk field, disclosed that further drilling in the Jeruk field has 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.

(Expressed in United States Dollars, unless otherwise stated)

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements

The significant outstanding Gas Supply and Transfer of Power Purchase Agreements of the Company and its Subsidiaries as of December 31, 2007, are as follows:

| Company | Date of Agreement | Commitment | Contract Period |
|---|---|---|---|
| **PT Medco E&P Indonesia** | | | |
| PT Pupuk Sriwidjaja (Persero) | Aug-7-07 | Commitment to supply 45 Billion British Thermal Unit/BBTU average per day with average price of US$3.586 per MMBTU. | 15 Years |
| PT Mitra Energi Buana | Jul-24-06 | Commitment to supply 6,125 BBTU gas 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 comes first |
| PT Perusahaan Listrik Negara (Persero) | Jan-20-06 | Commitment to supply gas amounts to 71,852.3 BBTU during contract period. | 7 Years |
| PT Meta Epsi Pejebe Power Generation (MEPPO-GEN) | Jan-20-06 | Commitment to supply gas amounts to 34,561.6 BBTU during contract period. | 180 days before PSC contract expires or such quantity has been fully supplied |
| ConocoPhillips (Grissik) Ltd | Jul-9-04 | Commitment to purchase gas as stated in agreement. | 5 years commencing on the date after all conditions set forth in the agreement are met |
| PT Pertamina (Persero) | Jan-21-04 | Commitment to supply gas involving total quantity of 31,035 BBTU and at a gas price of US$2.5/ MMBTU. | 4 years or until such quantity has been fully supplied, whichever comes first |
| PT Pertamina (Persero) | The agreement has been amended several times the latest on September 24, 2007 | Commitment to deliver and sell LPG pursuant to the condition set forth in the agreement. | 5 years or until such quantity has been fully supplied, whichever comes first |

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements (continued)

| Company | Date of Agreement | Commitment | Contract Period |
|---|---|---|---|
| **PT Medco E&P Indonesia** | | | |
| PT Perusahaan Listrik Negara (Persero) | Jul-19-03 December 30, 2003 | Commitment to supply 25,280 BBTU gas at a gas price of US$1.15/MMBTU for 365 days from commencement of delivery. After 365 days, the gas price will be calculated based on formula provided in the contract. | 9 years or until such quantity has been fully supplied |
| PT Perusahaan Listrik Negara (Persero) | December 30, 2003 and amended with agreement dated December 12, 2004 | Commitment to supply and sell 40,638 BBTU gas at a gas price of US$2.55 per MMBTU. | 10 years or until such quantity has been fully supplied |
| **PT Medco E&P Lematang** | | | |
| PT Perusahaan Listrik Negara (Persero) | Mar-21-07 | Commitment to supply gas with total of 129 Billion Cubic Feet and estimated total value amounting to US$443 Million. | Until PSC contract expires or such quantity has been fully supplied |
| **PT Medco Methanol Bunyu** | | | |
| PT Pertamina (Persero) | Dec-31-02 and amended with agreement dated Mar-29-07 | Commitment to take or pay a minimum of 28MMSCFD of gas as supplied from Tarakan PSC area and Bunyu Field for gas prices as specified in the agreement and amended the gas price into US$1.42 to US$2.55 per MMBTU. | 10 Years |
| **PT Medco E&P Malaka** | | | |
| PT Pupuk Iskandar Muda (Persero) | Dec-10-07 | Commitment to supply 110 Billion British Thermal Unit (BBTU) per month with selling price of US$5 per MMBTU and 60% additional profit on top of the gas floor price when the fertilizer price in International market exceeds US$360 per ton. | 7.5 Years |

c. Other Agreements

i. Methanol Bunyu Refinery Operations Agreement

In April 1997, the Group entered into a Methanol Bunyu Refinery Operations Agreement with PERTAMINA, as amended, the latest by the Amendment & Restatement of the Methanol Bunyu refinery operations Agreement dated March 15, 2007. Under the agreement, PERTAMINA agreed to hand over the responsibilities for the management of the operations of the methanol bunyu refinery to the Group. As compensation, the Group agreed to pay a fixed rental fee and a non-fixed rental in US Dollar equivalent of the sales of methanol produced, with the price determined in accordance with the agreement. The agreement is valid for 20 years effective April 1, 1997.

**38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)**

c. Other Agreements (continued)

ii. Off Take Agreement

In August 2004, the Group entered into an Off Take agreement with Nitracom International Pte. Ltd. (Nitracom) and PT Unitrada Komutama (Trada). Under the agreement, the Group shall supply a minimum methanol quantity of 150,000 metric tons per year to Nitracom and 120,000 metric tons per year to Trada. The agreement shall be valid for three years and shall be automatically renewed for another three-year term unless notice of termination is given by either party based on the requirements as stated in the agreement.

iii. Crude Oil Transaction

In March 2007, the Group entered into a Crude Oil Sale and Purchase Agreement with Itochu Petroleum Co. (Singapore) Pte. Ltd. (Itochu), whereby the Group agreed to, among others, supply crude oil of approximately 270,000 barrels per month effective August 1, 2007 to December 31, 2009 at a price based on Indonesian Crude Price (ICP) of Sumatra Light Crude (SCL) plus a fixed premium per barrel as stated in the agreement. On the same date, the Group entered into a Prepayment Agreement with Itochu in relation to such crude oil sale, whereby the Group received an advance of US$120,000,000, and which is recorded as advances from customer. Revenue is recognized as the actual crude oil is delivered to Itochu.

iv. Development of geothermal potential

(a) In April 2007, the Group and Kyushu Electric Power (KEP) entered into a Joint Business Development and Cooperation Agreement whereby the parties agreed to collaborate in future power business.

(b) In April 2007, an unincorporated Consortium formed by the Group together with Ormat International Inc. and Itochu Corporation, entered into an agreement with PT PB Power Indonesia (PBPI), whereby PBPI agrees to undertake certain services for Sarulla project.

v. Operation and Maintenance Agreement

Under an Operation and Maintenance Agreement (O&M Agreement) entered into by the Consortium of Fortum and the Group with PT Perusahaan Listrik Negara (Persero) (“PLN”) in 2005, a Special Purpose Company was established to be the Operator of the Tanjung Jati B coal-fuel power plant and be responsible for the execution of the services as stated in the O&M agreement for 24 years. For this purpose, in April 2006, PT TJB Power Services (TJBPS), a subsidiary, was established to undertake the role as the Operator.

For the operation and maintenance services, TJBPS earns annual fees in IDR and US$ throughout the contract term, which are adjusted in line with inflation and exchange rate, and level of future operations.

vi. Power Purchase Agreements

(a). Under a Power Purchase Agreement, PT Mitra Energi Batam (MEB), a subsidiary, entered into an agreement with PT Pelayanan Listrik Nasional Batam (PLN Batam), wherein MEB is required to procure, operate and maintain 2 Gas Turbine Generator Dual Fuel units, and PLN Batam is to purchase the power supply generated by the units. The units commenced operations in 2004.

(Expressed in United States Dollars, unless otherwise stated)

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

vi. Power Purchase Agreements (continued)

Under the Agreement, PLN Batam is required to purchase certain minimum kwh per year throughout the contract years, at certain prices which comprise of capital investment, fuel, maintenance and overhead components.

(b). Under a Power Purchase Agreement, PT Dalle Energy Batam (DEB), a subsidiary, entered into an agreement with PT Pelayanan Listrik Nasional Batam (PLN Batam), wherein DEB is required to procure, operate and maintain 2 Gas Turbine Generator units and Chiller, and PLN Batam is to purchase the power supply generated by the units over a period of 12 years. The units commenced operations in 2005.

Under the Agreement, PLN Batam is required to purchase certain minimum kwh per year throughout the contract years, at certain prices which comprise of capital investment, fuel, maintenance and overhead components.

vii. Drilling Contracts

The significant outstanding drilling services contracts of Apexindo as of December 31, 2007, are as follows:

| Company | Date of Agreement | Estimated Contract Value | Contract Period | Rig |
|---|---|---|---|---|
| Total E&P Indonesie | July 1, 2007 | US$145,845,300 | 36 months | Maera |
| Total E&P Indonesie | March 9, 2006 | US$46,994,085 | 36 months | Raisis |
| Total E&P Indonesie | August 22, 2006 | US$166,733,285 | 31 months | Soehanah |
| Santos (Sampang) Pty. Ltd | March 20, 2006 | US$166,651,600 | 36 months | Raniworo |
| Total E&P Indonesie | October 9, 2002 | US$93,833,285 | 60 months - extended until January 2013 | Raissa |
| Total E&P Indonesie | March 23, 2006 | US$53,056,345 | 36 months | Yani |
| Chevron Geothermal Salak, Ltd | March 9, 2006 | US$22,600,777 | 24 months - extended until February 2010 | Rig 4 |
| VICO Indonesia | November 1, 2007 | US$13,164,500 | 12 months | Rig 5 |
| VICO Indonesia | November 26, 2007 | US$70,463,250 | 30 months | Rigs 9 and 10 |

## 38. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

viii. Aircraft Leasing Agreement

On May 8, 2006, the Group entered into a Charter Agreement with PT Airfast Indonesia (Airfast) whereby the Company 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 totaling US$308,830, net of tax, and service fee which shall be based on service fee arrangements chargeable for two years after the delivery date of the aircraft.

Rental and service fees under the agreement charged to operations amounted to US$7,152,991 in 2007.

## 39. CONTINGENCIES

a. Litigation

The Group is party to various legal actions that have arisen in the normal course of business. The following is the overview of the cases in which the Group is involved with:

i. Indonesian Forum for the Environment (WALHI)'s lawsuit on environmental impact resulting from the Brantas Mudflow incident.

This lawsuit was instituted by the Indonesian Forum for the Environment (WALHI) in February 2007, in the South Jakarta District Court. This lawsuit nominates 12 (twelve) parties, including the Group (together hereinafter referred to as the "Defendants"). WALHI accused the Defendants of being in violation of Article 38 of Law Number 23 Year 1997 on the Environment.

In December 2007, the South Jakarta District Court issued an unfavorable ruling against WALHI's claims. In response to this, WALHI filed an appeal to the DKI Jakarta High Court in January 2008. As of the date of the financial statements, the DKI Jakarta High Court has not issued its decision on WALHI's appeal.

ii. Rahman Fajriansyah's lawsuit relating to JOB Tuban

This lawsuit was instituted in February 2007 by Rahman Fajriansyah against eleven parties including the Group (together referred to as the "Defendants") in the Gresik District Court. Rahman Fajriansyah was acting on behalf of 255 people (together referred to as the "Plaintiffs") who live near or around the Tuban JOB field operations (whereby the Group is a partner in the JOB), and claimed that a blow-out resulting from the exploration, exploitation and production test of the Lenggowangi-1 well resulted in both material and immaterial damages.

Rahman Fajriansyah accused that the Defendants are in violation of Articles 5, 6 and 7 of Law Number 23 Year 1997 on the Environment, whereby the Plaintiffs demanded that the Defendants should pay certain amount of damages compensation.

## 39. CONTINGENCIES (continued)

a. Litigation (continued)

ii. Rahman Fajriansyah's lawsuit relating to JOB Tuban (continued)

In July 2007 the Gresik District Court ruled unfavorably against the Plaintiffs. The Gresik District Court decision is legally binding. The Plaintiff then submitted its appeal over the Gresik District Court decision, however the Plaintiff revoked its appeal submission in September 2007. In November 2007, the Plaintiffs submitted a Review Request over the Court Gresik Decision whereby as a matter of law such Review Request could only be submitted over a decision made by the Supreme Court. On the effort of such Review Request, the Group has submitted its "Kontra Memori Peninjauan Kembali" to the Gresik District Court.

Although management is of the view that the decisions are legally binding for the above two legal action, management is unable to assess the ultimate outcome of the litigation. Nevertheless, in line with the initial favorable results for the Group over the initial proceedings, management continues to believe that these claims are without merit, and as such the Group has not made any provision for the claims.

iii. Arbitration against Synergy

In 2005 the Group entered into a Share Purchase and Sale Agreement ("SSPA") with Synergy Petroleum Limited ("Synergy") for the acquisition of all issued shares of Perkasa Equatorial Sembakung Ltd. ("PESL"), which held 100% participation interest in a Technical Assistance Contract for Sembakung field (the "Sembakung TAC"). The SSPA provided that Synergy should indemnify the Group from certain third parties' claims made subsequent to the acquisition, that related to the financial matters and operations of the Sembakung TAC during the periods prior to the acquisition closing date.

Subsequent to the acquisition, claims totaling US$1.9 million were made by third parties. The Group, in good faith, made payments of the foregoing amounts, and in light of the indemnification as provided in the SSPA, requested reimbursements from Synergy. However, Synergy failed and/or refused to meet the Group's request. In response to the refusal, the Group in October 2007 initiated an arbitration proceeding to claim the amount against Synergy to the Singapore International Arbitration Center (SIAC) in Singapore (the "Arbitrator"). Synergy has since submitted its response to the Arbitrator refuting the Group's claim.

As of March 31 2008, the arbitration process is still ongoing, and a final decision by the Arbitrator had not yet been issued or known. Nevertheless, the Group believes it has a strong position, and will eventually manage to claim the amount through this arbitration.

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 its 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, 2007, management believes that the Group has strong positions against these claims, and therefore no provisions have been made.

(Expressed in United States Dollars, unless otherwise stated)

## 40. ABANDONMENT AND SITE RESTORATION OBLIGATIONS

The current estimates for the abandonment and site restoration obligations were determined by management, not by an independent consultant. Management believes that accumulated provisions as of the balance sheet dates are sufficient to meet the environmental obligations resulting from site restoration and abandonment.

The movement in site restoration and abandonment obligations is as presented below:

| | 2007 | 2006 |
|---|---|---|
| **Indonesia** | | |
| Beginning balance | 4,615,916 | 4,321,602 |
| Addition during the year | 19,216,019 | 294,314 |
| Ending balance | 23,831,935 | 4,615,916 |
| **United States of America (US)** | | |
| Beginning balance | 6,718,771 | 2,822,049 |
| Addition during the year | 5,700,989 | 3,896,722 |
| Ending balance | 12,419,760 | 6,718,771 |
| **Total** | **36,251,695** | **11,334,687** |

## 41. SUBSEQUENT EVENTS

a. Company

i. In the first quarter of 2008, the Company’s directors undertook the following divestment actions:

(a) Executed the farm-out of 25% of the Group’s interest in the Bengara PSC to Salamander Energy subsequent to year end but effective from December 31, 2007, for a carry of future exploration costs. Subsequent to the transfer, the Group holds a 35% working interest.

(b) Initiated the sale of the Group’s entire interests in the Kakap, Langsa, and Tuban PSC blocks, the sale of a 30% non-operating interest in the Bawean PSC (out of total owned interest of 100%), a 15% non-operating interest in the Rimau PSC (out of total owned interest of 95%), and a 23% interest in the Lematang PSC (out of total owned interest of 74%). The sales of these interests represent approximately 39 MMBOE or 19.3% of the Group’s P2 reserves at December 31, 2007.

(c) Initiated the sale of a minority interest in PT Medco Power Indonesia, a sub-holding of the Group’s power businesses.

(d) Initiated the sale of a minority interest in PT Medco Ethanol Lampung, a subholding of the Group’s ethanol business.

(e) Resolved to continue the sale of a minority interest in Medco Energi Global Pte., Ltd., a subholding of the Group’s international exploration and production businesses.

*These consolidated financial statements are originally issued in Indonesian language.*

(Expressed in United States Dollars, unless otherwise stated)

## 41. SUBSEQUENT EVENTS (continued)

a. Company (continued)

ii. On March 26, 2008, the Company sold 65,828,000 shares representing approximately 2.5% of the total shares of Apexindo through a registered Indonesia Stock Exchange (IDX) security firm (the "Transaction"). The shares were sold at Rp2,400 per share with a total transaction value of Rp157.99 billion.

This transaction is part of the Company's commitment to divest its entire share ownership in Apexindo and will continue with its plan to dispose of its remaining shares in Apexindo in the future.

Upon completion of this Transaction, the Company owns 1,287,045,106 shares in Apexindo representing approximately 48.9% of Apexindo's total issued and paid-up capital. As a result, Apexindo will be deconsolidated from the Company's financial statements. As this transaction occurred at the end of first quarter 2008, the effect will be accounted for by the Company prospectively.

b. Apexindo

a. Drilling contracts entered into by the Apexindo subsequent to December 31, 2007 are as follows:

| Company | Date of Agreement | Estimated Contract Value | Contract Period |
|---|---|---|---|
| VICO Indonesia | February 16, 2008 | US$2,166,750 | 5 months |
| Total E&P Indonesie | February 2, 2008 | US$53,094,210 | 36 months |
| Chevron Geothermal Salak, Ltd. | March 13, 2008 | US$1,641,400 | 1 month |

## 42. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

The following summarizes the revised Statements of Financial Accounting Standards (PSAK) which were recently issued by the Indonesian Institute of Accountants:

i. PSAK No. 50 (Revised 2006), "Financial Instruments: Presentation and Disclosures", 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 interests, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. This standard requires the disclosure, among others, of 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. 50 (Revised 2006) supersedes PSAK No. 50, "Accounting for Certain Investments in Securities", and is applied prospectively for the periods beginning on or after January 1, 2009. Earlier application is permitted and should be disclosed.

## 42. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS (continued)

ii. PSAK No. 55 (Revised 2006), “Financial Instruments: Recognition and Measurement”, establishes 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. PSAK No. 55 (Revised 2006) supersedes PSAK No. 55, “Accounting for Derivative Instruments and Hedging Activities”, and is applied prospectively for financial statements covering the periods beginning on or after January 1, 2009. Earlier application is permitted and should be disclosed.

iii. PSAK No. 16 (Revised 2007), “Fixed Assets”, prescribes the accounting treatment for property, plant and equipment to enable the financial statements users to discern information about an entity’s investment in its property, plant and equipment and the changes in such investment. This standard provides, among others, for the recognition of the assets, determination of their carrying amounts and related depreciation and impairment losses. Under this standard, an entity shall choose between the cost model or revaluation model as the accounting policy for its property, plant and equipment. This revised standard supersedes PSAK No. 16 (1994), “Fixed Assets and Other Assets”, and PSAK No. 17 (1994), “Accounting for Depreciation”, and is effective for the preparation and presentation of financial statements beginning on or after January 1, 2008.

iv. PSAK No. 13 (Revised 2007), “Investment Property”, shall be applied in the recognition, measurement and disclosure of investment property. Among others, this standard applies to the measurement in a lessee’s financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor’s financial statements of investment property provided to a lessee under an operating lease. This standard permits the entity to choose between the cost model and fair value model to all its investment properties. This revised standard supersedes PSAK No. 13 (1994), “Accounting for Investments”, and is effective for financial statements covering the periods beginning on or after January 1, 2008.

v. PSAK No. 30 (Revised 2007), “Leases”, prescribes for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases. This standard provides for the classification of leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee, and the substance of the transaction rather than the form of the contract. This revised standard supersedes PSAK No. 30 (1990), “Accounting for Leases”, and is effective for financial statements beginning on or after January 1, 2008.

The Group are presently evaluating these revised PSAKs and have not determined the effects on their consolidated financial statements.

## 43. NEW GOVERNMENT REGULATION

On December 28, 2007, the President of the Republic of Indonesia and the Minister of Law and Human Rights signed the Government Regulation No. 81/2007 (“Gov. Reg. 81/2007”) (PP No.81/2007) on “Reduction of the Rate of Income Tax on Resident Corporate Taxpayers in the Form of Publicly-listed Companies”. This Gov. Reg. 81/2007 provides that resident publicly-listed companies in Indonesia can obtain the reduced income tax rate at 5% lower than the highest income tax rate under Article 17 paragraph 1 (b) of the Income Tax Law, provided they meet the prescribed criteria, i.e., companies whose shares or other equity instruments are listed in the Indonesia Stock Exchange, whose shares owned by the public are 40% or more of the total paid shares and such shares are owned by at least 300 parties, each party owning less than 5% of the total paid up shares. These requirements should be fulfilled by the publicly-listed companies for a period of 6 months in one tax year.

(Expressed in United States Dollars, unless otherwise stated)

## 43. NEW GOVERNMENT REGULATION (continued)

This Gov. Reg. 81/2007 becomes effective on January 1, 2008. As of March 31, 2008, the Group have not determined whether they will meet the prescribed criteria in this government regulation. The effect of the reduced tax rate has not been included in the calculation of the Group's income tax amounts as of the balance sheet date.

## 44. RECLASSIFICATIONS

Certain accounts in the previously issued consolidated financial statements for the year ended December 31, 2006 have been reclassified for better account presentation as follows:

| | As Previously Reported | Reclasification | As Reclassified |
|---|---|---|---|
| **Consolidated Statements of Cash Flows** | | | |
| **Cash Flows from Operating Activities** | | | |
| Interest and financing charges paid | 53,030,910 | (53,030,910) | - |
| Cash receipts from Anardako | - | 11,512,068 | 11,512,068 |
| **Cash Flows from Financing Activities** | | | |
| Cash receipts from Anardako | 11,512,068 | (11,512,068) | - |
| Interest and financing charges paid | - | 53,030,910 | 53,030,910 |
| Proceeds from loans | 21,962,583 | 17,793,071 | 39,755,654 |
| Payments of loans | - | (17,793,071) | (17,793,071) |

## 45. COMPLETION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements which were completed on March 31, 2008.

## 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 natural oil and 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 engineer consultant, i.e., Gaffney, Cline & Associates (GCA), or based on estimates by the operator of the respective block. Generally accepted petroleum engineering principles and definitions applicable 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.

Estimated oil and gas reserves and resources are presented based on the Group's gross working interest (inclusive of any government shares) except for US reserves which are based on a net revenue basis as follows:

## RESERVES ESTIMATION (continued)

| | | | Proved Reserves (in MBOE) | | | | |
|---|---|---|---|---|---|---|---|
| | | | Beginning balance (adjusted) * | Addition or revision | Sale of Assets | Production | Ending balance |
| | | | Jan-1-07 | FY07 | | | Dec-31-07 |
| **Indonesia Assets** | | | | | | | |
| 1 | Production | Rimau [1] | 71,412 | - | - | 10,384 | 61,028 |
| 2 | Production | Kampar/S.S. Extension [1] | 35,088 | - | - | 8,327 | 26,761 |
| 3 | Production | Lematang (Harimau Field and Singa Field) [3] | 13 | 16,362 | - | 73 | 16,302 |
| 4 | Production | Sanga-Sanga/ Samboja/ Tarakan [2] | 4,113 | - | - | 1,891 | 2,222 |
| 5 | Production | Tarakan [1] | 4,946 | - | - | 1,722 | 3,224 |
| 6 | Production | Sembakung [1] | 2,701 | - | - | 1,025 | 1,675 |
| 7 | Production | Senoro Toili (Tiaka Field) [1] | 3,748 | - | - | 604 | 3,144 |
| 8 | Production | Langsa [2] | 1,069 | 1,069 | - | 213 | 1,925 |
| 9 | Production | Tuban [4] | 7,567 | - | - | 618 | 6,949 |
| 10 | Production | Kakap [5] | 6,300 | 1,021 | - | 1,310 | 6,011 |
| 11 | Production | Bawean [6] | 847 | 13,039 | - | 176 | 13,710 |
| 12 | Production | Brantas | 2,191 | - | 2,191 | - | - |
| | | | | | | | |
| | **Sub-total** | | **139,995** | **31,491** | **2,191** | **26,343** | **142,953** |
| **International Assets** | | | | | | | |
| 1 | Production | US [7] | | | | | |
| | Production | East Cameron 317/318 | 4,460 | (3,893) | - | 321 | 247 |
| | Production | Main Pass 64/65 | 2,257 | (757) | - | 135 | 1,364 |
| | Production | Mustang Island Block 758 | - | 602 | - | 9 | 592 |
| | Production | Brazos Block 435/437/492/514 | - | 2,709 | - | 85 | 2,624 |
| | Production | West Delta Block 52 | - | 109 | - | - | 109 |
| 2 | Production | Sorrento Dome | 1,252 | - | 1,252 | - | - |
| | | | | | | | |
| | **Sub-total** | | **7,969** | **(1,231)** | **1,252** | **550** | **4,935** |
| | **Total Proved Reserves** | | **147,964** | **30,260** | **3,443** | **26,893** | **147,888** |

*These consolidated financial statements are originally issued in Indonesian language.*

## RESERVES ESTIMATION (continued)

| | | | Proved&Probable (in MBOE) | | | | |
|---|---|---|---|---|---|---|---|
| | | | Beginning balance (adjusted) * | Addition or revision | Sale of assets | Production | Ending balance |
| | | | Jan-1-07 | FY07 | | | Dec-31-07 |
| **Indonesia Assets** | | | | | | | |
| 1 | Production | Rimau (1) | 89,375 | - | - | 10,384 | 78,990 |
| 2 | Production | Kampar/S.S. Extension (1) | 55,905 | - | - | 8,327 | 47,577 |
| 3 | Production | Lematang (Harimau Field and Singa Field) (3) | 31,233 | (11,708) | - | 73 | 19,452 |
| 4 | Production | Sanga-Sanga/ Samboja/ Tarakan (2) | 5,853 | - | - | 1,891 | 3,962 |
| 5 | Production | Tarakan (1) | 4,946 | - | - | 1,722 | 3,224 |
| 6 | Production | Sembakung (1) | 3,703 | - | - | 1,025 | 2,677 |
| 7 | Production | Senoro Toili (Tiaka Field) (1) | 4,334 | - | - | 604 | 3,730 |
| 8 | Production | Langsa (2) | 1,763 | 1,763 | - | 213 | 3,313 |
| 9 | Production | Tuban (4) | 7,567 | - | - | 618 | 6,949 |
| 10 | Production | Kakap (5) | 8,170 | 758 | - | 1,310 | 7,618 |
| 11 | Production | Bawean (6) | 847 | 14,429 | - | 176 | 15,100 |
| 12 | Production | Brantas | 7,380 | - | 7,380 | - | - |
| | **Sub-total** | | **221,075** | **5,242** | **7,380** | **26,343** | **192,594** |
| **International Assets** | | | | | | | |
| | | US (7) | | | | | |
| 1 | Production | East Cameron 317/318 | 6,272 | (5,332) | - | 321 | 619 |
| 2 | Production | Main Pass 64/65 | 4,157 | (1,472) | - | 135 | 2,549 |
| 3 | Production | Mustang Island Block 758 | - | 793 | - | 9 | 784 |
| 4 | Production | Brazos | - | 3,301 | - | 85 | 3,216 |
| 5 | Production | West Delta Block 52 | - | 109 | - | - | 109 |
| 6 | Production | Sorrento | 3,061 | - | 3,061 | - | - |
| | **Sub-total** | | **13,490** | **(2,602)** | **3,061** | **551** | **7,276** |
| | **Total Proved and Probable Reserves** | | **234,565** | **2,639** | **10,442** | **26,894** | **199,869** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Contingent Resources** | | | | | | | |
| 1 | Development | Senoro Toili (Senoro Gas Field) (8) | | | | | 153,612 |
| 2 | Development | Block A (10) | | | | | 23,221 |
| 3 | Exploration | Bangkanai (9) | | | | | 3,638 |
| 4 | Exploration | Simenggaris (9) | | | | | 10,535 |
| 5 | Exploration | Libya (11) | | | | | |

*These consolidated financial statements are originally issued in Indonesian language.*

**RESERVES ESTIMATION (continued)**

(1) The Group's reserve estimates were certified in the GCA Report as of January 1, 2007.

(2) The Group's reserve estimates were certified in the GCA Report as of January 1, 2006.

(3) The Group's Proved reserve estimates for the Singa gas field of the Lematang PSC are based on Gas Sales Agreement (GSA) with PLN, while Proved and Probable reserves for Singa fields are based on in-house estimates as of January 1, 2008. The Group's reserve estimates for Lematang Harimau Field were certified in the GCA report as of January 1, 2006.

(4) The Group's reserve estimates for the Tuban block are based on operator's estimates as of January 1, 2007 and effective working interest of 25%.

(5) The Group's reserve estimates for the Kakap block are based on operator's estimates as of January 1, 2008 and effective working interest of 16%.

(6) The Group's reserve estimates for the Bawean block are based on operator's estimates as of January 1, 2008 and effective working interest of 100% (see Note 38a regarding sale of Bawean PSC non-operating interest), however the reserves amounting to 15.1 MMBOE are subject to a contract extension.

(7) The Group's reserve estimates for the US assets were certified in the GCA Report as of December 31, 2007.

(8) The Group's contingent reserve estimates for the Senoro gas field of the Senoro Toili PSC block were certified in the GCA Report as of January 1, 2008 with effective working interest of 50%. In 2006, the reserves of Senoro Gas Field were reported within Proved and Probable classification; as of December 31, 2007, the reserves were reclassified as contingent.

(9) The Group's contingent reserve estimates for the Bangkanai and Simenggaris blocks are based on in-house estimates and subject to finalization of Gas Sales Agreements.

(10) The Group's contingent reserve estimates for the Block A are based on Gas Sales Agreement (GSA) with Pupuk Iskandar Muda and PLN, assuming the PSC is extended beyond 2011.

(11) The Group holds a 50% non-operating interest in the Area 47 Block in Libya with a number of discoveries and exploration opportunities. No contingent reserves have been disclosed at this time, as the National Oil Company of Libya is currently reviewing a resources assessment submitted by the Operator, Verenex Energy Inc.

* Beginning reserves balances of several blocks have been adjusted by management based on GCA reports prepared in May 2007 for Indonesia assets.

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MEDCOENERGI

# Responsibilities of the Members of Board of Commissioners and Board of Directors

## Towards the Annual Report and Consolidated Financial Statements for the Year Ended December 31, 2007

All members of the Board of Directors (BoD) of PT MedcoEnergi Internasional Tbk (MedcoEnergi/the Company) are fully responsible for the preparation and presentation of the Annual Report (2007 Annual Report) that includes the Audited Consolidated Financial Statements for the year ended December 31, 2007 (2007 Financial Statements).

The Company's 2007 Annual Report has been prepared and presented in conformity with the Regulation of the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) Number X.K.6 (Rule X.K.6) regarding Annual Report. Meanwhile, the 2007 Financial Statements have been prepared and presented in conformity with Generally Accepted Accounting Principles as promulgated by Indonesian Financial Accounting Standards (PSAK) and the regulations of Bapepam-LK.

For the whole year of 2007, the Company has applied an internal control system that includes an internal audit function. The Corporate Internal Audit, which holds the function of internal audit, has reported its findings to the President Director and the Audit Committee, notably for consideration of the President Director and the Board of Commissioners (BoC) in approving the contents and presentation of consolidated financial statements for issuance to the shareholders.

MedcoEnergi's 2007 Financial Statements have been audited by Public Accountant Office, Purwantono, Sarwoko & Sandjaja, a member of Ernst & Young Global (EY), which was appointed by the BoC based on the resolution of the Annual General Meeting of Shareholders dated May 28, 2007 which resolved to delegate the right to appoint the Public Accountant Office to the BoC.

The Auditors have conducted their audits in accordance with auditing standards by the Indonesian Institute of Accountants (IAI) to provide assurance that standard accounting principles have been properly applied and, on a test basis, also confirm that all transactions were executed and recorded correctly and accurately.

We, the undersigned, being the members of the BoC and BoD of MedcoEnergi, hereby, declare that we are fully responsible towards the preparation and presentation of the 2007 Annual Report and 2007 Financial Statements. All information on the 2007 Annual Report and 2007 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, April 30, 2008
Prepared by:

**Hilmi Panigoro**
President Director

**D. Cyril Noerhadi**
Finance Director

**Darmoyo Doyoatmojo**
Planning Director

**Rashid I. Mangunkusumo**
Growth Director

Approved by:

**Arifin M. Siregar**
President Commissioner (Independent)

**Sudono N.S.**
Commissioner (Independent)

**Gustiaman Deru**
Commissioner (Independent)

**Yani Rodyat**
Commissioner

**Retno Dewi Arifin**
Commissioner

# Corporate Information

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**Ticker Symbol:**
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**Stock Exchange Listing and IDR Bonds Listing**
**Indonesian Stock Exchange**

**GDRs Listing**
**Luxembourg Stock Exchange**

**USD Bonds Listing**
**Singapore Stock Exchange**

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This Annual Report is available on **www.medcoenergi.com**