PT Medco Energi Internasional Tbk
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MEDCOENERGI

Jakarta, 12 Juni 2012
348/MGT/MEDC/VI/2012

Kepada Yth./To:
PT Bursa Efek Indonesia ("BEI")
Gedung Bursa Efek Indonesia, Tower I, Lt. 4
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190

U.p. *Attn.* : **Bapak Ito Warsito**
Direktur Utama /*Chairman*

Perihal *Re* : Penyampaian Laporan Keuangan Konsolidasi (Tidak diaudit) PT Medco Energi Internasional Tbk dan Anak Perusahaan Untuk Periode Tiga Bulan Yang Berakhir 31 Maret 2012 dan 2011.
Submision The Consolidated Financial Statements (Unaudited) PT Medco Energi Internasional Tbk and Subsidiaries For the Three Months Period Ended March 31, 2012 and 2011.

Dengan hormat,

Dalam rangka memenuhi Peraturan PT Bursa Efek Indonesia ("BEI") No. I-E, Lampiran Keputusan Direksi BEJ No. Kep-307/BEJ/07-2004 Tentang Kewajiban Penyampaian Informasi, Ketentuan No. III.1.6.1.3 ("Peraturan BEI I-E"), terlampir kami sampaikan:

- 2 eksemplar asli Laporan Keuangan Konsolidasi (Tidak Diaudit) PT Medco Energi Internasional Tbk dan Anak Perusahaan Untuk Periode Tiga Bulan Yang Berakhir 31 Maret 2012 dan 2011;
- 2 eksemplar salinan Laporan Keuangan Konsolidasi (Tidak Diaudit) PT Medco Energi Internasional Tbk dan Anak Perusahaan Untuk Periode Tiga Bulan Yang Berakhir 31 Maret 2012 dan 2011; dan
- Salinan elektronik Laporan Keuangan Konsolidasi (Tidak Diaudit) PT Medco Energi Internasional Tbk dan Anak Perusahaan Untuk Periode Tiga Bulan Yang Berakhir 31 Maret 2012 dan 2011.

Demikian kami sampaikan, atas perhatian Bapak kami ucapkan terima kasih.

Dear Sir,

In order to comply with Rule of Indonesia Stock Exchange ("IDX") No. I-E Attachment of IDX Board of Director Decree No. Kep-307/BEJ/07-2004 concerning the Obligation to Submit Information-Periodic Repot, No. III.1.6.1.3 ("IDX Rules I-E"), we herewith submit:

- *2 original exemplars of The Consolidated Financial Statements (Unaudited) PT Medco Energi Internasional Tbk and Subsidiaries For the Three Months Period Ended March 31, 2012 and 2011;*
- *2 exemplars copies of The Consolidated Financial Statements (Unaudited) PT Medco Energi Internasional Tbk and Subsidiaries For the Three Months Period Ended March 31, 2012 and 2011; and*
- *soft copy of The Consolidated Financial Statements (Unaudited) PT Medco Energi Internasional Tbk and Subsidiaries For the Three Months Period Ended March 31, 2012 and 2011.*

Thank you for your attention.

Hormat kami Sincerely *Yours,*
PT Medco Energi Internasional Tbk

Lukman Ahamad Mahfudz
Direktur Utama / *President Director*

Syamsurizal
Direktur Keuangan / *Finance Director*

Tembusan Kepada Yth. *C.c.:*
- Ibu Nurhaida, MBA, Ketua Bapepam-LK
- Bapak Anis Baridwan, Ka.Ro. PKP Sektor Riil, Bapepam-LK
- Kepala Divisi Pencatatan, PT Bursa Efek Indonesia
- Komisaris dan Direksi PT Medco Energi Internasional Tbk

PT Medco Energi Internasional Tbk
and subsidiaries

Consolidated interim financial statements
March 31, 2012 (unaudited) and December 31, 2011 (audited)
And Three Months Period Ended
March 31, 2012 and 2011 (unaudited)

The consolidated financial statements are originally issued in the Indonesian language.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 (UNAUDITED) AND DECEMBER 31, 2011 (AUDITED)
AND THREE MONTHS PERIOD ENDED
MARCH 31, 2012 AND 2011 (UNAUDITED)

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PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2012 (unaudited) and December 31, 2011 (audited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	March 31, 2012	December 31, 2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2e,2f,2r,4,35,38	632,789,368	703,951,167
Short-term investments	2f,2r,5,38,40	257,240,028	247,304,920
Restricted cash in banks	2e,2g,2r, 11,35,38	1,236,355	25,278,063
Trade receivables	2h,2r,6,38		
Related parties	2e,22,35	92,235,769	69,701,987
Third parties - net of allowance for impairment of US$3,790,311 as of March 31, 2012 and December 31, 2011		112,565,479	132,626,242
Other receivables - third parties net of allowance for impairment of US$28,709,290 as of March 31 2012 And December 31, 2011	2h,2r,7,38	71,864,726	62,216,151
Inventories - net of allowance for obsolescence and decline in value of US$3,143,430 as of March 31, 2012 and December 31, 2011	2i,8	40,452,899	43,704,972
Prepaid taxes	2t,9	13,369,990	9,913,564
Prepaid expenses	2j,10	3,459,603	4,659,566
Derivative assets	2r,21,38	2,312,728	2,844,957
Other current assets	16	581,504	447,208
Total Current Assets		**1,228,108,449**	**1,302,648,797**
NON-CURRENT ASSETS			
Other receivables	2h,2r,7,38		
Related parties	2e,35	60,314,282	46,827,782
Third parties - net of allowance for impairment of US$210,195 as of March 31, 2012 and December 31, 2011		7,490,137	12,663,546
Restricted cash in banks	2g,2r,11,35,38	12,912,703	13,518,505
Deferred tax assets - net	2t,31	60,233,855	65,339,990
Long-term investments	2e,2r,12,38	156,671,481	132,315,027
Investments in projects	2r,13	30,324,414	30,324,414

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continue
March 31, 2012 (unaudited) and December 31, 2011 (audited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	March 31, 2012	December 31, 2011
NON-CURRENT ASSETS (continued)			
Property, plant and equipment - net of accumulated depreciation of US$74,616,489 as of March 31, 2012 and US$72,408,288 As of December 31, 2011	2k,2l,2v,14 29c,30	117,567,208	116,347,753
Oil and gas properties - net of accumulated depreciation, depletion and amortization and allowance for impairment of US$935,482,848 as of March 31, 2012 US$913,671,712 as of December 31, 2011	2c,2m,2q, 2v,2w,15,29c	822,294,970	828,552,860
Derivative assets	2r,21,38	11,053	-
Other assets - net	16,38	39,214,980	38,858,785
Total Non-current Assets		**1,307,035,083**	**1,284,748,662**
TOTAL ASSETS		**2,535,143,532**	**2,587,397,459**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
March 31, 2012 (unaudited) and December 31, 2011 (audited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	March 31, 2012	December 31, 2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term bank loans	2e,2r,22,35,38	94,622,822	121,399,984
Trade payables	2r,17,38		
Third parties		93,963,715	113,004,919
Other payables	2l,2r,18a,38	76,962,281	35,430,475
Taxes payable	2t,19	36,071,366	41,569,149
Accrued expenses and other provisions	2p,2r,20, 34,38	38,215,769	67,734,171
Current maturities of long-term debt	2r,38		
Bank loans	22	290,631,512	291,675,148
Medium-term notes	23	21,434,277	64,928,129
Rupiah bonds	23	55,849,969	56,563,960
Advances from customers	2e,18b		
Third parties		18,560,714	19,211,686
Total Current Liabilities		**726,312,425**	**811,517,621**
NON-CURRENT LIABILITIES			
Long-term debt - net of current maturities	2r,38		
Related party	2e,23,35	83,484,258	69,997,758
Bank loans	22	479,086,258	466,382,311
Medium-term notes	23	40,356,998	40,320,379
Rupiah bonds	23	107,079,676	108,354,996
US Dollar bonds	23	79,432,679	79,387,679
Other payables	2l,2r,18a,38	12,815,199	10,511,274
Deferred tax liabilities - net	2t,31	70,332,396	78,248,136
Post-employment benefits obligations	2p,34	13,263,028	12,370,076
Derivative liabilities	21,38	-	1,202,270
Asset abandonment and site restoration obligations and other provisions	2q,42	54,692,287	53,757,992
Total Non-Current Liabilities		**940,542,779**	**920,532,871**
TOTAL LIABILITIES		**1,666,855,204**	**1,732,050,492**

The accompanying notes form an integral part of these consolidated financial statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
March 31, 2012 (unaudited) and December 31, 2011 (audited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	March 31, 2012	December 31, 2011
EQUITY			
Capital stock - Rp100 par value per share			
Authorized - 4,000,000,000 shares			
Issued and fully paid - 3,332,451,450 shares	1b,25	101,154,464	101,154,464
Treasury stock - 390,454,500 shares	2o,25	(5,574,755)	(5,574,755)
		95,579,709	95,579,709
Additional paid-in capital	26	108,626,898	108,626,898
Effects of changes in equity transactions of subsidiaries/ associated companies	27	107,870	107,870
Translation adjustments	2d	(15,835)	(23,857)
Retained earnings			
Appropriated		6,492,210	6,492,210
Unappropriated		646,740,704	634,672,441
Total equity attributable to the equity holders of the parent company		857,531,556	845,455,271
Non-controlling interests	2b,24a	10,756,772	9,891,696
TOTAL EQUITY		**868,288,328**	**855,346,967**
TOTAL LIABILITIES AND EQUITY		**2,535,143,532**	**2,587,397,459**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Three Months Period Ended March 31, 2012 and 2011 (unaudited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2012	2011
SALES AND OTHER OPERATING REVENUES	2e,2s,28,36		
Net oil and gas sales		214,453,470	191,790,905
Net sales of chemical and other petroleum products		64,615,371	35,821,821
Electric power sales and revenue from related services		-	23,908,900
Revenues from other services		3,118,970	3,618,132
TOTAL SALES AND OTHER OPERATING REVENUES		**282,187,811**	**255,139,758**
COST OF SALES AND OTHER DIRECT COSTS			
Production and lifting costs	2s,29a	(60,833,793)	(65,303,433)
Cost of sales of chemical and other petroleum products	2e,2s 29d,35	(63,360,225)	(32,559,124)
Depreciation, depletion and amortization	2k,2m 14,15,29c	(23,729,667)	(26,190,652)
Cost of electric power sales and related services	2s,29e	-	(13,406,821)
Exploration expenses	2m,2s,29f	(3,136,045)	(2,787,944)
Cost of crude oil purchases	2s,29g	(35,015,642)	(23,872,528)
Cost of other services	2s,29b	(4,275,509)	(1,587,922)
TOTAL COST OF SALES AND OTHER DIRECT COSTS		(190,350,881)	(165,708,424)
GROSS PROFIT		**91,836,930**	**89,431,334**
Selling, general and administrative expenses	2s,30	(34,962,212)	(36,350,844)
Finance costs	22,23	(22,541,019)	(20,041,013)
Share of net losses of associated entities - net	2e,12	122,391	(1,788,264)
Finance income		3,307,334	1,516,139
Gain/(Loss) in foreign exchange		1,980,524	(6,744,274)
Other operating income		4,562,387	3,133,528
Other operating expenses		(99,359)	(258,289)
INCOME BEFORE INCOME TAX EXPENSE		**44,206,976**	**28,898,317**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (continued)
Three Months Period Ended March 31, 2012 and 2011 (unaudited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2012	2011
INCOME TAX EXPENSE	2t,31	(31,273,637)	(17,598,470)
PROFIT FOR THE YEAR		**12,933,339**	**11,299,847**
OTHER COMPREHENSIVE INCOME			
Translation adjustment		8,022	1,888,743
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**12,941,361**	**13,188,590**
PROFIT ATTRIBUTABLE TO			
Equity holders of the parent company		12,068,263	9,819,256
Non-controlling interests	2b,24b	865,076	1,480,591
		12,933,339	**11,299,847**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Equity holders of the parent company		12,076,285	11,011,295
Non-controlling interests	2b,24c	865,076	2,177,295
		12,941,361	**13,188,590**
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	2z,32	**0,0041**	**0,0033**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Three Months Period Ended March 31, 2012 and 2011 (unaudited)
(Expressed in United States Dollars, unless otherwise stated)

	Attributable to the equity holders of the parent company								
			Retained Earnings						
	Capital Stock	Additional Paid-in Capital	Appropriated	Unappropriated	Effect of Changes in Equity Transactions of Subsidiaries/Associated Companies	Translation Adjustments	Total	Non-controlling Interests	Total Equity
Balance, January 1, 2011	**95,579,709**	**108,626,898**	**6,492,210**	**571,596,977**	**107,870**	**3,651,276**	**786,054,940**	**28,775,488**	**814,830,428**
Comprehensive income for the year	-	-	-	9,819,256	-	1,192,039	11,011,295	2,177,295	13,188,590
Additional shares issued by a subsidiary	-	-	-	-	-	-	-	(3,627,695)	(3,627,695)
Balance, March 31, 2011	**95,579,709**	**108,626,898**	**6,492,210**	**581,416,233**	**107,870**	**4,843,315**	**797,066,235**	**27,325,088**	**824,391,323**
Balance, December 31, 2011	**95,579,709**	**108,626,898**	**6,492,210**	**634,672,441**	**107,870**	**(23,857)**	**845,455,271**	**9,891,696**	**855,346,967**
Comprehensive income for the year	-	-	-	12,068,263	-	8,022	12,076,285	865,076	12,941,361
Balance, March 31, 2012	**95,579,709**	**108,626,898**	**6,492,210**	**646,740,704**	**107,870**	**(15,835)**	**857,531,556**	**10,756,772**	**868,288,328**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Period Ended March 31, 2012 and 2011 (unaudited)
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2012	2011
Cash Flows from Operating Activities			
Cash receipts from customers		276,662,822	216,435,814
Cash paid to suppliers and employees		(183,391,829)	(183,959,173)
Cash generated from operations		93,270,993	32,476,641
Income tax paid		(38,996,658)	(20,840,012)
Net cash provided by operating activities		**54,274,335**	**11,636,629**
Cash Flows from Investing Activities			
Additions to short-term investments	5	(9,935,108)	(73,459,559)
Additions to oil and gas properties	15	(14,261,831)	(21,954,116)
Acquisition of or investment in subsidiaries/ associated company	40	(24,274,870)	(18,997,000)
Additions to other assets		(1,469,836)	(3,524,689)
Acquisitions of property, plant and equipment	14	(4,059,429)	(9,575,986)
Increase in related party receivable		(13,486,500)	-
Proceeds from disposal of subsidiaries - net	40	-	260,000,000
Interest received		2,666,716	1,473,149
Additions to other receivables		-	767,796
Additions to other payables		493,575	-
Net cash provided by (used in) investing activities		**(64,327,283)**	**134,729,595**
Cash Flows from Financing Activities			
Proceeds from:			
- Bank loans	22	138,227,506	161,943,662
Payment of:			
- Bank loans	22	(157,837,150)	(174,112,093)
- Other long-term debt	23	(43,500,000)	-
Payment of interest and financing charges		(23,067,578)	(20,042,989)
Withdrawal of (increase in) restricted cash in banks		24,647,510	7,911,088
Net cash provided by financing activities		**(61,529,712)**	**(24,300,332)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(71,582,660)**	**122,065,892**
NET FOREIGN EXCHANGE DIFFERENCE		**420,861**	**(655,962)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	**703,951,167**	**178,859,393**
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**632,789,368**	**300,269,323**

1. GENERAL

a. General Information

PT Medco Energi Internasional Tbk ("the Company") was established within the framework of the Domestic Capital Investment Law No. 6/1968 as amended by Law No. 12/1970, based on notarial deed No. 19 of Imas Fatimah, S.H., dated June 9, 1980. The deed of establishment was approved by the Ministry of Justice of the Republic of Indonesia in its decision letter No. Y.A.5/192/4 dated April 7, 1981 and was published in State Gazette No. 102, Supplement No. 1020 dated December 22, 1981.

The Company's Articles of Association has been amended several times, the latest amendments of which were made to comply with the current Limited Liability Company Law No. 40 issued in 2007. The latest amendments were covered by notarial deed No. 33 dated August 8, 2008, which were approved by the Ministry of Law and Human Rights in its decision letter No. AHU-69951.AH.01.02 TH 2008 and was published in the State Gazette of the Republic of Indonesia No. 12 dated February 10, 2009, Supplement No. 4180/2009.

The Company is domiciled in Jakarta and its head office is located at 52nd Floor, The Energy Building, SCBD lot 11A, Jl. Jenderal Sudirman, Jakarta 12190.

In accordance with Article 3 of the Company's Articles of Association, the scope of its activities comprises, among others, exploration for and production of oil and natural gas, and other energy activities, onshore and offshore drilling, and investing (direct and indirect) in subsidiaries. The Company started its commercial operations on December 13, 1980.

The Company and its Subsidiaries (the Group) have approximately 2,368 (unaudited) and 2,322 (unaudited) employees as of March 31, 2012 and December 31, 2011 respectively.

b. Company's Public Offering

The Company's shares of stock were initially offered to the public and listed on the Jakarta Stock Exchange (JSE) (now Indonesia Stock Exchange) on October 12, 1994. The Company's initial public offering of 22,000,000 shares with a par value of Rp1,000 per share, was approved for listing on September 13, 1994 by the Capital Market and Financial Institution Supervisory Agency (BAPEPAM and Lembaga Keuangan or BAPEPAM-LK, formerly known as Capital Market Supervisory Agency/BAPEPAM) in its letter No. S-1588/PM/1994.

The Company also made a Limited Public Offering I of a maximum of 379,236,000 shares which were approved for listing on November 16, 1999 by the Chairman of BAPEPAM-LK through letter No. S-2244/PM/1999. 321,730,290 new shares were issued and listed on the JSE on November 19, 1999.

As of March 31, 2012 and December 31, 2011, all of the Company's 3,332,451,450 shares are listed on the Indonesia Stock Exchange.

Encore International Limited, incorporated in British Virgin Islands, is the ultimate holding company of the Group. The immediate holding company of the Group is Encore Energy Pte Ltd, a company incorporated in Singapore.

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

c. Boards of Commissioners and Directors, and Audit Committee

The Company's Boards of Commissioners and Directors, and members of the Audit Committee are as follows:

	March 31, 2012	March 31, 2011
President Commissioner	: Hilmi Panigoro	Hilmi Panigoro
Independent Commissioners	: Gustiaman Deru Marsillam Simandjuntak	Gustiaman Deru Marsillam Simandjuntak
Commissioners	: Yani Yuhani Rodyat Retno Dewi Arifin Masayuki Mizuno	Yani Yuhani Rodyat Retno Dewi Arifin Masayuki Mizuno
President Director	: Lukman A. Mahfud	Darmoyo Doyoatmojo
Directors	: Syamsurizal Frila Berlini Yaman Akira Mizuta Dasril Dahya	Lukman A. Mahfud Darwin Cyril Noerhadi
Chairman of Audit Committee	: Marsillam Simandjuntak	Marsillam Simandjuntak
Members of the Audit Committee	: Hilmi Panigoro Gustiaman Deru Zulfikri Aboebakar Djoko Sutardjo	Hilmi Panigoro Gustiaman Deru Zulfikri Aboebakar Djoko Sutardjo

The Annual General Meeting of Stockholders (AGMS) which was held on May 19, 2011 approved the departures of Mr. Darmoyo Doyoatmojo as President Director and Mr. Darwin Cyril Noerhadi as Director. Furthermore, the AGMS approved the appointments of Mr. Lukman A. Mahfud as President Director and Mr. Syamsurizal, Mrs. Frila Berlini Yaman, Mr. Akira Mizuta and Mr. Dasril Dahya as Directors of the Company.

The total short-term benefits that were paid to the Commissioners and Directors amounted to US$1.1 million and US$0.9 million for the years ended March 31, 2012 and 2011, respectively.

d. Subsidiaries

i. As of March 31, 2012 and December 31, 2011, the Company has consolidated all of its subsidiaries in line with its accounting policy as described in Note 2b, "Principles of Consolidation". For presentation purposes, only subsidiaries which are material in terms of total assets/liabilities and/or revenue/net income to the Company's consolidated financial statements are presented in the table below:

1. GENERAL (continued)

d. Subsidiaries (continued)

	Start of commercial operations	Effective percentage of ownership		Total assets (before elimination) in millions	
		2012	2011	2012	2011
Exploration and production of oil and gas					
PT Medco E&P Tarakan (MEPT) Indonesia	1992	100.00	100.00	64,1	52.6
PT Medco E&P Kalimantan (MEPK) [3] Indonesia	1992	100.00	100.00	7,1	8.0
PT Medco E&P Indonesia (MEPI) Indonesia	1995	100.00	100.00	342,6	323.4
PT Medco E&P Tomori Sulawesi [2] Indonesia	2005	100.00	100.00	308,4	308.1
PT Medco E&P Sembakung Indonesia	2005	100.00	100.00	27,1	17.4
Medco Far East Limited [2] Cayman Islands	Non Active	100.00	100.00	77,6	77.6
PT Medco E & P Simenggaris Indonesia	2009	100.00	100.00	28,8	28.3
PT Medco E&P Bengara Indonesia	Exploration stage	95.00	95.00	10,8	9.5
PT Medco E&P Lematang (MEPL) Indonesia	2003	100.00	100.00	202,5	218.1
Medco Energi Global Pte Ltd [1] [2] Singapore	2006	100.00	100.00	309,4	311.0
PT Medco CBM Sekayu Indonesia	Exploration stage	100.00	100.00	4,7	4.2
PT Medco E&P Merangin Indonesia	Exploration stage	100.00	100.00	9,6	8.8
PT Medco E&P Malaka Indonesia	Exploration and development stage	100.00	100.00	77,9	60.8
PT Medco E&P Rimau (MEPR) Indonesia	2005	100.00	100.00	869,4	477. 1
PT Medco E&P Nunukan Indonesia	Exploration stage	100.00	100.00	3,3	2.3
PT Medco E&P Bangkanai [1] Indonesia	Exploration stage	100.00	100.00	5,8	5.8
Medco Bawean (Holdings) Pte Ltd (MBHPL) [1] Singapore	2008	100.00	100.00	138,1	92.8

1. GENERAL (continued)

d. Subsidiaries (continued)

	Start of commercial operations	Effective percentage of ownership		Total assets (before elimination) in millions	
		2012	2011	2012	2011
Support services for oil and gas activities					
PT Exspan Petrogas Intranusa (EPI) [1] Indonesia	1999	100.00	100.00	52,9	51.7
PT Medco Gas Indonesia [1] Indonesia	2009	100.00	100.00	19,9	20.3
Chemical production and trading					
PT Medco Downstream Indonesia (MDI) [1] [2] Indonesia	2004	100.00	100.00	210,6	222.0
PT Medco Niaga Internasional Indonesia	2006	100.00	100.00	16,9	1.7
Others					
MEI Euro Finance Limited (MEFL) [2] Mauritius	2002	100.00	100.00	67,3	67.4
Medco CB Finance B.V. [2] Netherlands	2006	100.00	100.00	0,4	0.4
PT Medco Energi Mining Internasional Indonesia	2009	100.00	100.00	26,5	22.6
Medco Straits Services Pte Ltd [2] Singapore	2007	100.00	100.00	980,4	976.9

1) and subsidiary/ subsidiaries
2) 90%-95% of the total assets represents intercompany accounts in the Group that are eliminated in the consolidation
3) TAC Kalimantan was relinquished in 2008

ii. The Group has interests in the following overseas petroleum joint venture operations or Service Contracts/Participation and Economic Sharing Agreements in March 31, 2012 and December 31, 2011:

		Interest (%)	
Joint Venture	**Country**	**2012**	**2011**
Brazos Block 437/451	USA	100.00	100.00
East Cameron (EC) 317/318 lease	USA	75.00	75.00
East Cameron (EC) 316	USA	100.00	100.00
Main Pass (MP) 64/65 lease	USA	75.00	75.00
Mustang Island Block 758	USA	66.25	66.25
West Delta 52	USA	53.84	53.84
Walker Ranch lease	USA	58.96	58.96
West Cameron 557	USA	100.00	100.00
Block E off shore *)	Cambodia	41.25	41.25
Block 12 *)	Cambodia	52.50	52.50
Nimr – Karim Area	Oman	51.00	51.00
Block 47 Ghadames Basin	Libya	50.00	50.00
Block 82	Yemen	38.25	38.25
Block 83	Yemen	38.25	38.25

*) In process of relinquishment

1. GENERAL (continued)

d. Subsidiaries (continued)

iii. The Group has undertaken several acquisitions and divestments of assets as disclosed in Note 40a.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with Indonesian Financial Accounting Standards ("SAK"), which comprise the Statements of Financial Accounting Standards ("PSAK"), and Interpretations of Financial Accounting Standards ("ISAK") issued by the Financial Accounting Standards Board of the Indonesian Institute of Accountants and the Regulations and the Guidelines on Financial Statements Presentation and Disclosures issued by BAPEPAM-LK.

The financial statements are prepared in accordance with PSAK No.1 (Revised 2009), "Presentation of Financial Statements", which was adopted on January 1, 2011.

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

The adoption of PSAK No. 1 (Revised 2009) has significant impact on the related presentation and disclosures in the consolidated financial statements.

As disclosed further in the relevant succeeding notes, several other amended and issued accounting standards were adopted effective January 1, 2011, prospectively or retrospectively.

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those adopted in the preparation of the Group's consolidated financial statements for the year ended December 31, 2010, except for the adoption of several amended PSAKs effective January 1, 2011 as disclosed in this note.

The consolidated financial statements have been prepared using the accrual basis, and the measurement basis used is historical cost concept, except for certain accounts which are measured on the bases described in the relevant notes herein.

The consolidated statements of cash flows present cash receipts and payments classified into operating, investing and financing activities using the direct method.

Effective January 1, 2011, the Group adopted PSAK No. 2 (Revised 2009), "Statement of Cash Flows". The implementation of PSAK No. 2 (Revised 2009) does not have significant impact on the consolidated financial statements.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation

From January 1, 2011

Effective January 1, 2011, the Group retrospectively adopted PSAK No. 4 (Revised 2009), "Consolidated and Separate Financial Statements", except for the following items that were applied prospectively: (i) losses of a subsidiary that result in a deficit balance to non-controlling interests ("NCI"); (ii) loss of control over a subsidiary; (iii) change in the ownership interest in a subsidiary that does not result in a loss of control; (iv) potential voting rights in determining the existence of control; and (v) consolidation of a subsidiary that is subject to long-term restriction. PSAK No. 4 (Revised 2009) provides for the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, and the accounting for investments in subsidiaries, jointly controlled entities and associated entities when separate financial statements are presented as additional information.

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

The consolidated financial statements include the accounts of the subsidiaries in which the Company has more than 50% share ownership, either directly or indirectly.

All material intercompany accounts and transactions, including unrealized gains or losses, if any, are eliminated to reflect the financial position and the results of operations of the Group as one business entity.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtained control, and continues to be consolidated until the date such control ceases. Control is presumed to exist if the Company owns, directly or indirectly through Subsidiaries, more than half of the voting power of an entity.

Losses of a non-wholly owned subsidiary are attributed to the NCI even if such losses result in a deficit balance for the NCI.

In case of loss of control over a subsidiary, the Group:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any NCI;
- derecognizes the cumulative translation differences recorded in equity, if any;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and,
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

NCI represents the portion of the profit or loss and net assets of the Subsidiaries attributable to equity interests that are not owned directly or indirectly by the Company, which are presented in the consolidated statements of comprehensive income and under the equity section of the consolidated statements of financial position, respectively, separately from the corresponding portion attributable to the equity holders of the parent company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

Prior to January 1, 2011

The proportionate share of minority shareholders in net assets of the consolidated subsidiaries was previously presented as “Minority Interest in Net Assets of Subsidiaries” between the liabilities section and equity section in the consolidated balance sheet. The proportionate share of minority shareholders in the net income or loss of the consolidated subsidiaries is presented as “Minority Interest in Net Income (Loss) of Subsidiaries” in the consolidated statement of income.

The losses applicable to the minority interests in a Subsidiary may have exceeded the minority interests in the equity of the Subsidiary. The excess and any further losses applicable to the minority interests were absorbed by the Company as the majority shareholder, except to the extent that minority interests had other long-term interest in the related Subsidiary or had binding obligations for, and were able to make good of, the losses. If the Subsidiary subsequently reported profits, all such profits were allocated to the majority interest holder, in this case, the Company, until the minority interests’ share of losses previously absorbed by the Company were recovered.

c. Business Combinations

From January 1, 2011

Effective January 1, 2011, the Group prospectively adopted PSAK No. 22 (Revised 2010), “Business Combinations”, applicable for business combinations that occur on or after the beginning of a financial year/period commencing on or after January 1, 2011.

In accordance with the transitional provision of PSAK No. 22 (Revised 2010), starting January 1, 2011, the Group:
- ceased the goodwill amortization;
- eliminated the carrying amount of the related accumulated amortization of goodwill; and
- performed an impairment test of goodwill in accordance with PSAK No. 48 (Revised 2009), “Impairment of Assets”.

PSAK No. 22 (Revised 2010) stipulates the nature of a transaction or other event that meets the definition of a business combination to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.

As described herein, the adoption of PSAK No. 22 (Revised 2010) did not have a significant impact on the financial reporting, including the related disclosures, in the consolidated financial statements.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Transaction costs incurred are directly expensed and included in “Selling, General and Administrative Expenses”.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Business Combinations (continued)

From January 1, 2011 (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PSAK No. 55 (Revised 2006) either in profit or loss or as other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

At acquisition date, goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the Subsidiary acquired, the difference is recognized in consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date, to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those CGUs.

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Prior to January 1, 2011

Acquisitions are accounted for by use of the purchase method in accordance with the requirements of PSAK No. 22, "Business Combinations". The cost of an acquisition is allocated to the identifiable assets and liabilities recognized using as reference their fair values at the date of the transaction. Any difference between the cost of the acquisition and the interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction is recognized as goodwill/negative goodwill. The NCI (formerly known as minority interests) was measured at the book value of the proportionate share of the acquiree's identifiable net assets.

Goodwill of the acquired oil and gas companies is presented as part of Oil and Gas Properties to the extent applicable for capitalization and is amortized over the period of the Production Sharing Contract using the unit-of-production method or equivalent contract or 18 years.

Goodwill of the acquired non-oil and gas companies is amortized over the operating life of the entity or 20 years, whichever is shorter.

Negative goodwill is amortized using the straight-line method over 20 years.

Assets and liabilities, which are acquired but which do not satisfy the criteria for separate recognition when the acquisition was initially accounted for, are recognized subsequently when they satisfy the criteria. The carrying amounts of assets and liabilities acquired are adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those assets and liabilities at the time of acquisition, and the goodwill or negative goodwill is adjusted, provided that the amount of the adjustment is probable of recovery based on the expected future economic benefits and such adjustments are made by the end of the first annual accounting period commencing after acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Business Combinations (continued)

Prior to January 1, 2011 (continued)

Business combinations achieved in stages are accounted for as separate steps. Any additional acquired equity interest does not affect previously recognized goodwill. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration is recognized if, and only if, the Group has a present obligation, the economic outflow has more likely than not will be required to settle such contingent consideration and a reliable estimate is determinable. Subsequent adjustments to the contingent consideration are recognized as part of goodwill.

d. Foreign Currency Transactions and Balances

Transactions during the year involving currencies other than US Dollar are recorded in US Dollars at the prevailing rates of exchange in effect on the date of the transactions.

At the consolidated statement of financial position date, all monetary assets and liabilities denominated in currencies are translated to US Dollar at the middle exchange rates prevailing on those dates. The resulting net foreign exchange gains or losses are credited or charged to current operations.

For consolidation purposes, assets and liabilities of subsidiaries which maintain their books/accounts in Indonesian Rupiah, are translated into US Dollars using the rates of exchange prevailing at the consolidated statement of financial position date, equity accounts are translated using historical rates of exchange, while revenues and expenses and cash flows are translated using average rates of exchange. under the Equity section of the consolidated statements of financial position. For entities that maintain their books/accounts in Indonesian Rupiah and in Euro, but their functional currency is the US Dollar, for consolidation purposes, the accounts of these entities have been remeasured into the US Dollar in order to reflect more closely their economic substance.

As of March 31, 2012 and December 31, 2011, the rates of exchange used for significant foreign currency-denominated balances are as follows:

	2012	2011
Rupiah/US$1	9,180	9,068
Euro/US$1	1.3354	1.2945
Australian Dollar/US$1	1.0409	1.0148
Singapore Dollar/US$1	0.7961	0.7691
British Poundsterling/US$1	1.5981	1.5405
Japanese Yen 100/US$1	1.2174	1.2881

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Transactions with Related Parties

Effective January 1, 2011, the Group applied PSAK No. 7 (Revised 2010), “Related Party Disclosures”, which superseded PSAK No. 7 (Revised 1994), “Related Party Disclosures”. PSAK No. 7 (Revised 2010) requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, and also applies to individual financial statements. The adoption of PSAK No. 7 (Revised 2010) did not have a significant impact on the related disclosures in the consolidated financial statements.

A party is considered to be related to the Group if:

a. directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or, (iii) has joint control over the Group;
b. the party is an associate of the Group;
c. the party is a joint venture in which the Group is a venturer;
d. the party is a member of the key management personnel of the Group or its parent;
e. the party is a close member of the family of any individual referred to in (a) or (d);
f. the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or,
g. the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

The transactions are made based on terms agreed by the parties. Such terms may not be the same as those of the transactions between unrelated parties.

All transactions and balances with related parties are disclosed in the notes to the consolidated financial statements.

f. Cash Equivalents

Time deposits and other short-term investments with a maturity date of three months or less at the time of placement which are not used as collateral or are not restricted as to use, are classified as “Cash Equivalents”.

g. Restricted Cash in Banks

Restricted cash in banks which will be used to pay currently maturing obligations are presented under current assets. Other current accounts and time deposits which are pledged or restricted as to use are presented under non-current assets.

h. Allowance for Impairment of Receivables

An allowance for impairment of receivables is provided based on a review of the status of the individual receivable accounts at the end of the year.

i. Inventories

Inventories of crude oil, chemicals and other petroleum products, spare parts and supplies used for operations are stated at cost or net realizable value, whichever is lower. Cost is determined using the weighted average method or the average method. Allowance for decline in value and obsolescence of inventories is provided based on a review of the individual inventory items at the end of the year.

(Expressed in United States Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Prepaid Expenses

Prepaid expenses are amortized over their beneficial periods using the straight-line method.

k. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs that do not meet the recognition criteria are recognized in consolidated statement of comprehensive income as incurred.

Depreciation is computed using the straight-line method based on the estimated useful lives of the assets as follows:

	Years
Buildings and land improvements	20
Machinery	20 - 25
Control panel equipment	12
Rig equipment and onshore drilling rigs *)	10 - 16
Telecommunication equipment	5
Vehicles	4 - 5
Leasehold improvements	3 - 8
Office and other equipment	3 - 5
Aircraft	20

*) starting January 1, 2011, the Group changed the estimated useful lives of its drilling rigs from 4-10 years to 10-16 years based on its technical assessment and industry comparative study.

Land is stated at cost and is not depreciated.

An item of property, plant and equipment is derecognized from the consolidated statement of financial position upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized to profit or loss in the period the asset is derecognized.

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted prospectively, if appropriate, at each financial year end.

Construction in progress is stated at cost. The accumulated costs are reclassified to the appropriate property, plant and equipment accounts when the construction is substantially completed and the asset is ready for its intended use.

l. Assets under Finance Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of arrangement at inception date.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership; otherwise, the lease is classified as an operating lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Assets under Finance Lease (continued)

Under a finance lease, a lessee shall recognize assets and liabilities in its consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. Contingent rents shall be charged as expenses in the periods in which they are incurred. Finance charges are reflected in the consolidated statement of comprehensive income for the current year.

Assets under finance lease (presented under property, plant and equipment) are depreciated over the shorter of the estimated useful life of the assets and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

m. Oil and Gas Properties

Subsidiaries engaged in oil and gas exploration and production use the successful efforts method of accounting for oil and gas activities. Geological and geophysical costs and other exploration costs are charged to expense as incurred.

Costs to acquire rights to explore and produce oil and gas are recorded as unoperated acreage, which pertains to properties wherein proved reserves have not yet been discovered, or operated acreage if proved reserves have been discovered.

The costs of drilling exploratory wells, including the costs of drilling exploratory-type stratigraphic test wells, are initially capitalized and recorded as part of uncompleted wells, equipment and facilities. If the well locates proved reserves, the capitalized costs of drilling the well are included in wells and related equipment and facilities. However, should the efforts be determined to be unsuccessful, such costs are then charged to expense.

The costs of drilling development wells and development-type stratigraphic test wells, platforms, well equipment and attendant production facilities, are capitalized as uncompleted wells, equipment and facilities. Such costs are transferred to wells and related equipment and facilities upon completion.

Depreciation, depletion and amortization of oil and gas properties, except unoperated acreage and uncompleted wells, equipment and facilities, is calculated based on the unit-of-production method, using the gross production divided by gross proved developed reserves. Depreciation for support facilities and equipment is calculated using straight-line method over 4 (four) to 20 (twenty) years.

Unoperated acreage is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

Under PSAK No. 16 (Revised 2007), the initial estimated costs for dismantlement and site restoration are recognized as part of costs oil and gas properties and amortized/depleted as part of the overall cost of the asset (Note 2q).

n. Intangible Assets

Cost to acquire and prepare software for use is recorded as intangible asset and amortized over four to five years using the straight-line method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Treasury Stock

Reacquisition of capital stock to be held as treasury stock for future reissuance is accounted for under the par value method. Under this method, the par value of treasury stock is presented as a reduction from the capital stock account. If the treasury stock had been originally issued at a price above par value, the related additional paid-in capital account is adjusted. Any excess of the reacquisition cost over the original issuance price is adjusted to retained earnings.

p. Pension and Other Post-employment Benefits

The Group applies PSAK No. 24 (Revised 2004), “Employee Benefits”, in recognising liabilities and expenses relating to pension and other post-employment benefits.

i. Defined Contribution Pension Plan

Subsidiaries involved in oil and gas exploration and production have established defined contribution pension plans covering all of their local permanent employees. The plans are funded by contributions from both the subsidiaries and their employees based on a certain percentage of the employees’ salaries.

The costs of the defined contribution plans are accrued when incurred.

ii. Labor Law No. 13/2003 and Other Post-employment Benefits

The Group recognizes post-employment benefit liabilities for its employees in accordance with the requirements of Labor Law No. 13 Year 2003 and for its key management personnel in accordance with the Group policy.

Under the Revised PSAK No. 24 (Revised 2004), the cost of providing post-employment benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains or losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, if any. These gains or losses are recognized on a straight-line basis over the expected average remaining work lives of the employees. Furthermore, past service costs arising from the introduction of a defined benefit plan or changes in the benefits payable of an existing plan are required to be amortized over the period until the benefits concerned become vested.

q. Asset Abandonment and Site Restoration Obligation

The Group recognizes its obligations for future dismantlement and transfer of assets, and site restoration of oil and gas production facilities, wells, pipelines and related assets in accordance with the provisions in the production sharing contracts or in line with applicable regulations.

The initial estimated costs for dismantlement and site restoration of oil and gas properties are recognised as part of the acquisition costs of the assets, and are subsequently depreciated/depleted using the unit-of-production method in line with the selected assets depletion rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Asset Abandonment and Site Restoration Obligation (continued)

In most instances, the dismantlement and transfer of assets, and site restoration activities of oil and gas production facilities, wells, pipelines and related assets will occur many years in the future. The provision for future dismantlement and transfer of assets, and site restoration obligation is the best estimate of the present value of the future expenditures required to undertake the dismantlement and transfer of assets, and site restoration obligation at the reporting date, based on current legal requirements. The estimate of future dismantlement and transfer of assets, and site restoration obligation therefore requires management to make judgments regarding the timing of removal and transfer, the extent of restoration activities required and future removal and restoration technologies.

Such estimates are reviewed on an annual basis and adjusted each year as required. Adjustments are reflected in the present value of the dismantlement and transfer of assets, and site restoration obligation provision at the statement of financial position date, with a corresponding change in the book value of the associated asset.

The unwinding of the effect of discounting the provision is recognized as a finance cost.

Effective January 1, 2011, the Group adopted:

PSAK No. 57 (Revised 2009), "Provisions, Contingent Liabilities and Contingent Assets", which aims to provide that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand the nature, timing and amount related to the information.

Interpretation of Statement of Financial Accounting Standards (ISAK) No. 9, "Changes in Existing Decommissioning, Restoration and Similar Liabilities", applies to changes in the measurement of any existing decommissioning, restoration or similar liability recognised as part of the cost of an item of property, plant and equipment in accordance with PSAK No. 16 and as a liability in accordance with PSAK No. 57.

r. Financial Instruments

Effective January 1, 2010, the Company and Subsidiaries adopted PSAK No. 50 (Revised 2006), "Financial Instruments: Presentation and Disclosure", and PSAK No. 55 (Revised 2006), "Financial Instruments: Recognition and Measurement", which supersede PSAK No. 50, "Accounting for Investments in Certain Securities", and PSAK No. 55 (Revised 1999), "Accounting for Derivative Instruments and Hedging Activities".

PSAK No. 50 (Revised 2006) contains the requirements for the presentation of financial instruments and identifies the information that should be disclosed. The presentation requirements apply to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. This PSAK requires the disclosure of, among others, information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to those instruments.

PSAK No. 55 (Revised 2006) established the principles for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard provides for the definitions and characteristics of a derivative, the categories of financial instruments, recognition and measurement, hedge accounting and determination of hedging relationships, among others.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets

Initial recognition

Financial assets within the scope of PSAK No. 55 (Revised 2006) are classified into four types: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

The Group determines the classification of its financial assets at initial recognition and, if allowed and appropriate, re-evaluates the classification of those assets at each financial reporting date.

Financial assets are recognized initially at fair value plus, in the case of financial assets not classified at fair value through profit or loss, directly attributable transaction cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

- Financial assets at fair value through profit or loss

  Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as assets at fair value through profit or loss upon initial recognition.

  Derivative assets are classified as held for trading unless they are designated as effective hedging instruments.

  Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with gains or losses from changes in fair value recognized in the consolidated statement of comprehensive income.

  Short-term investments and derivative assets are classified under this category.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not quality as assets for trading, and have not been designated “at fair value through profit or loss” or as “available-for-sale”.

  After initial measurement, such financial assets are carried at amortized cost using the effective interest method, and gains or losses are recognized in the consolidated statement of comprehensive income when the loan and receivable is derecognized or impaired, as well as through the amortization process.

  The Group has cash and cash equivalents, restricted cash in banks and trade and other receivables under this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets (continued)

Subsequent measurement (continued)

- Held-to-maturity investments

  Held-to-maturity investments are non-derivative financial assets that have fixed or determinable payment and fixed maturity other than loans and receivables, for which there is a positive intention and ability to hold to maturity and which have not been designated as at fair value through profit or loss or as available-for-sale.

  The Group's investment in convertible bonds is under this category.

- Available-for-sale (AFS) financial assets

  AFS financial assets are non-derivative assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized in the shareholders' equity in the consolidated statement of financial position. When the asset is derecognized, the cumulative gain or loss previously recorded in the shareholders' equity shall be recognized in the consolidated statement of comprehensive income.

  The investments classified as AFS are as follows:

  - Investments in shares of stock that do not have readily determinable fair value in which the equity interest is less than 20% and other long-term investments which are carried at cost.

  - Investments in equity shares that have readily determinable fair value in which the equity interest is less than 20% are recorded at fair value.

  The Group has investments in shares of stock under this category.

Derecognition of financial assets

A financial asset, or where applicable, a part of a financial asset or part of a group of similar financial assets, is derecognized when:

i. The contractual rights to receive cash flows from such financial asset have expired; or

ii. The Group retains the right to receive cash flows from such financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or

iii. The Group has transferred its rights to receive cash flows from the financial asset and either: (a) has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial asset

At each statement of financial position date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an “incurred loss event”) and that loss event has an impact on the estimated future cash flows from the financial asset or the group of financial assets that can be reliably estimated.

- Financial assets carried at amortized cost

  For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

  If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a ”loans and receivables” financial asset has a variable interest rate, the discount rate for measuring impairment loss is the current effective interest rate.

  The carrying amount of the financial asset is reduced through the use of an allowance for impairment account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment account. If a future write-off is later recovered, the recovery is recognized in profit or loss.

- AFS financial assets

  In the case of equity investment classified as an AFS financial asset, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

  Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is reclassified from shareholders’ equity to profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognized in shareholders’ equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial asset (continued)

- AFS financial assets (continued)

  In the case of a debt instrument classified as an AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of the "Interest Income" account in the consolidated statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Financial Liabilities

Initial recognition

Financial liabilities within the scope of PSAK No. 55 (Revised 2006) are classified as financial liabilities at fair value through profit or loss and other financial liabilities that are not held for trading or not designated at fair value through profit or loss.

The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at the fair value of the consideration received and, in the case of loans and borrowings, less directly attributable transaction cost.

The Group's financial liabilities include trade payables, other payables, accrued expenses, bank loans, long-term loans, long-term liabilities, advances from customers and derivative financial liabilities.

Subsequent measurement

The measurement of financial liabilities depends on the classification as follows:

- Financial liabilities at fair value through profit or loss

  Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

  Financial liabilities are classified as held for trading if they are acquired for the purposes of selling or repurchasing in the near term. Derivatives liabilities are also classified as held for trading unless they are designated as effective hedging instruments.

  Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income.

- Loans and borrowings

  After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. At statement of financial position date, the accrued interest is recorded separately from the respective principal amount of loans as part of current liabilities. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Financial Instruments (continued)

Financial Liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is currently an enforceable legal right to set off the recognized amounts and there is an intention either to settle on a net basis, or to realize the assets and the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at each reporting date.

For financial instruments where there is no active market, fair value is determined using valuation techniques permitted by PSAK No. 55 (Revised 2006), which may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

Credit risk adjustment

The Company and Subsidiaries adjust the price in the observable market to reflect any differences in counterparty credit risk between instruments traded in that market and the ones being valued for financial asset positions. In determining the fair value of financial liability positions, the Group's own credit risk associated with the instrument is taken into account.

s. Revenue and Expense Recognition

Effective January 1, 2011, the Group adopted PSAK No. 23 (Revised 2010), "Revenue". PSAK No. 23 (Revised 2010) identifies the circumstances in which the criteria on revenue recognition will be met and, therefore, revenue may be recognized, and prescribes the accounting treatment of revenue arising from certain types of transactions and events, and also provides practical guidance on the application of the criteria on revenue recognition. The adoption of PSAK No. 23 (Revised 2010) has no significant impact on the consolidated financial statements.

Revenue from sales of crude oil and gas is recognized upon delivery to the customer. For lifting imbalances with the Government, wherein the volume of oil lifted is less/greater than the Group entitlement, a receivable or payable is accrued.

Revenues from drilling and other related services are recognized when the service is rendered. Mobilization revenue is recognized when the rig has arrived in the drilling area and is ready to operate. Demobilization revenue is recognized when the drilling service has been completed and the rig has been moved from the last well drilled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Revenue and Expense Recognition (continued)

Revenue from sales of chemical and other petroleum products are recognized upon delivery to the customer.

Revenue from sales of electric power are recognized upon delivery to the customer.

Other incomes/revenues are recognized when earned.

Expenses are recognized as incurred on an accrual basis.

t. Income Tax

The Group determines their income taxes in accordance with the PSAK No. 46, “Accounting for Income Taxes”.

Current tax expense is provided based on the estimated taxable income for the year.

Deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at each reporting date. Future tax benefits, such as the carry-forward of tax losses, are also recognized to the extent that realization of such benefits is probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. The deferred tax assets and liabilities of each entity are shown at the corresponding net amounts in the consolidated financial statements.

Subsidiaries involved in oil and gas exploration and production in Indonesia are subject to income tax at rates ranging from 44% to 48%.

Subsidiaries involved in oil and gas exploration and production outside Indonesia are subject to various corporate income tax rates, up to maximum rate of 50%.

Subsidiaries involved in non-oil and gas activities in Indonesia are subject to corporate tax rate at 25% starting in 2010.

Amendments to tax obligations (i.e. tax assessments or claims) are recorded when an assessment is accepted, or as prepaid taxes when payments are made and are appealed against by the Group. Any amount recorded as prepaid taxes will be expensed only when a negative outcome is received from the Tax Office or Tax Court and further avenue is not sought.

u. Capitalization of Borrowing Costs and Foreign Exchange Losses

In accordance with PSAK No. 26 (Revised 2008), “Borrowing Costs”, interest charges and foreign exchange differences incurred on borrowings and other costs incurred to finance the construction or installation of major facilities are capitalized. Capitalization of these borrowing costs ceases when the construction or installation is substantially completed and the asset is ready for its intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Impairment of Asset Value

Effective January 1, 2011, the Group prospectively adopted PSAK No. 48 (Revised 2009), "Impairment of Assets", including goodwill and assets acquired from business combinations before January 1, 2011. PSAK No. 48 (Revised 2009) superseded PSAK No. 48 (Revised 1998), "Impairment of Assets".

PSAK No. 48 (Revised 2009) prescribes the procedures to be employed by an entity to ensure that its assets are carried at no more than their recoverable amounts. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is considered impaired and PSAK No. 48 (Revised 2009) requires the entity to recognize an impairment loss. PSAK No. 48 (Revised 2009) also specifies when an entity should reverse an impairment loss and prescribes disclosures.

The Group assesses at each annual reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e., an intangible asset with an indefinite useful life, an intangible asset not yet available for use, or goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognized in the consolidated statements of comprehensive income as "impairment losses". In assessing the value in use, the estimated net future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If no such transactions can be identified, an appropriate valuation model is used to determine the fair value of the assets. These calculations are corroborated by valuation multiples or other available fair value indicators.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. Impairment losses of continuing operations, if any, are recognized in the consolidated statements of comprehensive income under expense categories that are consistent with the functions of the impaired assets.

An assessment is made at each annual reporting period as to whether there is any indication that previously recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss for an asset other than goodwill is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Reversal of an impairment loss is recognized in the consolidated statement of comprehensive income. After such a reversal, the depreciation charge on the said asset is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Impairment of Asset Value (continued)

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

Impairment losses relating to goodwill cannot be reversed in future periods.

w. Accounting for Restructuring of Entities Under Common Control

In accordance with PSAK No. 38 (Revised 2004), “Accounting for Restructuring of Entities Under Common Control”, any difference arising from a restructuring of entities under common control is recognized as a gain or loss if the conditions under the PSAK are met. Otherwise, any unrealized difference is recorded in Equity in the consolidated statement of financial position.

x. Joint Venture

The Group adopted PSAK No. 12 (Revised 2009), “Financial Reporting of Interests in Joint Ventures”, starting on January 1, 2011. The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group’s consolidated financial statements to eliminate the Group’s share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

y. Segment Information

Effective January 1, 2011, the Group applied PSAK No. 5 (Revised 2009), “Operating Segments”. PSAK No. 5 (Revised 2009) requires disclosures that will enable users of financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which operates. The adoption of PSAK No. 5 (Revised 2009) has no significant impact on the consolidated financial statements.

A segment is a distinguishable component of the Group that is engaged either in providing certain products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Segment Information (continued)

Segment revenue, expenses, results, assets, and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intragroup balances and intragroup transactions are eliminated.

In accordance with the Group's organizational and management structure, the primary segment reporting of financial information is presented based on business segment as the risks and returns are dominantly affected by the different business activities. The secondary segment reporting is defined based on geographical location of the Group's business activities.

z. Earnings per Share

In accordance with PSAK No. 56, "Earnings per Share", basic earnings per share are computed by dividing net income by the weighted-average number of shares outstanding during the year.

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding as adjusted for the effects of all potential dilutions.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

The following judgments are made by management in the process of applying the Group's accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements:

Income Tax

Significant judgment is involved in determining the provision for corporate income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected corporate income tax issues based on estimates of whether additional corporate income tax will be due.

Classification of Financial Assets and Financial Liabilities

The Group determines the classifications of certain assets and liabilities as financial assets and financial liabilities by judging if they meet the definition set forth in PSAK No. 55 (Revised 2006).

Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Group's accounting policies disclosed in Note 2r.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period/year are disclosed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and Assumptions (continued)

Purchase Price Allocation and Goodwill Impairment

Acquisition accounting requires extensive use of accounting estimates to allocate the purchase price to the reliable fair market values of the assets and liabilities purchased, including intangible assets. Under PSAK No. 22 (Revised 2009), "Business Combinations", goodwill is not amortized and is subject to an annual impairment testing.

Impairment test is performed when certain impairment indicators are present. In case of goodwill, such assets are subject to annual impairment test and whenever there is an indication that such asset may be impaired; management has to use its judgment in estimating the recoverable value and determining the amount of impairment.

Allowance for Impairment of Receivables

The Group evaluates specific accounts where it has information that certain customers and debtors are unable to meet their financial obligations. In these cases, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer or debtor and or the customer's or debtor's current credit status based on third party credit reports and known market factors, to record specific provisions for customers or debtors against amounts due to reduce its receivable amounts that the Group expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts of allowance for impairment of receivables. The carrying amounts of the Group's trade receivables before allowance for impairment as of March 31, 2012 and December 31, 2011 are US$204,801,248 and US$202,328,229, respectively. Further details are presented in Note 6. The carrying amounts of the Group's other receivables before allowance for impairment as of March 31, 2012 and December 31, 2011, inclusive of current and non-current portions, are US$168,588,630 and US$150,626,964, respectively. Further details are presented in Note 7.

Impairment of Non-Financial Assets

The Group asseses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually, while other non-financial assets are tested for impairment when there are indicators that carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Pension and Other Post-Employment Benefits

The determination of the Group's obligations and cost for pension and other post-employment benefits is dependent on its selection of certain assumptions used by the independent actuaries in calculating such amounts. Those assumptions include discount rates, future annual salary increases, annual employee turn-over rate, disability rate, retirement age and mortality rate. While the Group believes that its assumptions are reasonable and appropriate, due to the long-term nature of these obligations, such estimates are subject to significant uncertainty. The carrying amount of the Group's estimated liabilities for post-employment benefits as of March 31, 2012 and December 31, 2011 are US$13,263,028 and US$12,370,076, respectively. Further details are disclosed in Note 34.

Depreciation of Fixed Assets

The costs of fixed assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these fixed assets to be within 3 to 25 years. These are common expectancies applied in the industries where the Group conducts its businesses. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised. The net carrying amount of the Group's fixed assets as of March 31, 2012 and December 31, 2011 are US$117,567,208 and US$116,347,753, respectively. Further details are disclosed in Note 14.

(Expressed in United States Dollars, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and Assumptions (continued)

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Allowance for Decline in Value and Obsolescence of Inventories

Allowance for decline in value and obsolescence of inventories is estimated based on the best available facts and circumstances, including but not limited to, the inventories' own physical conditions, their market selling prices, estimated costs of completion and estimated costs to sell. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated. The carrying amount of the Group's inventories before allowance for obsolescence and decline in value as of March 31, 2012 and December 31, 2011 is US$43,596,329 and US$46,848,402, respectively. Further details are disclosed in Note 8.

Asset Abandonment and Site Restoration Obligations

The Group has recognized provision for asset abandonment and site restoration obligations associated with its oil and gas wells, facilities and infrastructure. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates and the expected cost to dismantle and remove all the structures from the site, and restore the site. The carrying amount of the provision as of March 31, 2012 and December 31, 2011 is US$54,692,287 and US$53,757,992, respectively.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2012	2011
Cash on hand	30,519	55,427
Cash in banks		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	3,137,652	4,656,448
United States Dollar		
PT Bank Himpunan Saudara 1906 Tbk	4,944,881	4,105,055
Third parties		
Rupiah		
Citibank, NA	1,205,498	1,330,056
PT Bank Mandiri (Persero) Tbk	969,178	1,061,277
PT Bank Rakyat Indonesia (Persero) Tbk	956,561	579,642
PT Bank Internasional Indonesia Tbk	327,679	329,104
PT Bank CIMB Niaga Tbk	235,196	420,877
PT Bank Central Asia Tbk	163,412	17,512
PT Bank Negara Indonesia (Persero) Tbk	37,623	723,668
Others	36,042	98,928

(Expressed in United States Dollars, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (continued)

	2012	2011
Cash in banks (continued)		
Third parties (continued)		
United States Dollar		
PT Bank Negara Indonesia (Persero) Tbk	56,857,238	103,524,460
PT Bank Danamon Indonesia Tbk	50,974,921	30,812,829
PT Bank Mandiri (Persero) Tbk	34,795,603	30,500,580
Citibank, NA	29,697,530	34,802,359
Standard Chartered Bank	13,563,521	24,135,229
Muscat Bank	8,894,527	8,630,225
PT Bank Central Asia Tbk	5,570,166	4,689,733
Capital One	2,419,509	1,369,619
PT Bank CIMB Niaga Tbk	1,630,259	1,907,891
PT Bank Rakyat Indonesia (Persero) Tbk	1,111,063	20,775,585
Bank of Tokyo Mitsubishi - UFJ	876,838	20,569,283
Bank Julius Baer & Co Ltd	855,084	-
PT Bank Internasional Indonesia Tbk	529,848	244,931
Lain-lain	519,921	530,984
Other foreign currencies	30,835	21,037
Sub-total	220,340,585	295,837,312
Cash equivalents		
Time Deposits		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	3,385,934	7,873,255
United States Dollar		
PT Bank Himpunan Saudara 1906 Tbk	-	14,000,000
Third parties		
Rupiah		
Citibank, NA	871,460	-
PT Bank Bukopin Tbk	-	5,477,291
PT Bank Rakyat Indonesia (Persero) Tbk	-	2,933,392
PT Bank Victoria Syariah	-	551,390
United States Dollar		
PT Bank Rakyat Indonesia (Persero) Tbk	60,000,000	50,000,000
PT Bank Internasional Indonesia Tbk	55,000,000	35,038,777
PT Bank ICBC Indonesia	50,053,507	20,000,000
PT ANZ Panin Bank	50,000,000	30,000,000
PT Bank CIMB Niaga Tbk	40,000,000	30,000,000
UBS AG	30,272,496	30,261,021
PT Bank DKI	25,000,000	15,000,000
PT Bank Muamalat Indonesia Tbk	25,000,000	20,500,000
PT Bank UOB Buana	25,000,000	15,038,990
PT Bank Mandiri (Persero) Tbk	15,305,889	30,000,000
Standard Chartered Bank	10,100,000	-

(Expressed in United States Dollars, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (continued)

	2012	2011
Cash equivalents (continued)		
Time Deposits (continued)		
Third parties (continued		
United States Dollar (continued)		
PT Bank Mega Tbk	10,000,000	15,000,000
PT BNP Paribas	6,844,502	-
Barclays Bank	4,988,057	4,987,427
PT Bank Negara Indonesia (Persero) Tbk	100,000	70,100,000
PT Bank Bukopin Tbk	-	10,000,000
Bank Julius Baer & Co Ltd	-	884,495
Lain-lain	496,419	412,390
Sub-total	412,418,264	408,058,428
Total	**632,789,368**	**703,951,167**
Interest rate per annum		
Time deposits		
Rupiah	5.5% - 7.25%	6.00% - 9.25%
United States Dollar	0.05% - 3.20%	0.05% - 3.25%

5. SHORT-TERM INVESTMENTS

This account consists of:

	2012	2011
Marketable securities – for trading		
Rupiah		
Mutual fund units	3,853,764	3,910,935
Bonds	342,941	338,553
United States Dollar		
Managed funds	253,043,323	243,055,432
Total	**257,240,028**	**247,304,920**

The marketable securities for trading (bonds) earned interest at rates ranging from 7.375% to 10.85% per annum in 2012 and 2011.

Investments in managed funds comprise of shares publicly-listed companies, fixed income, money market and other financial instruments (Note 40c). For the year ended March 31, 2012, the unrealized gain from short-term investments amounted to US$3.9 million (March 31, 2011: gain of US$1.9 million).

(Expressed in United States Dollars, unless otherwise stated)

6. TRADE RECEIVABLES - Net

The details of this account are as follows:

a. By Customer

	2012	2011
Related parties		
Petro Diamond Singapore Pte Ltd	77,063,635	68,177,731
Petro Diamond Ltd, Hong Kong	15,172,134	-
PT Medcopapua Industri Lestari	-	1,524,256
Sub-total	92,235,769	69,701,987
Third parties		
Local customers	69,930,650	79,511,401
Foreign customers	46,425,140	56,905,152
Sub-total	116,355,790	136,416,553
Allowance for impairment	(3,790,311)	(3,790,311)
Net	112,565,479	132,626,242
Total	**204,801,248**	**202,328,229**

b. By Aging Category

	2012	2011
Not yet due	161,414,307	160,764,787
1 - 30 days past due	30,494,340	28,670,841
31 - 60 days past due	2,439,316	1,882,527
61 - 90 days past due	1,631,277	1,180,380
91 - 120 days past due	1,100,680	731,890
More than 120 days past due	11,511,639	12,888,115
Total	208,591,559	206,118,540
Allowance for impairment	(3,790,311)	(3,790,311)
Net	**204,801,248**	**202,328,229**

c. By Currency

	2012	2011
United States Dollars	178,140,880	182,458,151
Rupiah	30,450,679	23,660,389
Total	208,591,559	206,118,540
Allowance for impairment	(3,790,311)	(3,790,311)
Net	**204,801,248**	**202,328,229**

(Expressed in United States Dollars, unless otherwise stated)

6. TRADE RECEIVABLES - Net (continued)

The changes in the allowance for impairment are as follows:

	2012	2011
Balance at beginning of year	3,790,311	3,432,887
Provision during the year	-	1,215,147
Write-off during the year	-	(412,491)
Reversal during the year	-	(445,232)
Balance at end of year	**3,790,311**	**3,790,311**

Management believes that there are no significant concentrations of credit risk involving third party receivables.

Based on the review of the status of the individual receivable accounts at the March 31, 2012, management is of the opinion that the allowance for impairment of receivables is adequate to cover possible losses on uncollectible accounts.

7. OTHER RECEIVABLES - Net

This account consists of:

a. By Party/Nature

	2012	2011
Related parties – non-current		
PT Donggi Senoro LNG	60,314,282	46,827,782
Mitsubishi Corporation	-	-
Tomori E&P Limited (TEL)	-	-
Total	**60,314,282**	**46,827,782**
Third parties		
Reimbursable value added tax (VAT)	44,851,378	44,587,134
Underlifting receivable	28,925,675	28,925,675
Receivables from Joint Venture	10,229,732	11,196,348
PT Antareja Resources	6,009,177	5,973,188
PT Pertamina EP	3,872,595	3,872,595
Tax Office	2,335,144	2,670,233
Loans to employees	400,516	758,941
Others (each below US$1,000,000)	11,650,131	5,815,068
Total	**108,274,348**	**103,799,182**

(Expressed in United States Dollars, unless otherwise stated)

7. OTHER RECEIVABLES – Net (continued)

a. By Party/Nature (continued)

	2012	2011
Third parties (continued)		
Long-term portion	7,700,332	12,873,741
Allowance for impairment	(210,195)	(210,195)
Long-term portion - net	**7,490,137**	**12,663,546**
Current portion	100,574,016	90,925,441
Allowance for impairment	(28,709,290)	(28,709,290)
Current portion - net	**71,864,726**	**62,216,151**

b. By Currency

	2012	2011
United States Dollars	151,992,809	135,744,199
Rupiah	16,595,821	14,882,765
Total	**168,588,630**	**150,626,964**
Long-term portion	68,014,614	59,701,523
Allowance for impairment	(210,195)	(210,195)
Long-term portion - net	**67,804,419**	**59,491,328**
Current portion	100,574,016	90,925,441
Allowance for impairment	(28,709,290)	(28,709,290)
Current portion - net	**71,864,726**	**62,216,151**

The receivable from PT Donggi Senoro LNG (DSLNG) in the amount of US$59.6 million mainly represents advances to finance the DSLNG project. The receivable is charged interest at cost of funds plus 3.75%. The remaining balance represents advances for operational activities of DSLNG in March 31, 2012 and December 31, 2011.

Reimbursable Value Added Tax (VAT) represents VAT paid by subsidiaries involved in oil and gas exploration and production in Indonesia which is reimbursable from BPMIGAS (Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi).

Receivables from Joint Venture represent receivables from joint venture partners relating to oil and gas exploration and production activities.

The underlifting receivable as of March 31, 2012 and December 31, 2011 from BPMIGAS relates to Tarakan and Rimau Blocks, respectively.

(Expressed in United States Dollars, unless otherwise stated)

7. OTHER RECEIVABLES - Net (continued)

Receivable from PT Pertamina EP (Pertamina) mainly consists of the amounts billed for the expenditures incurred by a subsidiary for Pertamina oil and gas operations under the Kalimantan Technical Assistance Contract (TAC), subsequent to the relinquishment of Kalimantan TAC in October 2008.

Based on the review of other receivables at the end of the year, management is of the opinion that the allowance for impairment of other receivables is adequate to cover possible losses from uncollectible accounts.

8. INVENTORIES - Net

Inventories consist of:

	2012	2011
Spareparts, well supplies and others	28,221,168	30,907,816
Chemical and other petroleum products	15,375,161	15,940,586
Total	43,596,329	46,848,402
Allowance for obsolescence and decline in value	(3,143,430)	(3,143,430)
Net	**40,452,899**	**43,704,972**

The movement in the allowance for obsolescence and decline in value is as follows:

	2012	2011
Balance at beginning of year	3,143,430	2,657,732
Provision during the year	-	485,698
Balance at end of year	**3,143,430**	**3,143,430**

All inventories were insured with various insurance companies as of March 31, 2012 and December 31, 2011 (Notes 14 and 15). Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

Based on the review of the physical condition and net realizable values of inventories at the end of the year, management is of the opinion that the allowance for obsolescence and decline in value is adequate.

9. PREPAID TAXES

The details of this account are as follows:

	2012	2011
Company		
VAT	1,021,666	1,102,771
Corporate income tax overpayments	795,162	939,904
Sub-total	1,816,828	2,042,675
Subsidiaries		
VAT	9,838,985	6,903,288
Corporate income tax overpayments	1,714,177	967,601
Sub-total	11,553,162	7,870,889
Total	**13,369,990**	**9,913,564**

(Expressed in United States Dollars, unless otherwise stated)

10. PREPAID EXPENSES

The details of this account are as follows:

	2012	2011
Insurance	2,384,918	3,597,120
Rental	524,911	489,897
Others	549,774	572,549
Total	**3,459,603**	**4,659,566**

11. RESTRICTED CASH IN BANKS

The details of this account are as follows:

	2012	2011
Current		
Third parties		
United States Dollar		
PT Bank Central Asia Tbk	1,236,355	1,258,455
Citibank, NA	-	24,019,608
Total	**1,236,355**	**25,278,063**

11. RESTRICTED CASH IN BANKS (continued)

	2012	2011
Non-Current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	8,042,065	8,680,508
Third parties		
Rupiah		
PT Bank CIMB Niaga Tbk	3,329,730	3,297,089
PT Bank Mandiri (Persero) Tbk	40,908	40,908
United States Dollar		
PT Bank Mandiri (Persero) Tbk	1,500,000	1,500,000
Total	**12,912,703**	**13,518,505**

Restricted cash accounts (Rupiah) with PT Bank Himpunan Saudara 1906 Tbk in the amount of US$7,600,952 as of March 31, 2012 and PT Bank CIMB Niaga Tbk mainly represent the Subsidiaries' time deposit used as collaterals for employee loans.

Restricted cash account (US Dollar) with PT Bank Mandiri (Persero) Tbk represents the performance bond in relation to oil production in Camar Resources Canada, Inc.

Restricted cash account (US Dollar) with PT Bank Central Asia Tbk represents the debt service account of PT Medco E&P Lematang required under the loan agreement with this bank.

Restricted cash account (Rupiah) with PT Bank Himpunan Saudara 1906 Tbk amounting to US$441,113 as of March 31, 2012 represents collateral for the operations of PT Usaha Tani Sejahtera.

Restricted cash account (Rupiah) with PT Bank Mandiri (Persero) Tbk amounting to US$40,908 as of March 31, 2012 represents fund for site restoration escrowed to the Government for PT Duta Tambang Rekayasa.

	2012	2011
Interest rate per annum		
Restricted cash in banks		
Rupiah	5.50% - 7.25%	6.00% - 7.25%
United States Dollar	2.00%	2.00%

(Expressed in United States Dollars, unless otherwise stated)

12. LONG-TERM INVESTMENTS

This account consists of the following:

	2012			
	Percentage of Ownership (%)	**Cost**	**Accumulated Share in Net Earnings**	**Net Carrying Value**
Investments in shares of stock				
Equity Method				
Kuala Langsa (Block-A) Limited (KLL), formerly ConocoPhillips Aceh Ltd Bermuda Island	50	216,000	591,768	807,768
PT Medco Power Indonesia	49	107,225,303	81,584	107,306,887
Cost Method				
PT Antareja International Services	3.8	1,000,000	-	1,000,000
PT Donggi Senoro LNG (DSLNG) - Indonesia	11.1	36,463,500	-	36,463,500
Total		**144,904,803**	**673,352**	**145,578,155**
Investment in convertible bonds of PT Antareja International Services				**11,093,326**
Total Long-term Investments				**156,671,481**

	2011			
	Percentage of Ownership (%)	**Cost**	**Accumulated Share in Net Earnings**	**Net Carrying Value**
Investments in shares of stock				
Equity Method				
Kuala Langsa (Block-A) Limited (KLL), formerly ConocoPhillips Aceh Ltd Bermuda Island	50	216,000	550,961	766,961
PT Medco Power Indonesia	49	83,205,695	-	83,205,695
Cost Method				
PT Antareja International Services	3.8	1,000,000	-	1,000,000
PT Donggi Senoro LNG (DSLNG) - Indonesia	11.1	36,463,500	4	36,463,504
Total		**120,885,195**	**550,965**	**121,436,160**
Investment in convertible bonds of PT Antareja International Services				10,878,867
Total Long-term Investments				**132,315,027**

12. LONG-TERM INVESTMENTS (continued)

The share of net losses of associated entities for the years ended March 31, 2012 and December 31, 2011 are as follows:

	2012	2011
KLL	40,807	38,343
DSLNG	81,854	(1,826,607)
Neto	**122,391**	**(1,788,264)**

In April 2011, the Group equity ownership in DSLNG was diluted from 20% to 11.1% because the Company did not subscribe to the new shares issued by DSLNG in 2011. In accordance with the Indonesian Statements of Financial Accounting Standards, upon dilution of ownership, the Company measured and recognized its investment at fair value and recognized a gain of US$8,472,496 in the consolidated statement of comprehensive income. Furthermore, the Company has discontinued the use of the equity method of accounting and has accounted for the investment under cost method.

On August 18, 2011, the Group entered into Shares Sale and Purchase Agreement with the shareholder of PT Antareja International Services (“Antareja”), a third party, to purchase 3% of Antareja’s shares for a total consideration of US$1,000,000. On the same date, the Group also purchased convertible bonds (“bonds”) of Antareja denominated in United States Dollar with a nominal value of US$11,000,000. The bonds bear interest at 7% per annum which will be paid in full upon maturity of the bonds, with option to pay in cash or in kind.

The bonds will mature five years from the issuance date at their nominal value of US$11,000,000 plus interest or can be converted into shares of Antareja at the Company’s option at a price calculated based on effective interest rate of return (after tax) with exchange rate of Rp8,500 to US$1.

The fair value of the debt component of the bonds is calculated using applicable interest rate on Antareja’s loan from a third party bank at the date of issue. The residual amount, representing the value of the equity conversion component, is valued at zero. The carrying amount of the debt component of the convertible bonds in the consolidated statement of financial position is computed as follows:

	2012
Fair value of debt component on initial recognition on August 18, 2011	10,560,802
Interest income accrued	532,524
Carrying value as of March 31, 2012	**11,093,326**

13. INVESTMENTS IN PROJECTS

Investment in project came from Jeruk Project – Indonesia amounted to US$30,324,414. This account represents disbursements for the Jeruk Project made by the Group to Cue Sampang Pty Ltd (Cue) and Singapore Petroleum Company Ltd (SPC), in accordance with the Jeruk Economic Agreement entered into by the Group with Cue and SPC on January 4, 2006 [Note 40(a)(v)]. Under the agreement, the Group is entitled to recover such disbursements from Cue and SPC once the Oyong field in the Sampang Block of which both parties are participating owners, starts producing oil, and Cue and SPC have recovered their own costs.

(Expressed in United States Dollars, unless otherwise stated)

13. INVESTMENTS IN PROJECTS (continued)

The original investment cost of the Company in the Jeruk Project was US$35 million. However, it was impaired in 2008 when the exploration activities were stopped. In 2011, the Oyong field has already started production whereby Cue and SPC have fully recovered all of their costs related to the Jeruk field. In view of this development, the Company reversed the allowance for impairment of the investment in the Jeruk Project of approximately US$14.4 million to reflect the estimated recoverable amount of the Jeruk investment.

14. PROPERTY, PLANT AND EQUIPMENT - Net

This account consists of the following:

	2012			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Cost				
Land	4,098,032	-	-	4,098,032
Buildings and land improvements	24,132,598	10,267	-	24,142,865
Machinery	49,060,262	1,247,028	-	50,307,290
Control panel equipment	43,922,479	12,314	-	43,934,793
Drilling rigs and equipment	25,790,350	1,487,293	-	27,277,643
Vehicles	6,015,455	258,446	-	6,273,901
Office and other equipment	11,066,348	399,740	-	11,466,088
Leasehold improvements	6,518,121	-	-	6,518,121
Telecommunication equipment	74,230	12,568	-	86,798
Aircraft	14,004,200	-	-	14,004,200
Assets under finance lease	569,857	-	-	569,857
Construction in progress	3,504,109	-	-	3,504,109
Total Cost	188,756,041	3,427,657	-	192,183,697
Accumulated Depreciation				
Buildings and land improvements	6,829,063	220,183	-	7,049,246
Machinery	22,685,380	996,745	-	23,682,125
Control panel equipment	14,569,146	234,799	-	14,803,945
Drilling rigs and equipment	8,614,604	233,967	-	8,848,571
Vehicles	4,133,760	100,506	-	4,234,266
Office and other equipment	8,450,588	131,908	-	8,582,496
Leasehold improvements	6,067,639	51,544	-	6,119,183
Telecommunication equipment	41,239	-	-	41,239
Aircraft	700,212	175,052	-	875,264
Assets under finance lease	316,657	63,497	-	380,154
Total Accumulated Depreciation	72,408,288	2,208,201	-	74,616,489
Net Book Value	**116,347,753**			**117,567,208**

(Expressed in United States Dollars, unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT – Net (continued)

	2011						
	Beginning Balance	**Additions**	**Deductions**	**Reclassi-fications**	**Translation Adjustments**	**Effect of Deconsolidation of Medco Power Indonesia**	**Ending Balance**
Cost							
Land	4,695,090	144,698	-	-	(4,743)	(737,013)	4,098,032
Buildings and land improvements	30,785,265	43,610	-	76,476	(57,027)	(6,715,726)	24,132,598
Machinery	210,623,268	4,362,349	(1,737,842)	-	(1,380,880)	(162,806,633)	49,060,262
Control panel equipment	43,740,827	42,804	-	397,109	(258,261)	-	43,922,479
Drilling rigs and equipment	22,076,106	6,753,712	(1,997,122)	-	(1,042,346)	-	25,790,350
Vehicles	4,672,743	2,770,066	(300,445)	-	(414,937)	(711,972)	6,015,455
Office and other equipment	13,513,269	1,133,908	(35,765)	-	(378,935)	(3,166,129)	11,066,348
Leasehold improvements	6,839,957	2,923	(613)	-	(2,721)	(321,425)	6,518,121
Telecommunication equipment	74,230	-	-	-	-	-	74,230
Aircraft	-	14,004,200	-	-	-	-	14,004,200
Assets under finance lease	18,500,000	569,857	(18,500,000)	-	-	-	569,857
Construction in progress	2,053,036	2,543,969	-	(473,585)	(222,087)	(397,224)	3,504,109
Total Cost	357,573,791	32,372,096	(22,571,787)	-	(3,761,937)	(174,856,122)	188,756,041
Accumulated Depreciation							
Buildings and land improvements	7,093,148	1,451,461	-	-	(22,917)	(1,692,629)	6,829,063
Machinery	51,468,677	11,007,532	(1,736,506)	-	(1,663,588)	(36,390,735)	22,685,380
Control panel equipment	10,824,476	3,744,670	-	-	-	-	14,569,146
Drilling rigs and equipment	9,364,435	1,793,343	(1,814,876)	-	(728,298)	-	8,614,604
Vehicles	4,390,312	420,456	(222,020)	-	(77,144)	(377,844)	4,133,760
Office and other equipment	8,878,489	1,816,069	(26,808)	-	(319,915)	(1,897,247)	8,450,588
Leasehold improvements	6,007,769	289,364	(345)	-	(3,942)	(225,207)	6,067,639
Telecommunication equipment	41,239	-	-	-	-	-	41,239
Aircraft	-	700,212	-	-	-	-	700,212
Assets under finance lease	6,747,872	316,657	(6,747,872)	-	-	-	316,657
Total Accumulated Depreciation	104,816,417	21,539,764	(10,548,427)	-	(2,815,804)	(40,583,662)	72,408,288
Net Book Value	**252,757,374**						**116,347,753**

Allocation of depreciation expense is as follows:

	2012	**2011**
Cost of sales	1,564,066	4,332,436
Operating expenses (Note 30)	644,135	1,397,508
Total	**2,208,201**	**5,729,944**

PT Medco Sarana Kalibaru (MSK), PT Medco Methanol Bunyu (MMB) and PT Medco Ethanol Lampung (MEL) own several pieces of land located in Kalibaru, Cilincing, Jakarta, Pondok Indah, Jakarta and Talang Jati Village, Kotabumi, Lampung, respectively with Building Use Rights (Hak Guna Bangunan or HGB) for 20 years until 2012, 2019 and 2025, respectively. Management believes that the HGB certificates can be extended upon their expiration.

Construction in progress as of March 31, 2012 mainly represents the construction of drilling rigs and equipment which was 95% completed and construction of coal transportation port which was 51% completed. These projects are expected to be completed in the current year.

Property, plant and equipment amounting to US$56.1 million in March 31, 2012 and December 31, 2011 are used as collateral to the loans obtained by the Subsidiaries (Note 22).

All inventories and property, plant and equipment, except land, were insured against fire, theft and other possible risks for US$142 million and Rp153 billion in 2012 and 2011 (Note 8). Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

(Expressed in United States Dollars, unless otherwise stated)

14. PROPERTY, PLANT AND EQUIPMENT - Net (continued)

The Company has a lease agreement with PT Airfast Indonesia (Airfast) for an aircraft with a lease term of 10 years [Note 40(c)(ii)]. In January 2011, Fortico International Limited (formerly known as Bawean Petroleum Limited), a wholly owned subsidiary of the Company, signed an aircraft sale and purchase agreement with Magnate International Investment Pte Ltd for the purchase of the aircraft which was previously leased from Airfast for a total value of US$14 million (Note 40c). With the execution of the agreement, the Company became the owner of the aircraft which is now recorded as part of property, plant and equipment.

There were disposals of property, plant, and equipment in March 31, 2012 and December 31, 2011 as follows:

	2012	2011
Net proceeds	-	917,447
Net book value	-	(271,232)
	-	**646,215**

Management believes that there is no impairment in the value of property, plant and equipment as of March 31, 2012 and December 31, 2011.

Based on comparison with other companies in the same industry and internal technical assessment, the Group changed the estimated useful life of its drilling rigs starting January 1, 2011.

15. OIL AND GAS PROPERTIES - Net

a. This account consists of the following:

	2012	2011
Wells and related equipment and facilities	1,214,784,622	1,220,664,420
Uncompleted wells, equipment and facilities	356,838,434	333,070,850
Unoperated acreage	54,566,509	56,999,247
Operated acreage	56,401,136	56,611,136
Office equipment	17,640,963	17,332,765
Vehicles	1,067,734	1,067,734
Fair value adjustments	56,478,420	56,478,420
Total	1,757,777,818	1,742,224,572
Accumulated depreciation, depletion, and amortization and impairment reserves	(935,482,848)	(913,671,712)
Net Book Value	**822,294,970**	**828,552,860**

(Expressed in United States Dollars, unless otherwise stated)

15. OIL AND GAS PROPERTIES – Net (continued)

The movements in oil and gas properties are as follows:

	2012				
Area of Interest	**Location**	**Beginning Balance December 31, 2011**	**Additions**	**Deductions**	**Ending Balance March 31, 2012**
Block A	Aceh	57,775,451	764,704	-	58,540,155
Kampar/S.S. Extension	South Sumatera	128,381,283	3,013,949	6,415,862	124,979,370
Rimau	Sumatera	151,462,738	6,680,818	5,938,341	152,205,215
Senoro Toili	Sulawesi	26,101,682	119,560	256,670	25,964,572
Lematang	Sumatera	116,626,020	709,583	2,526,739	114,808,864
Tarakan	Kalimantan	17,692,133	446,086	892,817	17,245,402
Merangin-I	Sumatera	7,129,482	205,932	-	7,335,414
Bawean	East Java	57,401,654	256,427	2,176,551	55,481,530
Bengara-I	Kalimantan	8,388,554	276,455	-	8,665,009
Simenggaris	Kalimantan	21,885,216	1,563,050	-	23,448,266
Nunukan	Kalimantan	2,277,228	-	-	2,277,228
Bangkanai	Kalimantan	3,231,270	-	-	3,231,270
Sembakung	Kalimantan	2,129,528	30,334	1,327,368	832,494
CBM Sekayu	Sumatera	3,465,280	194,933	-	3,660,213
CBM Pendopo (Muralim)	Sumatera	700,000	-	-	700,000
CBM Lematang	Sumatera	550,000	-	-	550,000
Main Pass	USA	39,639,937	-	334,373	39,305,564
East Cameron	USA	26,821,322	-	651,000	26,170,322
Mustang	USA	-	-	-	-
Brazos	USA	-	-	-	-
Other Blocks in the USA	USA	-	-	-	-
Area 47 Libya	Libya	155,070,593	-	-	155,070,593
Yemen	Yemen	1,823,489	-	-	1,823,489
Tunisia [1])	Tunisia	-	-	-	-
		828.552.860	**14.261.831**	**20.519.721**	**822.294.970**

	2011				
Area of Interest	**Location**	**Beginning Balance December 31, 2011**	**Additions**	**Deductions**	**Ending Balance December 31, 2011**
Block A	Aceh	55,734,202	2,041,249	-	57,775,451
Kampar/S.S. Extension	South Sumatera	115,508,432	38,420,364	25,547,513	128,381,283
Rimau	Sumatera	132,777,450	38,817,645	20,132,357	151,462,738
Senoro Toili	Sulawesi	22,337,245	5,589,262	1,824,825	26,101,682
Lematang	Sumatera	129,134,684	8,581,370	21,090,034	116,626,020
Tarakan	Kalimantan	19,292,758	2,754,286	4,354,911	17,692,133
Merangin-I	Sumatera	1,363,181	5,766,301	-	7,129,482
Bawean	East Java	64,046,556	565,437	7,210,339	57,401,654
Bengara-I	Kalimantan	2,523,501	5,865,053	-	8,388,554
Simenggaris	Kalimantan	11,045,579	10,839,637	-	21,885,216
Nunukan	Kalimantan	2,277,228	-	-	2,277,228
Bangkanai	Kalimantan	-	3,231,270	-	3,231,270
Sembakung	Kalimantan	7,441,572	10,150	5,322,194	2,129,528
CBM Sekayu	Sumatera	1,550,691	1,914,589	-	3,465,280
CBM Pendopo (Muralim)	Sumatera	700,000	-	-	700,000
CBM Lematang	Sumatera	-	550,000	-	550,000
Main Pass	USA	40,196,657	1,147,538	1,704,258	39,639,937
East Cameron	USA	31,217,215	1,208,820	5,604,713	26,821,322
Mustang	USA	10,461,815	-	10,461,815	-
Brazos	USA	18,416,699	-	18,416,699	-
Other Blocks in the USA	USA	2,729,211	-	2,729,211	-
Area 47 Libya	Libya	150,418,758	4,651,835	-	155,070,593
Yemen	Yemen	529,124	1,294,365	-	1,823,489
Tunisia [1])	Tunisia	19,958,244	966,866	20,925,110	-
		839,660,802	**134,216,037**	**145,323,979**	**828,552,860**

[1]) Working interests were divested in 2011
[2]) Working interests were divested in 2010
[3]) Working interests were relinquished in 2010

15. OIL AND GAS PROPERTIES – Net (continued)

b. Deferred Exploration Expenditures

The below amounts represent the significant deferred exploration expenditures pending ultimate result of either successful or dry hole wells in the respective blocks.

Location name	Contract holder	Year the license was granted	Contract expiry	Percentage of working interest	Accumulated exploration cost capitalised as oil and gas properties as of December 31, 2011 (In thousands)
Indonesia					
Kampar/S.S. Extension	PT Medco E&P Indonesia	1993	2033	100%	25,236
Rimau	PT Medco E&P Rimau	1993	2023	100%	8,273
Senoro Toili	PT Medco E&P Tomori Sulawesi	1997	2027	30%	8,904
Simenggaris	PT Medco E&P Simenggaris	1998	2028	41.50%	8,867
Merangin – 1	PT Medco E&P Merangin	2003	2033	80%	6,287
Bengara – 1	PT Medco E&P Bengara	1999	2029	58.33%	8,012
Sub-total - Indonesia					**65,579**
International					
Area 47 Libya	Medco International Venture Ltd	2006	2035	50%	155,071
Total					**220,649**

c. Others

The oil and gas property of Medco US LLC with a net book value of US$99.2 million in 2010 was used as collateral for the loan obtained by this Subsidiary from Compass BBVA Bank. The subsidiary has fully settled this bank loan in July 2011 (Note 22).

In September 2011, the Company sold its equity ownership in Medco Tunisia Anaguid Limited (“Medco Anaguid”) to OMV (Tunesien) Production GmbH (“OMV”). In this connection, the Group derecognized from its 2011 consolidated financial statements oil and gas properties associated with Medco Anaguid with net book value of US$20.9 million (Note 40a).

In October 2010, the Group obtained approvals from the Indonesian Government on the 20-year extension of the Production Sharing Contracts (PSCs) of South & Central Sumatra Extension (S&CS), Block A and Bawean. For S&CS (whereby the initial contract will end in 2013), the Group adjusted its proved reserves estimation (P1) to align with the extended term of the contract, which resulted in an increase in attributable proved reserves.

(Expressed in United States Dollars, unless otherwise stated)

15. OIL AND GAS PROPERTIES - Net (continued)

c. Others (continued)

In years ended March 31, 2012 and December 31, 2011, all wells and related equipment and facilities of Subsidiaries involved in oil and gas exploration and production activities were insured for US$1,561 million respectively.

16. OTHER ASSETS

This account consists of the following:

	2012	2011
Current		
Advances	581,504	447,208
Non-current		
Signing bonuses - net	18,490,030	19,252,500
Advance payments for purchase/rental	4,947,250	3,052,186
Security deposits	1,440,895	1,402,736
Others	14,336,805	15,151,363
Total	**39,214,980**	**38,858,785**

The signing bonuses above related to a service contract entered into with Oman Oil Company and Petroleum Development Oman LLC, and to the Production Sharing Agreements for Blocks 82 and 83 in Yemen (Note 39b).

Advance payments for purchase/rental of property and equipment represent payments made in relation to the acquisition/rental of various assets.

(Expressed in United States Dollars, unless otherwise stated)

17. TRADE PAYABLES

This account consists of the following:

a. By Supplier

	2012	2011
Third parties		
Local suppliers	64,356,925	76,689,368
Foreign suppliers	29,606,790	36,315,551
Total	**93,963,715**	**113,004,919**

b. By Aging Category

	2012	2011
Up to 1 month	73,325,584	92,454,782
1 - 3 months	11,685,961	11,634,657
3 - 6 months	1,822,766	1,352,056
6 months - 1 year	6,743,381	7,310,381
More than 1 year	386,023	253,043
Total	**93,963,715**	**113,004,919**

c. By Currency

	2012	2011
United States Dollar	89,128,820	105,970,584
Rupiah	4,834,895	7,034,335
Total	**93,963,715**	**113,004,919**

Trade payables to both local and foreign suppliers are unsecured and generally have credit terms of 30 to 60 days.

(Expressed in United States Dollars, unless otherwise stated)

18. OTHER LIABILITIES

a. Other payables

	2012	2011
Overlifting payable	62,381,345	27,826,121
Payables to Joint Ventures	6,353,966	6,588,174
BP	4,536,217	4,536,217
Cityview Energy Corp Ltd	1,008,980	1,008,980
Others (each below US$1,000,000)	15,496,972	5,982,257
Total	89,777,480	45,941,749
Current	**76,962,281**	**35,430,475**
Long-term	**12,815,199**	**10,511,274**

The overlifting payable to BPMIGAS in March 31, 2012 and December 31, 2011 primarily relates to Rimau, Tomori, and Tarakan Blocks.

Payables to Joint Ventures represent payables for exploration and production activities related to certain non-Group operated joint ventures.

Payable to BP represents the amount to be paid by PT Medco E&P Tomori Sulawesi, a Subsidiary, once the production from the Senoro Block has reached the volume stipulated in the agreement.

b. Advances from customers

	2012	2011
Third parties		
PT Perusahaan Listrik Negara (Persero)	17,978,355	19,082,950
Others	582,359	128,736
Total	18,560,714	19,211,686
Less portion due within one year	18,560,714	19,211,686
Long-term portion	**-**	**-**

(Expressed in United States Dollars, unless otherwise stated)

19. TAXES PAYABLE

This account consists of:

	2012	2011
Company		
Income tax		
Article 4(2)	81,314	53,278
Article 15	13,434	16,136
Article 21	427,617	283,730
Article 23	195,366	191,748
Article 26	821,864	837,728
Sub-total	1,539,595	1,382,620
Subsidiaries		
Corporate income tax	24,723,480	31,048,246
Income tax		
Article 4(2)	151,523	116,925
Article 15	2,103	44,965
Article 21	1,197,584	1,378,508
Article 22	112,687	133,898
Article 23	624,375	743,176
Article 25	-	4,320
Article 26	12,593	30,830
Value added tax (VAT)	6,994,729	5,844,303
Tax penalties	712,697	841,358
Sub-total	34,531,771	40,186,529
Total	**36,071,366**	**41,569,149**

19. TAXES PAYABLE (continued)

Tax Assessments

Summarized below is the status of current significant tax audits and tax assessments within the Group:

a. The Company

For fiscal year 2005, the Tax Court has partially granted the VAT appeal for Rp1.1 billion and rejected the income tax Article 26 appeal. The Indonesian Tax Office (ITO) has filed to the Supreme Court a Reconsideration Request on the Tax Court Decision on the 2005 VAT dispute amounting to Rp707 million. No decision letter from the Supreme Court has yet been received to date.

The Company has two outstanding appeals to the Tax Court regarding its objections to the assessment letters for fiscal year 2007 which were turned down by the ITO amounting to US$65 million and Rp11.1 billion for disallowed tax deductions from corporate income tax and VAT, respectively.

For fiscal year 2007, the Tax Court has turned down the February, May, September and October VAT appeals amounting to Rp4.6 billion. For March, April, November and December VAT and corporate income tax appeals, no decisions from the Tax Court have yet been received. Nevertheless, management believes that the Company has a strong tax position and will be able to recover the remaining outstanding amounts.

The Company will file a Reconsideration Request to the Supreme Court for the 2007 Tax Court Decisions on the VAT.

The tax audits by the ITO for fiscal year 2006, 2008 and 2009 have been closed.

The tax audit by the ITO for fiscal year 2010 is still on-going and no assessment letter has been received to date.

b. PT Exspan Petrogas Intranusa (EPI)

The tax audits by the ITO for fiscal years 2004, 2005, 2006 and 2007 have been closed.

The tax audit by the ITO for fiscal year 2008 has been completed. EPI is in the appeal process to the Tax Court for its objections to the tax assessments which were turned down by the ITO amounting to Rp5.9 billion for corporate income tax. No decision letter from the Tax Court has been received to date.

The tax audit by the ITO on EPI for fiscal year 2009 has been completed, and EPI received a tax overpayment letter amounting to Rp3.1 billion for corporate income tax.

The tax audit by the ITO on EPI for fiscal year 2010, the VAT audit for the period from July to December 2010 and VAT audit for the period from January to June 2011 are still on-going and no tax assessment letter has been received to date.

The tax audit by the ITO for VAT for the period from January to June 2010 has been completed. EPI filed objections to the ITO tax assessments on VAT for the period from January to June 2010 amounting to Rp1.7 billion. No decision letter has been received to date.

19. TAXES PAYABLE (continued)

Tax Assessments (continued)

c. PT Medco Downstream Indonesia (MDI) and its subsidiaries

The tax audit by the ITO on MDI for fiscal year 2009 had been completed. MDI received tax overpayment letter for corporate income tax amounting to Rp478 million.

The tax audits by the ITO on PT Medco LPG Kaji (MLK) for fiscal years 2007 and prior to 2006 have been closed.

For fiscal year 2008, the ITO has turned down MLK's objection on the corporate income tax assessments amounting to Rp8.7 billion. MLK filed an appeal to the Tax Court. No decision letter has been received to date.

For fiscal year 2009, the tax audit by the ITO has been completed. MLK received tax overpayment letter on corporate income tax amounting to Rp849 million and tax underpayment assessment on VAT amounting to Rp7.6 million. MLK filed objection letters to ITO on VAT assessments letter and no decision letter has been received to date.

The tax audits by the ITO on PT Medco Sarana Kalibaru (MSK) for fiscal years 2007, 2008 and 2009 have been closed. For fiscal year 2009, the ITO has fully accepted MSK objections to the VAT assessments for the months of March, April and May 2009 amounting to Rp21.1 billion.

The tax audit by the ITO on PT Medco Methanol Bunyu (MMB) for fiscal years 2005 and 2006 have been closed.

The tax audit by the ITO on MMB for fiscal year 2008 has been completed. MMB received tax overpayment letter for corporate income tax amounting to Rp1.9 billion.

The tax audit by the ITO on MMB for fiscal year 2009 has been completed. MMB received tax overpayment letter for corporate income tax amounting to Rp11.2 billion, tax assessment letters for underpayment income tax article 23 amounting to Rp3.1 billion and underpayment VAT for the months of January, February, March, April, October and November 2009 amounting to Rp3.4 billion. MMB filed objection letters to ITO for the tax assessments. No decision letter has been received to date.

The VAT audits by the ITO on MMB for the period from January to December 2010 have been completed. MMB received VAT overpayment letter for the period amounting to Rp9.3 billion.

The tax audits by the ITO on PT Medco Ethanol Lampung ("MEL") for fiscal years 2008 and 2009 have been completed. MEL received nil tax assessment letter for corporate income tax for the year 2008 and received tax overpayment letter for corporate income tax amounting to Rp71 million for the year 2009.

d. PT Medco E&P Lematang (MEPL)

The tax audit by the ITO for fiscal year 2006 is still on-going, and no assessment letter has been received to date.

The tax audit by ITO for fiscal year 2008 has been completed. MEPL is in the process of an appeal with the Tax Court for its administrative sanction abolition on the VAT Collection Letters which were turned down by the ITO amounting to Rp640 million. No decision letter has been received to date.

19. TAXES PAYABLE (continued)

Tax Assessments (continued)

e. PT Medco E&P Tarakan (MEPT)

The tax audits by the ITO for fiscal years 2005, 2006, 2007 and 2009 are still on-going, and no assessment letter has been received to date.

The tax audit by the ITO for fiscal year 2008 has been completed. MEPT received VAT assessment amounting to Rp418 million which was paid on February 7, 2011.

f. PT Medco Energi Nusantara

The tax audits by the ITO for the fiscal years 2005, 2006, 2007 and 2008 are still on-going and no assessment letter has been received to date.

g. PT Medco E&P Kalimantan (MEPK)

The tax audit by the ITO for the fiscal years 2006 is still on-going and no assessment letter has been received to date.

h. PT Medco E&P Rimau (MEPR)

The tax audits by the ITO for fiscal years 2005, 2006, 2007 and 2009 are still on-going and no assessment letter has been received to date.

The tax audit by the ITO for fiscal year 2008 has been completed. MEPR received VAT assessment amounting to Rp1.5 billion which was paid on February 7, 2011.

i. PT Medco E&P Malaka (MEPM)

The tax audit by the ITO for fiscal year 2008 is still on-going and no assessment letter has been received to date.

j. PT Medco E&P Indonesia (MEPI)

The tax audit by the ITO for fiscal year 2009 has been completed. MEPI received tax assessments for income tax article 26 and VAT amounting to Rp1.4 billion which was paid on February 23, 2012.

k. Exspan Airsenda Inc (EAS) and Exspan Airlimau Inc (EAL)

The tax audits by the Internal Revenue Service of the United States (IRS) on EAS and EAL have not been officially closed but have been completed in August 2008 for fiscal year 2004, and in January 2009 for fiscal years 2005, 2006 and 2007. To date, the IRS has not issued the results of such audits.

The ITO is still conducting tax audits on the Permanent Establishments (PE) of EAS and EAL for the fiscal years 2005 and 2006. In 2011, ITO raised a finding of taxes deficiency in PE of EAS for 2005 totaling to Rp72 billion which comprises Rp49 billion Corporate Income Tax and Rp23 billion Income Tax article 26 relating to the transfer of the Rimau Block working interest to PT Medco E&P Rimau in 2005. The Group has sent its response letter to the ITO on October 6, 2011. To date, no tax assessment has been issued by the ITO.

(Expressed in United States Dollars, unless otherwise stated)

19. TAXES PAYABLE (continued)

Tax Assessments (continued)

l. Exspan Cumi-Cumi and Medco Lematang Ltd

Exspan Cumi-Cumi Inc (ECCI) and Medco Lematang Ltd (MLL), Subsidiaries, received tax assessments totaling Rp17.4 billion in 2002 for the underpayment of Value Added Tax (VAT) for years prior to the acquisition of these working interests from the previous operators of the respective PSCs. Subsequently, ECCI has relinquished the PSC to the Government of Indonesia.

The Sales and Purchase Agreements with the respective previous PSC working interest owners provided that liabilities incurred prior to acquisition by ECCI and MLL remain the responsibility of the former owners. Accordingly, no provision or payment has been made by ECCI and MLL for these assessments.

Under the taxation laws of Indonesia, the Company and Subsidiaries compute, determine and pay their tax liabilities on the basis of self-assessment. Consolidated tax returns are prohibited under the Indonesia taxation laws. The ITO may assess or amend taxes for 2007 tax obligation and prior years not later than 2013. Starting January 1, 2008, the statute of limitation for tax assessment is amended to 5 years which was previously 10 years. Management believes the Group has fully complied with the tax requirements in Indonesia.

For other tax jurisdictions, management also believes the Group has substantially complied with the applicable laws in regard to tax reporting requirements.

20. ACCRUED EXPENSES AND OTHER PROVISIONS

This account consists of:

	2012	2011
Joint ventures	10,347,310	13,085,259
Repairs and maintenance of plant and equipment	5,644,209	5,644,209
Rentals	5,555,231	13,996,666
Contract services	4,638,095	16,135,762
Interest	3,578,567	4,586,775
Other operating expenses	3,458,907	10,094,023
Labor supply	1,587,897	1,604,083
Employee benefits (Note 34b)	1,362,922	217,708
Others (each below US$500,000)	2,042,631	2,369,686
Total	**38,215,769**	**67,734,171**

(Expressed in United States Dollars, unless otherwise stated)

21. DERIVATIVES

		2012			2011		
Counterparties	**Type**	**Derivative Assets**	**Derivative Liabilities**	**Gain (Loss)**	**Derivative Assets**	**Derivative Liabilities**	**Gain (Loss)**
Company							
PT ANZ Panin Bank	Cross-currency swap	2,312,728	-	(532,230)	2,844,957	-	(260,324)
Morgan Stanley & Co International PLC	Cross-currency swap	11,053	-	1,213,324	-	1,202,270	(1,202,270)
PT ANZ Panin Bank	Forward exchange contract	-	-	-	-	-	(256,320)
JPMorgan Chase, NA	Forward exchange contract	-	-	-	-	-	(158,835)
Morgan Stanley & Co International PLC	Non - deliverable forward transaction	-	-	-	-	-	345,721
Total		2,323,781	-	(681,094)	2,844,957	1,202,270	(1,532,028)
Less current portion		2,312,728	-		2,844,957	-	
Long-term portion		11,053	-		-	1,202,270	

The Group entered into cross-currency interest rate swaps, cross-currency swaps, and foreign currency forward contracts as hedging instruments to manage its interest rate and foreign exchange currency risks. All contracts entered into by the Group have underlying obligations.

Further information relating to the derivatives undertaken by the Group is as follows:

		Notional amount				
Counterparties	**Type**	**In US$**	**In IDR**	**Initial exchange date**	**Final exchange date**	**Terms and Conditions**
Company						
PT ANZ Panin Bank	Cross-currency swap	20,000,000	202,400,000,000	September 8, 2009	June 15, 2012	The Company shall receive a fixed interest rate of 13.375% per year on the Rupiah notional amount and pay a fixed interest rate of 6% per year on the US Dollar notional amount every March 15, June 15, September 15 and December 15. On the final exchange date, the Company pays the US Dollar notional amount and receives the Indonesian Rupiah notional amount.
Morgan Stanley & Co International PLC, Singapore	Cross-currency swap	35,000,000	323,750,000,000	January 17 and 26, 2011	June 17, 2014	The Company shall receive a fixed interest rate of 14.25% per year on the Rupiah notional amount and pay a fixed interest rate of 10.35% and 10.75% per year on the US Dollar notional amount every March 17, June 17, September 17 and December 17. On the final exchange date, the Company pays the US Dollar notional amount and receives the Indonesian Rupiah notional amount with condition applied.

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS

	2012	2011
Short-Term Bank Loans	94,622,822	121,399,984
Long-Term Bank Loans		
Current portion	290,631,512	291,675,148
	385,254,334	413,075,132
Long-Term Bank Loans		
Long-term portion	479,086,258	466,382,311
Total	**864,340,592**	**879,457,443**

a. Bank Loans

Lenders	2012			2011		
	Total	Maturing Within One Year	Non-current	Total	Maturing Within One Year	Non-current
US Dollar						
Third parties						
PT Bank Mandiri (Persero) Tbk	305,000,000	175,000,000	130,000,000	305,000,000	175,000,000	130,000,000
PT Bank Negara Indonesia (Persero) Tbk	314,943,662	149,943,662	165,000,000	299,943,662	149,943,662	150,000,000
Syndicated loan from PT Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk	41,333,333	12,400,000	28,933,333	43,400,000	12,400,000	31,000,000
PT Bank CIMB Niaga Tbk	2,370,303	2,370,303	-	3,413,939	3,413,939	-
PT Bank ICBC Indonesia	10,000,000	10,000,000	-	10,000,000	10,000,000	
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))	1,070,472	917,547	152,925	32,299,858	31,917,547	382,311
PT Bank Rakyat Indonesia (Persero) Tbk	110,000,000	-	110,000,000	110,000,000	-	110,000,000
PT Bank DKI	25,000,000	-	25,000,000	25,000,000	-	25,000,000
Bank of Tokyo – Mitsubishi UFJ	20,000,000		20,000,000	20,000,000	-	20,000,000
Sub-total	**829,717,770**	**350,631,512**	**479,086,258**	**849,057,459**	**382,675,148**	**466,382,311**

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	2012			2011		
	Total	Maturing Within One Year	Non-current	Total	Maturing Within One Year	Non-current
Rupiah/IDR						
Related Party						
PT Bank Himpunan Saudara 1906 Tbk (In original currency) 2012: Rp5.9 billion 2011: Rp5. 9 billion	646,755	646,755	-	654,743	654,743	-
Third parties						
PT Bank Rakyat Indonesia (Persero) Tbk (In original currency) 2012: Rp182.3 billion 2011: Rp206.7 billion	19,859,931	19,859,391	-	22,798,448	22,798,448	-
PT Bank Mand iri (Persero) Tbk (In original currency) 2012: Rp129.6 billion 2011: Rp62 billion	14,116,136	14,116,136	-	6,946,793	6,946,793	-
Sub-total	**34,622,822**	**34,622,822**	**-**	**30,399,984**	**30,399,984**	**-**
Total	**864,340,592**	**385,254,334**	**479,086,258**	**879,457,443**	**413,075,132**	**466,382,311**

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Information relating to bank loans effectivity date and repayment schedule is as follows:

Lenders	Loan effectivity date	Repayment schedule	Security
Company			
PT Bank Mandiri (Persero) Tbk			
Working Capital Credit Facility	March 2012	March 2013	The loan facility is unsecured.
Investment Credit Facility	December 2007	December 2012	The loan facility is unsecured.
Special Transaction Credit Facility	April 2011	April 2016	The loan facility is unsecured.
Special Transaction Credit Facility	September 2011	September 2016	The loan facility is unsecured.
PT Bank Negara Indonesia (Persero) Tbk			
General Corporate Facility	June 2010	June 2013	The loan facility is unsecured.
Term Loan Facility	July 2007	July 2012 Fully paid in February 2011	The loan facility is unsecured.
Term Loan Facility	July 2007	July 2012	The loan facility is unsecured.
Term Loan Facility	February 2011	July 2012	The loan facility is unsecured.
Revolving Working Capital Loan Facility	July 2011	July 2016	The loan facility is unsecured.
PT Bank DKI			
Special Transaction Credit Facility	May 2011	June 2014	The loan facility is unsecured.
Sumitomo Mitsui Banking Corporation, Singapore Branch			
Term Loan Facility	August 2007	May 2011 Fully paid in May 2011	The loan facility is unsecured.
PT Bank ICBC Indonesia			
Fixed Loan on Demand	February 2012	February 2013	The loan facility is unsecured.
PT Bank Rakyat Indonesia (Persero) Tbk.			
Standby Loan	June 2011	June 2016	The loan facility is unsecured.
Bank of Tokyo – Mitsubishi UFJ			
Standby Loan	May 2011	May 2016	The loan facility is unsecured.

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	Loan effectivity date	Repayment schedule	Security
PT Medco Power Indonesia			
PT Bank CIMB Niaga Tbk Acquisition Financing	June 2010	6 monthly installments (2011-2012) and 78 monthly installments (2011-2018)	Collateralized by mortgage security over land and buildings thereon (including the machinery and plant equipment of Elnusa Prima Electrika and Multidaya Prima Elektrindo (MPE)), fiduciary right over the accounts receivable of the debtor, insurance proceeds, and pledge over bank accounts and shares.
PT Mitra Energi Batam (MEB)			
PT Bank Central Asia Tbk Consumer Credit Facility	August 2008	7 monthly installments (2008-2012) Partially paid in June 2011	Collateralized by the entity's motor vehicle (Note 14).
PT Bank Mandiri (Persero) Tbk Investment Credit Facility	December 2010	36 monthly installments (2011-2014)	Collateralized by all SCPP property and equipment of MEB, rights over receivables from Panaran I project, shares of stock owned by PT Medco Power Indonesia and PT Medco Energi Menamas in MEB, rights of project insurance, and all Bank Mandiri bank accounts related to the project.
PT Dalle Energy Batam (DEB)			
PT Bank CIMB Niaga Tbk Project Financing for Simple Cycle Power Plant (SCPP)	December 2005	24 monthly installments (2006-2013)	Collateralized by a fiduciary right over PLTG II machine, shares of DEB, power sale and purchase agreement with PLN Batam, rights on EPC contract, rights on project insurance, performance bonds and all Bank Niaga accounts related to the project (Notes 6, 11, and 14).
PT Bank CIMB Niaga Tbk, Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero)) Syndicated Loan Project Financing Combined Cycle Power Plant (CCPP)	July 2010	67 monthly installments (2010-2017)	Collateralized by new shares issued to DEB shareholders, conversion reserves account, debt reserves account and fiduciary right over receivable from PLN Batam related to power supply produced by CCPP (Notes 6, 11 and 14).
PT Energi Prima Elektrika (EPE)			
PT Bank CIMB Niaga Tbk Acquistion Financing	August 2010	78 monthly installments (2011-2018)	Collateralized by mortgage security over land and buildings thereon (including the machinery and EPE's & MPE's plant equipment), fiduciary right over accounts receivable of debtor, insurance proceeds, and pledge over bank accounts and shares.
PT Multidaya Prima Elektrindo (MPE)			
PT Bank CIMB Niaga Tbk Acquisition Financing	August 2010	78 monthly installments (2011-2018)	Collateralized by mortgage security over land and buildings thereon (including the machinery and EPE's & MPE's plant equipment), fiduciary right over accounts receivable of debtor, insurance proceeds, and pledge over bank accounts and shares.
PT Medco Sarana Kalibaru (MSK)			
PT Bank Mandiri (Persero) Tbk	February 8, 2011	April 5, 2012	The loan facility is unsecured.
Trust Receipts	February 20, 2012	April 20, 2012	The loan facility is unsecured.
Trust Receipts	February 22, 2012	April 22, 2012	The loan facility is unsecured.
Trust Receipts	March 6, 2012	May 5, 2012	The loan facility is unsecured.

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	Loan effectivity date	Repayment schedule	Security
PT Medco Sarana Kalibaru (MSK)			
PT Bank Mandiri (Persero) Tbk			
Trust Receipts	March 16, 2012	May 15, 2012	The loan facility is unsecured.
Trust Receipts	March 29, 2012	May 28, 2012	The loan facility is unsecured.
PT Bank Rakyat Indonesia (Persero) Tbk			The loan is secured by (Note 14):
Trust Receipt	January 20, 2012	April 19, 2012	a. Land and building including complementary tools of blending plant with SHGB No. 113 in the name of PT Usaha Kita Makmur Bersama
Trust Receipt	January 31, 2012	April 30, 2012	
Trust Receipt	March 8, 2012	April 22, 2012	b. Equipment
Trust Receipt	March 12, 2012	April 15, 2012	c. Inventories
Trust Receipt	March 19, 2012	April 15, 2012	d. Accounts receivable
PT Medco E&P Lematang			
PT Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk	June 2010	40 monthly installments (2010 – 2015)	Collateralized by pledge over the debt service account and operational account, and fiduciary security over the receivables.
Syndicated Loan for financing the Singa Project		Partially paid in June 2011	
Medco US LLC (MEUS)			
Compass BBVA Bank	June 2008	June 2011	Secured by first mortgage on the Medco US' oil and gas properties in the United States (Note 15).
Reserve Based Lending		Fully paid in July 2011	
PT Usaha Tani Sejahtera			
PT Bank Himpunan Saudara 1906 Tbk	May 2011	May 2012	Secured by accounts receivable from sales and time deposit (Note 11).
Working Capital Credit Facility			
PT Mitra Energi Gas Sumatera			
PT Bank CIMB Niaga Tbk		7 monthly installments (2010-2012)	Secured by machinery and equipment, proceeds from the pipeline lease contract, shares, escrow account, and assignment of rights (Notes 6 and 15).
Project Financing	October 2009		
PT Medco Ethanol Lampung			
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))			Collateralized by mortgage security over land and buildings thereon (including the machinery and bio-ethanol plant equipment), fiduciary right over inventories (including raw materials, goods in process and finished goods) and accounts receivable of debtor.
Working Capital Credit Facility	June 2011	Fully paid in March 2012	
Investment Credit Facility	June 2010	Fully paid in March 2012	
PT Exspan Petrogas Intranusa (EPI)			
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))	April 2010	14 monthly installments (2010 – 2013)	Collateralized by fiduciary right over rig, receivables and limited corporate guarantee by the Company.

	2012	2011
Interest rate per annum		
Rupiah	7,00% - 12,00%	7.00% - 12.00%
United States Dollar	3,47% - 6,00%	3.58% - 6.75%

(Expressed in United States Dollars, unless otherwise stated)

22. BANK LOANS (continued)

b. Bank Facilities

As of March 31, 2012, the Group has the following outstanding bank facilities:

Bank	Facility	Maximum Facility Amount	Unused Portion of the Facility as of March 31, 2012
General Banking Facility			
Standard Chartered Bank, Jakarta	Banking Facility	US$50,000,000	US$29,800,000
Citibank, NA, Jakarta	Letter of Credit Facility	US$15,000,000	US$4,900,000
PT Bank Mandiri (Persero) Tbk	Non-Cash Loan Facility	US$100,000,000	US$48,616,122
PT Bank DBS Indonesia	Banking Facility	US$20,000,000	US$20,000,000
PT Bank Danamon Indonesia Tbk	Bank Guarantee Facility, Standby Letter of Credit Facility, Import Letter of Credit Facility	US$9,500,000	US$9,500,000
Subsidiaries' General Financing Facilities			
PT Medco Sarana Kalibaru (MSK)			
PT Bank Rakyat Indonesia (Persero) Tbk	Non-Cash Loan Facility	US$88,000,000	US$67,047,401

c. Others

The Group, under its loan agreements, is subject to various covenants, among others to obtain written approval from the lenders before entering into certain transactions such as mergers, takeovers, liquidation or change in status and Articles of Association, reducing the authorized, issued and fully paid capital; restrictions on lending money to third parties; negative pledges, with certain exceptions; restrictions on change in core business activities and payments of dividends; and requirement to comply with certain financial ratios.

As of March 31, 2012 and December 31, 2011, in management's opinion, the Group is in compliance with the covenants of all respective obligations.

(Expressed in United States Dollars, unless otherwise stated)

23. OTHER LONG-TERM DEBT

	2012	2011
Related Party		
Mitsubishi Corporation		
Due in 2014	83,454,258	69,997,758
Third Parties		
Medium-Term Notes		
Due in 2012	21,500,000	65,000,000
Due in 2013	40,450,000	40,450,000
Net	61,950,000	105,450,000
Less unamortized discount	158,725	201,492
Net	61,791,275	105,248,508
Less current portion	21,500,000	65,000,000
Less unamortized discount	65,723	71,871
Current portion - net	**21,434,277**	**64,928,129**
Long-term portion	**40,356,998**	**40,320,379**
Rupiah Bonds		
Due in 2012	55.936.819	56,627,701
Due in 2014	107.461.874	108,789,149
Net	163.398.693	165,416,850
Less unamortized discount	469,047	497,894
Net	162.929.646	164,918,956
Less current portion	**55,849,969**	**56,563,960**
Long-term portion	**107,079,676**	**108,354,996**
US Dollar Bonds		
Due in 2016	80,000,000	80,000,000
Less unamortized discount	567,321	612,321
Net	**79,432,679**	**79,387,679**
Interest rates per annum		
Rupiah	13,38% - 14,25%	13.38% - 14.25%
United States Dollar	3,25% - 8,00%	3.25% - 8.00%

(Expressed in United States Dollars, unless otherwise stated)

23. OTHER LONG-TERM DEBT (continued)

Further information relating to other long-term debt is as follows:

Long-Term Debt	Principal	Rating	Listed	Maturity	Coupon	Security
Company						
Rupiah Bonds II	Rp1,500,000,000,000 Tranche A amounting to Rp513,500,000,000 Tranche B amounting to Rp986,500,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	Indonesia Stock Exchange	Tranche A: June 2012 Tranche B: June 2014	Tranche A: 13.375% Tranche B: 14.25% Payable quarterly	These bonds are unsecured.
Medium-Term Notes I	US$50,000,000 Tranche A amounting to US$28,000,000 (Fully paid in March 2012) Tranche B amounting to US$22,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	Tranche A: December 2011 and February 2012 Tranche B: December 2012 and February 2013	Tranche A: 7.25% Tranche B: 8.00% Payable quarterly	These notes are unsecured.
Medium-Term Notes II	US$50,000,000 Tranche A amounting to US$40,000,000 (Fully paid in March 2012) Tranche B amounting to US$10,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	Tranche A: March 2012 Tranche B: March 2013	Tranche A: 7.25% Tranche B: 8.00% Payable quarterly	These notes are unsecured.
Medium-Term Notes III	US$50,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	October 2013	6.375% Payable quarterly	These notes are unsecured.
Self Registered Bonds USD I	US$80,000,000 First Stage amounting to US$ 50,000,000 Second Stage amounting to US$ 30,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2011)	Indonesia Stock Exchange	July 14, 2016 November 11, 2016	6.05%	These bonds are unsecured.
PT Medco LNG Indonesia						
Mitsubishi Corporation	Term loan facility agreement amounting to US$120 million maximum	NA	NA	December 2014	NA	This is collateralized by pledge of DSLNG shares.

a. <u>Debt Covenants</u>

Under the terms and conditions of these long-term obligations, the Group is subject to various covenants, among others, obtaining approval from the lenders/designated trustees prior to undertaking certain actions such as: mergers or acquisitions, reducing the authorized, issued and fully paid capital stock of the Company, changing the main business activities; restrictions on granting loans to third parties, pledging and transferring the Company’s assets, issuing senior debt, proposing to file for bankruptcy or delaying loan payments prior to the payment of bond interest and principal, and declaring and paying dividends in excess of a certain percentage of consolidated net income, and is required to comply with certain financial ratios.

As of March 31, 2012, in management’s opinion, the Group is in compliance with the covenants of all long-term obligations.

(Expressed in United States Dollars, unless otherwise stated)

23. OTHER LONG-TERM DEBT (continued)

b. Trustees

The Group engaged Trustees to act as the intermediaries between the Group and the Bondholders. The Trustees for Rupiah Bonds II and self registered USD Bonds I are PT Bank CIMB Niaga Tbk and PT Bank Mega Tbk, respectively.

24. NON-CONTROLLING INTERESTS

a. Non-controlling interest in net assets of subsidiaries:

	March 31, 2012	**December 31, 2011**
Medco LLC	**10,756,722**	**9,891,696**

b. Non-controlling interest in net profit for the year of subsidiaries:

	2012	**2011**
Medco LLC	865,076	1,076,670
PT Dalle Energy Batam	-	333.608
PT Medco Gajendra Power Services	-	15.323
PT Medco Energi Menamas	-	54.717
PT Medco Cahaya Geothermal	-	273
Total	**865,076**	**1.480.591**

c. Non-controlling interest in net comprehensive income for the year of subsidiaries:

	2012	**2011**
Medco LLC	865,076	1,076,670
PT Dalle Energy Batam	-	880,065
PT Medco Gajendra Power Services	-	90,678
PT Medco Energi Menamas	-	128,895
PT Medco Cahaya Geothermal	-	987
Total	**865,076**	**2,177,295**

25. CAPITAL STOCK

	2012			
Shareholders	**Number of Shares**	**Percentage of Ownership**	**Amount**	
			Rp'000	US$
Encore Energy Pte Ltd	1,689,393,006	57.42%	168,939,301	51,285,313
PT Medco Duta	10,504,000	0.36%	1,050,400	361,158
PT Multifabrindo Gemilang	2,000,000	0.07%	200,000	60,693
Masyarakat (masing-masing dibawah 5%)	1,240,099,944	42.15%	124,009,994	43,872,545
Jumlah	2,941,996,950	100.00%	294,199,695	95,579,709
Dikurangi saham tresuri	390,454,500		39,045,450	5,574,755
Neto	**3,332,451,450**		**333,245,145**	**101,154,464**

	2011			
Shareholders	**Number of Shares**	**Percentage of Ownership**	**Amount**	
			Rp'000	US$
Encore Energy Pte Ltd	1,689,393,006	57.42%	168,939,301	51,285,313
PT Medco Duta	20,589,000	0.70%	2,058,900	222,540
PT Multifabrindo Gemilang	2,000,000	0.07%	200,000	60,693
Public (each below 5%)	1,230,014,944	41.81%	123,001,494	44,011,163
Total	2,941,996,950	100.00%	294,199,695	95,579,709
Treasury stock	390,454,500		39,045,450	5,574,755
Net	**3,332,451,450**		**333,245,145**	**101,154,464**

On May 5, 2006, in an Extraordinary Shareholders' Meeting, the shareholders approved the changes to the resolutions of the Company's Extraordinary Meetings dated June 23, 2000 and June 25, 2001 with regard to the sale of the Company's treasury shares.

As decided in the Extraordinary Shareholders' Meeting, the shareholders granted authority to the Company's Board of Directors to carry out necessary actions related to the assignment, sale and exchange of the Company's treasury shares in compliance with applicable laws and regulations, including capital market regulations.

As stipulated in the Decision Letter of the Chairman of BAPEPAM-LK No. KEP-401/BL/2008 dated October 9, 2008 with respect to the buy-back of shares issued by a public company during potential market crisis conditions, a company is allowed to buy back its shares up to a maximum of 20% of paid-up capital during potential market crisis conditions. The share buy-back should be executed within 3 months from the submission of the disclosure of such plan to the BAPEPAM-LK.

In light of the above regulation, on October 13, 2008, the Company announced its plan to buy back 333,245,145 shares or equivalent to 10% of its paid-up capital. In order to implement its buy-back program, the Company set aside funds in the amount of US$100 million. The buy-back program was conducted within a period of 3 months from the announcement.

At the conclusion of the buy-back program, the Company bought back a total of 166,857,500 shares or 5.01% of its total issued and fully paid shares at a total cost of approximately Rp508 billion or equivalent to US$51.8 million consisting of:

a. 85,561,000 shares or 2.57% of the total issued and fully paid share capital purchased at an average price of Rp3,869 for share buy-back program based on Extraordinary Shareholders' Meeting in May 2008;

b. 81,296,000 shares or 2.44% of the total issued and fully paid share capital purchased at an average price of Rp2,178 for the second share buy-back program based on Decision Letter of the Chairman of BAPEPAM-LK No. KEP-401/BL/2008.

(Expressed in United States Dollars, unless otherwise stated)

25. CAPITAL STOCK (continued)

On May 27, 2010, the shareholders, in their Extraordinary Shareholders' Meeting, approved the utilization of treasury stock for employee and management stock option program at the maximum of 5%.

As of March 31, 2012 and December 31, 2011, the outstanding treasury shares totaled 390,454,500 shares representing 11.72% of the total issued and fully paid shares.

The Company adopted the par value method in recording its treasury stock transactions (Note 2o).

26. ADDITIONAL PAID-IN CAPITAL

This account consists of:

	2012	2011
Issuance of 321,730,290 shares through rights offering I to stockholders in 1999	139,908,988	139,908,988
Sale of 22,000,000 shares through public offering in 1994	33,500,000	33,500,000
Resale of shares	1,073,325	1,073,325
Distribution of bonus shares in 1998	(32,254,579)	(32,254,579)
Deduction of additional paid-in capital on treasury shares	(33,600,836)	(33,600,836)
Total	**108,626,898**	**108,626,898**

27. EFFECTS OF CHANGES IN THE EQUITY TRANSACTIONS OF SUBSIDIARIES/ASSOCIATED COMPANIES

This account mainly represents the effects of the receipt of capital injection in a Subsidary.

28. SALES AND OTHER OPERATING REVENUES

The breakdown of the sales and other operating revenues of the Group is as follows:

a. By nature of revenues

	2012	2011
Net oil and gas sales	214,453,470	167,073,229
Net sales of chemical and other petroleum products	64,615,371	35,821,821
Electric power sales and revenue from related services	-	23,908,900
Revenues from other services	3,118,970	28,335,808
Total	**282,187,811**	**255,139,758**

(Expressed in United States Dollars, unless otherwise stated)

28. SALES AND OTHER OPERATING REVENUES (continued)

b. By customers

	2012	2011
Related parties		
Petro Diamond Singapore Pte Ltd	115,491,143	111,446,208
Petro Diamond Ltd, Hong Kong	15,172,134	-
PT Medcopapua Industri Lestari	-	-
Third parties		
Local customers	121,052,297	115,068,154
Foreign customers	30,472,237	28,625,396
Total	**282,187,811**	**255,139,758**

The details of revenues from customers which exceeded 10% of the total reported revenues, are as follows:

	2012	2011
Petro Diamond Singapore Pte Ltd	115,491,143	111,446,208
PT PLN (Persero)	15,172,134	-
PT PLN (Persero)	10,464,129	19,697,966
Petroleum Development Oman	25,328,181	24,493,243
BPMIGAS dan PT pertamina (Persero)	11,581,877	10,822,450
Total	**178,037,464**	**166,459,867**

29. COST OF SALES AND OTHER DIRECT COSTS

The Group incurred the following costs to operate, process and sell its products and services:

a. Production and Lifting Costs

This account consists of:

	2012	2011
Field operations overhead	26,688,989	29,610,827
Cost for oil and gas contracts	18,981,875	18,919,525
Operations and maintenance	9,764,203	10,858,784
Pipeline and transportation fees	3,136,324	3,264,917
Operational support	2,262,402	2,649,380
Total	**60,833,793**	**65,303,433**

b. Cost of Other Services

This account mainly represents operational costs of EPI.

(Expressed in United States Dollars, unless otherwise stated)

29. COST OF SALES AND OTHER DIRECT COSTS (continued)

c. Depreciation, Depletion and Amortization

This account represents depreciation, depletion and amortization for the following:

	2012	2011
Oil and gas operations	21,465,601	21,858,216
Electric power	-	2,501,626
Chemical and other petroleum products	674,015	628,425
Other contracts and related services	1,590,051	1,202,385
Total	**23,729,667**	**26,190,652**

d. Cost of Sales of Chemical and Other Petroleum Products

This account consists of:

	2012	2011
Cost of purchases of high speed diesel fuel	62,665,759	34,074,803
Raw material	5,114,406	2,782,277
Fuel	1,196,667	579,653
Materials and supplies	1,495,451	819,029
Salaries and other allowances	2,024,703	1,074,458
Processing plant operational costs	3,517,884	1,760,202
Contract labor	162,620	60,497
Rentals	134,221	61,299
Others	430,885	103,770
Total production costs	76,742,596	41,315,988
Inventories:		
At beginning of year	1,100,273	1,999,599
At end of year	(14,482,644)	(10,756,463)
Total	**63,360,225**	**32,559,124**

e. Cost of Electric Power Sales and Related Services

This account consists of the following:

	2012	2011
Electricity production costs	-	12,708,368
Salaries and benefits	-	698,453
Total	**-**	**13,406,821**

f. Exploration Expenses

This account consists of:

	2012	2011
Exploration overhead	2,131,225	1,758,746
Seismic	777,138	1,015,882
Geological and geophysical	227,682	13,316
Total	**3,136,045**	**2,787,944**

(Expressed in United States Dollars, unless otherwise stated)

29. COST OF SALES AND OTHER DIRECT COSTS (continued)

g. Cost of Crude Oil Purchases

This account consists of cost of crude oil purchased by the Group from BPMIGAS and Pertamina.

There were no purchases from a single vendor which exceeded 10% of revenues for the years ended March 31, 2012 and December 31, 2011,

30. OPERATING EXPENSES

	2012	2011
General and administrative		
Salaries, wages and other employee benefits	19,266,959	23,029,785
Rental	1,268,630	1,027,432
Professional fees	1,457,136	1,127,806
Repairs and maintenance	1,229,903	1,297,237
Insurance	1,258,067	1,470,147
Contract charges	875,076	868,369
Depreciation (Note 14)	644,135	1,397,508
Office supplies and equipment	587,587	560,064
Others (each below US$100,000)	2,758,895	2,281,630
Sub-total	29,346,388	33,059,978
Selling		
Export expenses	4,172,864	1,782,650
Business travel	819,641	844,186
Advertising and promotion	474,273	521,740
Entertainment	149,046	142,290
Sub-total	5,615,824	3,290,866
Total Operating Expenses	**34,962,212**	**36,350,844**

31. INCOME TAX

a. Income tax expense of the Company and Subsidiaries consists of the following:

	March 31, 2012	March 31, 2011
Current income tax expense		
Subsidiaries	(33,181,871)	(25,059,625)
Deferred tax benefit (expense)		
Company	(527,764)	4,033,055
Subsidiaries	2,435,998	3,428,100
Sub-total	1,908,234	7,461,155
Total Tax Expense	**(31,273,637)**	**(17,598,470)**

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

b. Current Income Tax

A reconciliation between income before tax expense as per the consolidated statements of comprehensive income and the Company's tax loss, is as follows:

	March 31, 2012	March 31, 2011
Consolidated income before income tax expense	**44,206,976**	**28,898,317**
Less income before income tax expense of Subsidiaries	(59,059,715)	(49,727,759)
Income (Loss) before income tax of the Company	**(14,852,739)**	**(20,829,442)**
Dividend from Subsidiaries		
Total income (loss) before income tax of the Company	**(14,852,739)**	**(20,829,442)**
Temporary differences		
Unrealized (gain) loss from derivative transactions	(681,093)	1,016,507
Depreciation of property and equipment	47,160	80,865
Amortization of deferred charges	49,300	168,473
Employee benefits	126,649	477,334
Unrealized gain on marketable securities	(4,020,536)	(1,305,828)
Permanent differences		
Non-deductible expenses	101,791	107,230
Non-taxable income	117,055	(2,000,695)
Income subjected to final income tax	(2,169,900)	(212,111)
Tax loss of the Company for the year	**(21,282,313)**	**(22,497,667)**
Prior years tax losses	(227,731,046)	(180,140,159)
Adjustment to prior year tax loss	3,721,747	-
Accumulated tax loss carry-forward at end of year-Company	**(245,291,612)**	**(202,637,826)**

No provision for current income tax was made by the Company for the years ended March 31, 2012 and December 31, 2011 because the Company is in a tax loss position.

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

c. Deferred Tax

The details of the Group's deferred tax assets and liabilities are as follows:

	2012			
	December 31, 2011	**Cumulative deferred tax assets/liabilities of divested subsidiaries**	**Charged (credited) to consolidated statement of comprehensive income**	**March 31, 2012**
Company				
Deferred Tax Assets				
Tax losses	10,891,500	-	-	10,891,500
Employee benefit liabilities	1,892,914	-	(31,662)	1,924,576
Amortization of deferred expenses	1,766,674	-	(12,325)	1,778,999
Depreciation of property, plant and equipment	979,607	-	(11,790)	991,397
Sub-total	15,530,695	-	(55,777)	15,586,472
Deferred Tax Liabilities				
Unrealized income on marketable securities	(2,157,693)	-	1,005,134	(3,162,827)
Unrealized income from derivative transactions	(410,605)	-	170,273	(580,878)
Fair value adjustment of investment in associates	(7,490,545)	-	(591,866)	(6,898,679)
Sub-total	(10,058,843)	-	583,541	(10,642,384)
Net Deferred Tax Assets - Company	5,471,852	-	527,764	4,944,088
Subsidiaries	59,868,138		4,578,371	55,289,767
Deferred Tax Assets of the Group - Net	**65,339,990**		**5,106,135**	**60,233,855**
Deferred Tax Liabilities Subsidiaries	**(78,248,136)**		**7,915,740**	**(70,332,396)**
Deferred Tax Expense			**13,021,875**	
Effect of foreign exchange rate			**(14,930,109)**	
Net Deferred Tax Expense			**(1,908,234)**	

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

c. Deferred Tax (continued)

	2011			
	December 31, 2010	**Cumulative deferred tax assets/liabilities of divested subsidiaries**	**Charged (credited) to consolidated statement of comprehensive income**	**December 31, 2011**
Company				
Deferred Tax Assets				
Tax losses	21,209,614	-	10,318,114	10,891,500
Employee benefit liabilities	2,231,891	-	338,977	1,892,914
Amortization of deferred expenses	1,748,119	-	(18,555)	1,766,674
Depreciation of property, plant and equipment	928,923	-	(50,684)	979,607
Sub-total	26,118,547	-	10,587,852	15,530,695
Deferred Tax Liabilities				
Unrealized income on marketable securities	(2,026,840)	-	130,853	(2,157,693)
Unrealized income from derivative transactions	(793,679)	-	(383,074)	(410,605)
Fair value adjustment of investment in associates	-	-	7,490,545	(7,490,545)
Sub-total	(2,820,519)	-	7,238,324	(10,058,843)
Net Deferred Tax Assets - Company	23,298,028	-	17,826,176	5,471,852
Subsidiaries	47,386,811	-	(12,481,327)	59,868,138
Deferred Tax Assets of the Group - Net	**70,684,839**	**-**	**5,344,849**	**65,339,990**
Deferred Tax Liabilities Subsidiaries	**(68,060,310)**	**-**	**10,187,826**	**(78,248,136)**
Deferred Tax Expense			**15,532,675**	
Effect of foreign exchange rate			**117,193**	
Net Deferred Tax Expense			**15,649,868**	

(Expressed in United States Dollars, unless otherwise stated)

31. INCOME TAX (continued)

c. Deferred Tax (continued)

A reconciliation between the income tax expense and the amount computed by applying the statutory tax rate to income before income tax expense, is as follows:

	March 31, 2012	March 31, 2011
Consolidated profit before income tax expense	**44,206,976**	**28,898,317**
Less income before income tax expense of Subsidiaries	(59,059,715)	(49,727,758)
Income (loss) before income tax of the Company	**(14,852,739)**	**(20,829,441)**
Total income (loss) before income tax of the Company	**(14,852,739)**	**(20,829,441)**
Tax benefit (expense) using statutory tax rates	3,713,185	5,207,360
Tax effects of permanent differences:		
Non-taxable income	(29,264)	500,174
Income already subjected to final income tax	542,475	53,028
Adjustment to tax loss	-	(1,700,699)
Non-deductible expenses	(25,448)	(26,808)
Expired of previous year tax loss carry forward	(930,437)	-
Adjustment from previous year tax expense	(3,798,275)	-
Tax expense:		
Company	(527,764)	4,033,055
Subsidiaries	(30,745,873)	(21,631,525)
Income Tax Expense - Net	**(31,273,637)**	**(17,598,470)**

The management is of the opinion that the deferred tax assets of the Company and Subsidiaries are recoverable.

32. EARNINGS PER SHARE

a. Earnings per share

The computation of basic earnings per share is based on 2,941,996,950 shares, representing the weighted average number of shares for the years ended March 31, 2012 and March 31, 2011, respectively.

	2012	2011
Earnings per share		
Profit for the year	12,063,263	9,819,256
Basic earnings per share	0,0041	0,0033

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no potentially dilutive ordinary shares (anti-dilutive).

(Expressed in United States Dollars, unless otherwise stated)

33. CASH DIVIDENDS

On May 19, 2011, the stockholders, in their Annual General Meeting (AGM) approved the distribution of cash dividends pertaining to book year 2010 in the amount of US$0.00748 per share or equivalent to approximately US$21.9 million. The dividends were paid in June 2011.

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS

a. Defined Contribution Pension Plan

Subsidiaries involved in oil and gas exploration and production activities have established defined contribution pension plans covering all their local permanent employees. These plans provide pension benefits based on salaries and years of service of the employees.

The pension plans are managed by Dana Pensiun Lembaga Keuangan (DPLK) PT Bank Negara Indonesia (Persero) Tbk and DPLK Jiwasraya whose deeds of establishment were approved by the Minister of Finance of the Republic of Indonesia in its decision letters No. Kep. 1100/KM.17/1998 dated November 23, 1998 and No. Kep.171-KMK/7/1993 dated August 16, 1993, respectively. The pension plans are funded by contributions from both the Subsidiaries at 6% and 7% of gross salaries and their employees at 2% and 3% of gross salaries, respectively.

The movements of the defined contribution pension plans of the Subsidiaries involved in the oil and gas exploration and production are as follows:

	2012	2011
Beginning balance	-	-
Pension cost	964,276	2,793,542
Loss on foreign exchange	4,598	2,044
Pension contributions paid	(958,874)	(2,795,586)
Ending balance	**-**	**-**

b. Defined Benefit Pension Plan

The Group also recognizes defined benefit plan obligations for the employees involved in oil and gas operations in accordance with applicable regulations. The defined benefits plan is being funded by placing funds in PT AIG Life, PT Asuransi Allianz Life Indonesia and PT Asuransi Jiwa Manulife Indonesia.

(Expressed in United States Dollars, unless otherwise stated)

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

b. Defined Benefit Pension Plan (continued)

The Group also recognized post-employment benefits for non-members of the defined benefit plan in accordance with Labor Law No. 13 Year 2003 and the prevailing Group policy.

The number of people eligible for the benefits is 1,918 and 1,880 as of March 31, 2012 and December 31, 2011, respectively.

i. An analysis of defined benefit plan obligations recognized in the consolidated statements of financial position is as follows:

	2012	2011
Present value of defined benefit plan obligations	105,830,184	105,616,686
Fair value of plan assets	(104,279,132)	(105,052,194)
Unfunded defined benefit plan obligations	1,551,052	564,492
Unrecognized actuarial loss	(188,130)	(346,784)
Defined benefit plan obligations - net (Note 20)	**1,362,922**	**217,708**

ii. An analysis of the defined benefit plan costs in the consolidated statements of comprehensive income is as follows:

	2012	2011
Current service cost	2,124,986	10,447,942
Interest expense	2,051,779	8,207,118
Actuarial loss (gain) recognized	(1,818,730)	(6,107,263)
Expected return on plan assets	(1,247,477)	(4,988,700)
Others	(213)	(515)
Total	**1,110,345**	**7,558,582**

iii. An analysis of the movements of defined benefit plan obligations in the consolidated statement of financial position is as follows:

	2012	2011
Balance at beginning of year	217,708	8,014,396
Employee benefit costs	1,110,345	7,558,582
Contributions for the year	-	(15,148,253)
Benefits paid	-	(101,115)
Effect of foreign exchange	34,869	(105,902)
Balance at end of year (Note 20)	**1,362,922**	**217,708**

(Expressed in United States Dollars, unless otherwise stated)

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

b. Defined Benefit Pension Plan (continued)

iv. The defined benefit plan obligations in March 31, 2012 and December 31, 2011 were calculated using the following assumptions:

	2012	2011
Discount rates	4,0% - 7,7%	4,0% - 7,7%
Expected rate of return on assets:		
- IDR Portfolio	0% - 6%	0% - 6%
Salary increment rate	9% - 12%	9% - 12%
Mortality rate	TMI 1999 dan GAM'71	TMI 1999 dan GAM'71
Morbidity rate (disability rate)	0.03% - 10% mortality rate	0.03% - 10% mortality rate
Resignation rate	0.028% - 6% primarily in line with age profile	0.028% - 6% primarily in line with age profile
Proportion of normal retirements	100%	100%

c. Labor Law No. 13/2003 and Other Post-employment Benefits

The Group also recognizes post-employment benefits for non-members of the defined benefit plan in accordance with Labor Law No. 13 Year 2003 and the prevailing Group policy.

The number of people eligible for the benefits is 1,918 and 1,880 as of March 31, 2012 and December 31, 2011, respectively.

i. An analysis of the Labor Law No. 13/2003 and other post-employment benefits obligations recognized in the consolidated statements of financial position is as follows:

	2012	2011
Present value of unfunded post-employment benefits obligations	18,100,174	17,200,174
Unrecognized past service cost-non-vested	(207,404)	(172,404)
Unrecognized actuarial loss	(4,629,742)	(2,899,091)
Effect of deconsolidating Medco Power Indonesia	-	(1,758,603)
Total post- employment benefits obligations	**13,263,028**	**12,370,076**

ii. An analysis of the Labor Law No. 13/2003 and other post-employment benefits costs in the consolidated statements of comprehensive income is as follows:

	2012	2011
Current service cost	837,233	3,348,932
Interest expense	247,725	990,899
Compensation expense	46,249	184,996
Past service cost recognized	(27,528)	(110,112)
Amortization of actuarial losses (gain)	(319,336)	(1,277,344)
Curtailments	-	(282,548)
Others	15,991	47,973
Total	**800,334**	**2,902,796**

(Expressed in United States Dollars, unless otherwise stated)

34. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

c. Labor Law No. 13/2003 and Other Post-employment Benefits (continued)

iii. An analysis of the movements of Labor Law No. 13/2003 and other post-employment benefits obligations in the consolidated statements of financial position is as follows:

	2012	**2011**
Balance at beginning of year	12,370,076	13,922,436
Labor law No. 13/2003 and other post-employment benefit costs	800,304	2,902,796
Benefits paid	-	(2,701,396)
Effect of deconsolidating Medco Power Indonesia	-	(1,758,603)
Effect of foreign exchange	92,618	4,843
Balance at end of year	**13,263,028**	**12,370,076**

iv. The Labor Law No. 13/2003 and other post-employment benefits obligations in 2011 and 2010 were calculated using the following assumptions:

	2012	**2011**
Discount rates	6,5% - 7%	6,5% - 7%
Salary increment rate	6% - 10%	6% - 10%
Mortality rate	TMI 1999	TMI 1999 dan CSO'80
Morbidity rate (disability rate)	10% of mortality rate	10% of mortality rate
Resignation rate	0.05% - 1% primarily in line with age profile	0.05% - 1% primarily in line with age profile
Proportion of normal retirements	100%	100%

35. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

a. Nature of Relationships

i. The major stockholder and management of PT Bank Himpunan Saudara 1906 Tbk and PT Medcopapua Industri Lestari are the same as those of the Company.

ii. Mitsubishi Corporation (MC) is one of the indirect controlling shareholders of the Company through Encore Energy Pte Ltd. Petro Diamond Co Ltd, Hong Kong (PDH), Petro Diamond Singapore Pte Ltd (PDS) and Tomori E&P Ltd (TEL) are subsidiaries of MC.

iii. PT Donggi Senoro LNG (DSLNG) is an entity under significant influence of the Group as of December 31, 2010 in which the Group owns 20% equity as of that date. As of December 31, 2011, the Group ownership was reduced to 11.1%.

iv. PT Medco Inti Dinamika (INTI) has the same key members of management as the Company.

v. PT Medco Duta (DUTA) is a stockholder of the Company.

vi. Synergia Trading International Pte. Ltd. (Synergia) has the same key member of management of a Subsidiary (PT Medco Sarana Kalibaru). In November 2011, Synergia became a subsidiary of the Group after it was acquired by Medco Strait Services Pte Ltd.

(Expressed in United States Dollars, unless otherwise stated)

35. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

b. Transactions with Related Parties

In the normal course of business, the Group entered into certain transactions with its related parties.

It is management's policy that transactions with related parties are undertaken on an arm's length basis, at similar prices and conditions as those done with third parties. A summary of related party accounts and transactions is as follows:

	2012		2011	
	Amount	**Percentage to related totals (%)**	**Amount**	**Percentage to related totals (%)**
Assets				
Cash and cash equivalents				
PT Bank Himpunan Saudara 1906 Tbk	11,468,467	0,01	30,634,758	1.18
Trade receivables				
Petro Diamond Singapore Pte Ltd	77,063,635	3,06	68,177,731	2.63
Petro Diamond Ltd, Hong Kong	15,172,134	0,60	-	-
PT Medcopapua Industri Lestari	-	-	1,524,256	0,06
Restricted cash in bank				
PT Bank Himpunan Saudara 1906 Tbk	8,042,064	0,32	8,680,508	0,34
Other receivables				
PT Donggi Senoro LNG	60,314,282	2,39	46,827,782	1,81
Liabilities				
Bank loan				
PT Bank Himpunan Saudara 1906 Tbk	646,755	0,04	654,743	0,04
Long-term debt				
Mitsubishi Corporation	83,484,258	5,07	69,997,758	4,04
Transactions				
Net oil sales				
Petro Diamond Singapore Pte Ltd	115,491,143	40,93	386,213,887	33,78
Petro Diamond Co Ltd, Hong Kong	15,172,134	5,38	13,504,912	1,18
High speed diesel sales				
PT Medcopapua Industri Lestari	-	-	2,053,572	0,18
Purchase of high speed diesel and transportation services				
Synergia Trading International Pte Ltd	42,125,906	14,93	124,654,659	10,90

36. SEGMENT INFORMATION

The Group classifies and evaluates its financial information into two major reportable segments which are the business segment as the primary segment and the geographical segment as the secondary segment.

a. Business Segment

The Group is presently engaged in the following business activities:

i. Exploration for and production of oil and gas

ii. Other services

iii. Chemicals

iv. Electric power generation

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

v. Trading

vi. Funding for Group operations

Segment information of the Group is as follows:

	2012						
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Funding for Group Trading**	**operation**	**Elimination**	**Consolidated**
External sales	83,790,193	3,118,970	64,615,371	130,663,277	-	-	282,187,811
Inter-segment sales	127,799,873	1,516,178	941,115	1,338,184	-	(131,595,350)	-
Total sales and other operating revenues	211,590,066	4,635,148	65,556,486	132,001,461	-	(131,595,350)	282,187,811
Gross profit	**86,813,640**	**1,880,149**	**1,222,248**	**1,920,893**	**-**	**-**	**91,836,930**
Selling, general and administrative expenses	(26,438,322)	(901,085)	(1,481,837)	(6,180,962)	39,994	-	(34,962,212)
Finance Costs	(1,692,357)	(34,542)	(1,123,923)	(19,690,197)	-	-	(22,541,019)
Share of net losses of associated entities – net	122,391	-	-	-	-	-	122,391
Finance Income	244,325	5,755	27,778	3,029,476	-	-	3,307,334
Gain (Loss) in Foreign Exchange	81,531	321,116	117,644	1,460,233	-	-	1,980,524
Other Operating Income	14,087	-	-	4,548,300	-	-	4,562,387
Other Expenses	(110,580)	-	(9,486)	20,707	-	-	(99,359)
Income (loss) before tax expense	59,034,715	1,271,393	(1,247,576)	(14,891,550)	39,994	-	44,206,976
Tax expense	(30,745,873)	-	-	-	-	-	(30,745,873)
Non-controlling interest	(865,075)	-	-	-	-	-	(865,075)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**27,423,767**	**1,271,393**	**(1,247,576)**	**(15,419,314)**	**39,994**	**-**	**12,068,264**
Segment assets	3,342,060,685	35,175,679	262,368,601	1,963,036,644	35,347,334	(3,279,841,305)	2,358,147,638
Investments in securities	807,768	12,093,326	36,463,500	355,427,858	-	(248,120,972)	156,671,480
Investments in projects	30,324,414	-	-	-	-	-	30,324,414
TOTAL ASSETS	**3,373,192,867**	**47,269,005**	**298,832,101**	**2,318,464,502**	**35,347,334**	**(3,527,962,277)**	**2,545,143,532**
LIABILITIES							
Segment liabilities	2,385,076,255	6,049,210	248,167,796	1,782,930,829	217,293,836	(2,972,662,722)	1,666,855,204
Capital expenditures	24,523,329	1,129,801	1,215,574	293,567	-	-	27,162,271
Depreciation, depletion and amortization	22,165,601	414,999	974,015	175,052	-	-	23,729,667
Non-cash expenses other than depreciation, depletion and amortization	1,733,286	158,760	162,900	1,189,939	-	-	3,244,885

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

	2012						
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Funding for Group Trading**	**operation**	**Elimination**	**Consolidated**
Net cash provided by (used in) operating activities	**47,039,240**	**1,454,283**	**7,109,776**	**(1,328,963)**	**-**	**-**	**54,274,335**
Net cash provided by (used in) investing activities	**(39,504,527)**	**(648,285)**	**(16,390,920)**	**(7,783,552)**	**-**	**-**	**(64,327,283)**
Net cash provided by (used in) financing activities	**(5,430,481)**	**(263,929)**	**(16,355,162)**	**(39,480,141)**	**-**	**-**	**(61,529,712)**

	2011							
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Electric power generation**	**Trading**	**Funding for Group operation**	**Elimination**	**Consolidated**
External sales	57,357,094	26,605,734	35,821,821	23,908,900	111,446,209	-	-	255,139,758
Inter-segment sales	109,708,278	756,937	926,757	223,949	-	-	(111,615,921)	-
Total sales and other operating revenues	167,065,372	27,362,671	36,748,578	24,132,849	111,446,209	-	(111,615,921)	255,139,758
Gross profit	**71,175,551**	**5,889,079**	**2,861,811**	**8,501,234**	**1,003,659**	**-**	**-**	**89,431,334**
Selling, general and administrative expense	(23,916,881)	(1,697,664)	(1,799,974)	(4,763,497)	(4,172,828)	-	-	(36,350,844)
Finance Costs	(1,915,948)	(54,754)	(1,035,138)	(2,479,384)	(14,555,789)	-	-	(20,041,013)
Share of net losses of associated entities – net	-	-	(1,788,264)	-	-	-	-	(1,788,264)
Finance Income	388,921	2,222	13,428	106,233	1,005,335	-	-	1,516,139
Gain (Loss) in Foreign Exchange	717,647	136,709	(1,479,268)	358,105	(6,477,467)	-	-	(6,744,274)
Other Operating Income	77,493	-	42,837	534,516	2,478,682	-	-	3,133,528
Other Expenses	(240,939)	-	107	(17,457)	-	-	-	(258,289)
Income (loss) before tax expense	46,285,844	4,275,592	(3,184,461)	2,239,750	(20,718,408)	-	-	28,898,317
Tax expense	(21,535,720)	458,808	-	(554,613)	4,033,055	-	-	(17,598,470)
Non-controlling interest	-	(1,076,670)	-	(403,921)	-	-	-	(1,480,591)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**24,750,124**	**3,657,730**	**(3,184,461)**	**1,281,216**	**(16,685,353)**	**-**	**-**	**9,819,256**

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

	2011							
	Exploration for and production of oil and gas	**Other services**	**Chemical**	**Electric power generation**	**Trading**	**Funding for Group operation**	**Elimination**	**Consolidated**
OTHER INFORMATION								
ASSETS								
Segment assets	3,157,835,177	80,206,338	243,170,914	224,455,813	1,833,253,409	34,896,470	(3,360,783,393)	2,213,034,728
Investments in securities	629,709	-	4,728,905	3,819,637	283,616,171	-	(283,616,171)	9,178,251
Investments in projects	15,895,986	-	-	6,114,739	-	-	-	22,010,725
TOTAL ASSETS	**3,174,360,872**	**80,206,338**	**247,899,819**	**234,390,189**	**2,116,869,580**	**34,896,470**	**(3,644,399,564)**	**2,244,223,704**
LIABILITIES								
Segment Liabilities	2,317,420,950	31,053,266	184,152,790	142,944,401	1,241,914,767	217,270,516	(2,714,924,309)	1,419,832,381
Capital Expenditure	22,652,255	1,128,869	3,257	5,953,309	194,863	-	-	29,932,553
Depreciation, depletion and amortization	21,607,474	1,028,425	1,077,391	2,447,052	986,211	-	-	27,146,553
Non-cash expenses other than depreciation, depletion and amortization	5,131,333	136,709	3,267,533	160,620	6,681,833	-	-	15,378,028
Net cash provided by (used in) operating activities	**17,055,533**	**918,646**	**(3,169,033)**	**1,202,933**	**(4,371,450)**	**-**	**-**	**11,636,629**
Net cash provided by (used in) investing activities	**238,608,036**	**(1,683,676)**	**(181,685)**	**(29,330,633)**	**(72,682,477)**	**-**	**-**	**134,729,595**
Net cash provided by (used in) financing activities	**(7,546,863)**	**(264,727)**	**(1,408,963)**	**(5,484,400)**	**(9,595,379)**	**-**	**-**	**(24,300,332)**

(Expressed in United States Dollars, unless otherwise stated)

36. SEGMENT INFORMATION (continued)

b. Geographical Segment

The following table shows the distribution of the Group's revenues by geographical market and the Group's assets by geographical location:

Revenues

Geographical segment	2012	2011
Indonesia	121,052,297	115,068,154
Overseas		
Asia	130,663,277	111,446,208
Middle East	25,328,181	24,493,243
United States of America	5,144,056	4,132,153
Total	**282,187,811**	**255,139,758**

Total Assets

Geographical location	2012	2011
Indonesia	4,240,508,639	4,156,562,109
Overseas		
Asia	1,471,449,689	1,350,697,105
Middle East	225,361,206	238,589,600
United States of America	105,786,274	142,774,624
Total	6,043,105,808	5,888,623,438
Elimination	(3,527,962,276)	(3,644,399,734)
After Elimination	**2,515,143,532**	**2,244,223,704**

The Group's activities are concentrated into several major geographic locations (Asia, USA and the Middle East). The main concentration of activities is in Indonesia.

Intersegment transactions are set with normal terms and conditions as if conducted with third parties.

37. MONETARY ASSETS OR LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group has monetary assets and liabilities denominated in foreign currencies as follows:

	2012			
	in original currency (in million)			US$ equivalent (Full amount)
	Rupiah	Euro	others	
Assets				
Cash and cash equivalents	103,975	0,01	-	11,366,033
Short-term investments	38,526	-	-	4,196,705
Trade receivables	279,537	-	-	30,450,679
Other receivables	152,350	-	-	16,595,821
Restricted cash in banks	104,769	-	-	11,412,702
Liabilities				
Trade payables	(44,384)	-	-	(4,834,895)
Bank loans	-	-	-	-
Other long-term payables	(1,514,221)	-	-	(162,929,646)
Net Liabilities	**(879,448)**	**0,01**	**-**	**(93,772,601)**

	2011			
	in original currency (in million)			US$ equivalent (Full amount)
	Rupiah	Euro	others	
Assets				
Cash and cash equivalents	236,247	0.03	-	26,073,877
Short-term investments	38,534	-	-	4,249,488
Trade receivables	214,552	-	-	23,660,389
Other receivables	134,957	-	-	14,882,765
Restricted cash in banks	108,984	-	-	12,018,505
Liabilities				
Trade payables	(63,787)	-	-	(7,034,335)
Bank loans	(275,667)	-	-	(30,399,984)
Other long-term payables	(1,495,485)	-	-	(164,918,956)
Net Liabilities	**(1,101,665)**	**0.03**	**-**	**(121,468,251)**

38. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

The following table presents the classification of financial instruments and sets forth the carrying amounts and estimated fair values of the financial instruments of the Group that are carried in the consolidated statements of financial position as of March 31, 2012 and December 31, 2011:

	2012		2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Current assets				
Cash and cash equivalents	632,789,638	632,789,638	703,951,167	703,951,167
Short-term investments	257,240,028	257,240,028	247,304,920	247,304,920
Restricted cash in banks	1,236,355	1,236,355	25,278,063	25,278,063
Trade receivables	204,801,428	204,801,428	202,328,229	202,328,229
Other receivables	71,864,726	71,864,726	62,216,151	62,216,151
Derivative assets	2,323,781	2,323,781	2,844,957	2,844,957

(Expressed in United States Dollars, unless otherwise stated)

38. FINANCIAL INSTRUMENTS (continued)

a. Fair values of financial instruments (continued)

	2012		2011	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Non-current assets				
Other receivables	67,804,419	67,804,419	59,491,328	59,491,328
Restricted cash in banks	12,912,703	12,912,703	13,518,505	13,518,505
Long-term investments	72,361,979	72,361,979	48,342,371	48,342,371
Other assets	1,440,895	1,440,895	1,402,736	1,402,736
Total Financial Assets	**1,324,775,952**	**1,324,775,952**	**1,366,678,427**	**1,366,587,423**
Financial Liabilities				
Current liabilities				
Short-term bank loans	94,622,822	94,622,822	121,399,984	121,399,984
Trade payables	93,963,715	93,963,715	113,004,919	113,004,919
Other payables	76,962,281	76,962,281	35,430,475	35,430,475
Accrued expenses and other provisions	38,215,769	38,215,769	67,734,171	67,734,171
Current maturities of long-term debt				
Bank loans	290,631,512	290,631,512	291,675,148	291,675,148
Medium-term notes	21,434,277	21,434,277	64,928,129	64,928,129
Rupiah Bonds	55,849,969	55,849,969	56,563,960	56,563,960
Non-current liabilities				
Long-term debt				
Bank loans	479,086,258	479,086,258	466,382,311	468,766,481
Payable to a related party	83,484,258	83,484,258	69,997,758	69,997,758
Medium-term notes	40,356,998	41,516,674	40,320,379	41,479,003
Rupiah bonds	107,079,676	107,079,676	108,354,996	108,354,996
US Dollar bonds	79,432,679	80,724,117	79,387,679	80,678,385
Derivative liabilities	-	-	1,202,270	1,202,270
Other payables	12,815,199	12,815,199	10,511,274	10,511,274
Total Financial Liabilities	**1,473,935,413**	**1,473,935,413**	**1,526,893,453**	**1,531,726,953**

i. Financial instruments carried at fair value

Fair values of derivative instruments are determined by calculating the present value of future cash flows based on their terms and conditions.

ii. Financial instruments with carrying values approximating their fair values

All current assets and current liabilities listed above, excluding derivatives, as well as non-current restricted cash in banks and other receivables approximate their fair values due to the short-term maturity and nature of such financial instruments.

iii. Financial instruments recorded at acquisition cost

Investments in common shares with no quoted market price representing ownership below 20%, are recorded at cost because fair value cannot be measured reliably.

iv. Financial instruments carried at amortized cost

The fair values of long-term debt (bank loans, medium-term notes, Rupiah bonds), are determined based on discounted cash flows method.

38. FINANCIAL INSTRUMENTS (continued)

a. Fair values of financial instruments (continued)

v. Other financial instruments

The fair values of non-current other receivables, other assets and other payables listed above are the same as their carrying amounts because their fair values cannot be measured reliably.

b. Risk Management

The principal financial liabilities of the Group consist of short-term loans and long-term loans, trade and other payables and accrued expenses. The main purpose of these financial liabilities is to raise funds for the operations of the Group. The Group has various financial assets such as trade receivables and cash and cash equivalents, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange rate risk, price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in both Indonesian and international financial markets. The Company's Directors review and approve the policies for managing these risks which are summarized below:

i. Interest rate risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rates on its short-term and long-term borrowings.

The Group policy relating to interest rate risk is to manage interest cost through a mix of fixed and variable rate debts. The Group evaluates the comparability of the fixed rate to floating rate of its short-term bank loans and long-term loans in line with movements of relevant interest rates in the financial markets. Based on management's assessment, new financing will be priced either on a fixed rate or floating rate basis.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term receivable and obligations with floating interest rates.

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

	March 31, 2012 (in thousand US$)				
Description	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**
Receivable from a related party	-	-	60,314	-	60,314
Payable to a related party	-	-	83,484	-	83,484
Derivative assets	2,313	11	-	-	2,324
Short-term bank loan	93,976	-	-	-	93,976
Long-term bank loans	278,231	75,152	375,000	-	728,383

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above table are non-interest bearing and are therefore not subject to interest rate risk.

38. FINANCIAL INSTRUMENTS (continued)

b. Risk Management (continued)

ii. Foreign exchange rate risk

The Group maintains its accounts in US Dollar, therefore, a portion of its revenues, expenses, assets and liabilities which are denominated in other than US Dollar are exposed to currency exchange rates against US Dollar. The oil and gas exploration and production activities of the Group in various countries are also exposed to the currency exchange fluctuations of the local currencies.

To manage foreign exchange rate risks, the Group enters into several swap contracts and forward contracts. These contracts are accounted for as transactions not designated as hedges, wherein the changes in the fair value are charged or credited directly to the current year consolidated statement of comprehensive income (Note 21).

iii. Credit risk

Credit risk is the risk that one party to financial instruments will fail to discharge its obligation and will incur a financial loss to other party. The Group is exposed to credit risk arising from the credit granted to its customers. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce the exposure to bad debts. The most significant exposure to the credit risk is represented by the carrying amounts of financial assets as shown in Notes 6 and 7.

iv. Liquidity risk

The liquidity risk is defined as a risk when the cash flow position of the Group indicates that the short-term revenue is not enough to cover the short-term expenditures. The Group liquidity requirements have historically arisen from the need to finance investments and operational and capital expenditures.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The Group also regularly evaluates the projected and actual cash flow, including long-term loan maturity profiles, and continuously assesses the conditions in the financial market to maintain flexibility in funding by keeping committed credit facilities available. These activities may include bank loans and equity market issues.

v. Price volatility risk

The selling price of the Group's oil is based on the price of Indonesian Crude Price (ICP) that is determined by the Ministry of Energy and Mineral Resources (ESDM) on a monthly basis. As a result, the price of oil that is produced by the Group will depend largely on factors beyond the control of the Group.

The natural gas produced in Indonesia is largely sold on contract basis with fixed price that allows certain level of escalation annually. There exists a potential risk of opportunity loss when the market price of oil and gas increases well above the escalation cap in the contract.

The Group's gases produced in the United States are sold on the spot market on the basis of the Henry Hub market price. Therefore, the risk faced by the Group is similar to the effects of oil and gas price fluctuation.

38. FINANCIAL INSTRUMENTS (continued)

c. Capital Management

The Group's objectives when managing capital are:

- To maintain a strong capital base so as to maintain investor, creditor and market confidence
- To sustain future development of the business.

The Group regularly reviews and manages their capital structure to ensure optimal structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

Management regards total equity as capital, for capital management purposes. The amount of capital attributable to owners of the parent company as of March 31, 2012 amounted to US$857,531,556 which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities. Also, over the past years, earnings before income tax, interest, depreciation and amortization (EBITDA) has become an important control figure for the Group as well as for the lending banks. The continuing optimal development of the Group depends on its strong self-financing ability (EBITDA).

There are no changes in the Group's approach to capital management during the year.

39. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS

a. Production Sharing Arrangements - Indonesia

The majority of the Group's oil and gas subsidiaries are located in Indonesia and operate under various production sharing arrangements with BPMIGAS. A general description of those arrangements and applicable oil and gas law is as follows:

i. Production Sharing Contracts (PSC) - Indonesia

A PSC is awarded to explore for and to establish commercial hydrocarbon reserves in a specified area prior to commercial production. The contractor is generally required to relinquish specified percentages of the contract area by specified dates unless such designated areas correspond to the surface area of any field in which oil and gas has been discovered.

The responsibilities of a contractor under a PSC generally include financing all activities and preparing and executing the work program and budget. In return, the contractor may freely lift and dispose of its share of crude oil and gas production.

A sharing in the form of First Tranche Petroleum (FTP) of 20% out of total production before deduction of cost recovery is available to the Government and the contractor in line with their entitlement shares.

The balance of production after FTP is available for cost recovery for the contractor which is calculated by reference to the prevailing Indonesian crude price and actual gas prices. After the contractor has recovered all allowable costs, the Government is entitled to a specified share of the remaining natural gas and crude oil production and the contractor is entitled to the balance as its equity (profit) share.

The contractor is obligated to pay Indonesian corporate taxes on its specified profit share, generally, at the Indonesian corporate tax rate in effect at the time the PSC is executed.

(Expressed in United States Dollars, unless otherwise stated)

39. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

a. Production Sharing Arrangements – Indonesia (continued)

i. Production Sharing Contracts (PSC) - Indonesia (continued)

PSCs in Indonesia are subject to a domestic market obligation (DMO) under which the contractor is required to supply the domestic market with the lesser of 25% of (i) the contractor's before-tax share of total crude oil production and (ii) the contractor's profit share for oil.

ii. Joint Operating Body (JOB) - Indonesia

In a JOB, operations are conducted by a joint operating body headed by Pertamina and assisted by the contractor through their respective secondees to the JOB. In a JOB, 37.5%-50% of the production is retained by Pertamina, and the balance is the shareable portion which is split between the parties in the same way as for a PSC.

iii. Technical Assistance Contracts (TAC) - Indonesia

A TAC is awarded when a field has prior or existing production and is awarded for a certain number of years depending on the contract terms. The oil or gas production is first divided into non-shareable and shareable portions. The non-shareable portion represents the production which is expected from the field (based on historic production of the field) at the time the TAC is signed and accrues to PT Pertamina (Persero) (Pertamina). Under a TAC, the non-shareable portion of production declines annually. The shareable portion corresponds to the additional production resulting from the operator's investment in the field and is in general split between the parties in the same way as for a PSC.

Contractors are obliged to pay a production bonus to BPMIGAS if certain production levels are attained.

Upon the expiration or termination of the contract, relinquishment of part of the Contract Area, or abandonment of any fields, the contractors may be required to remove all equipment and installations from the Contract Area, and perform site restoration activities in accordance with the terms of the contract or applicable government regulations. The cost of abandonment and site restoration work is cost recoverable under the respective contracts.

The Group currently has 12 PSCs, 1 TAC and 2 JOBs in Indonesia.

The remaining commitment for exploration and development expenditures relating to the above contracts as of March 31, 2012 is US$156 million.

b. Production Sharing Arrangements - International

The Group has production sharing arrangements in Libya and Yemen and a service contract in Oman with the following fiscal arrangements:

				Production Sharing Agreement, Concession	
Subsidiary	**Block Ownership**	**Country**	**Contract Term**	**Local Government**	**Subsidiary**
Medco Oman LLC	Karim Small Field	Oman	10 years	96.02% of profit oil	3.98% of profit oil
Medco International Venture Ltd	Block 47	Libya	5 years	86.3% of total production	13.7% of total production

39. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

b. Production Sharing Arrangements - International (continued)

				Production Sharing Agreement, Concession	
Subsidiary	**Block Ownership**	**Country**	**Contract Term**	**Local Government**	**Subsidiary**
Medco Yemen Amed Ltd	Block 82	Yemen	20 years	80% of profit oil (for production over 25,000 bopd)	20% of profit oil (for production over 25,000 bopd)
Medco Yemen Arat Ltd	Block 83	Yemen	20 years	75% of profit oil (for production over 25,000 bopd)	25% of profit oil (for production over 25,000 bopd)

The total remaining commitment for exploration expenditures relating to the above contracts as of March 31, 2012 is US$65.8 million.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS

a. <u>Major Acquisitions and Disposals</u>

i. In February 2010, MPI signed a Share Sale and Purchase Agreement for the acquisition of 70% equity in PT Universal Batam Energi (UBE) for Rp999 million. This agreement took effect in February 2010.

ii. In July 2010, MPI signed a Share Sale and Purchase Agreement with PT Multi Sakadaya for the acquisition of 85% equity in PT Elnusa Prima Elektrika and PT Multidaya Prima Elektrindo.

iii. Initially, the Group, through PT Medco E&P Tomori Sulawesi (MEPTS), had a 50% working interest in the Senoro-Toili PSC.

In December 2010, MEPTS signed an agreement for the transfer of a 20% undivided interest in Senoro-Toili Production Sharing Contract to Tomori E&P Limited (TEL), a wholly-owned subsidiary of the Group. In December 2010, BPMIGAS granted confirmation on such working interest transfer, therefore, the composition of working interest ownership subsequent to the transfer becomes MEPTS-30%, TEL-20% and PT Pertamina Hulu Energi Tomori Sulawesi-50%.

In the same month, the Group signed an agreement for the divestment of 100% equity of TEL to Mitsubishi Corporation (MC) for US$260 million. As of December 31, 2010, all the sale conditions had been fulfilled and the divestment of TEL became effective. The Group recognized a gain on divestment in 2010 of about US$250 million. The Group received the payment of US$260 million for such divestment in January 2011.

At the effective date of the divestments, TEL and the assets and liabilities associated with the 20% working interest in Senoro-Toili PSC were no longer included in the Group's consolidated financial statements, and as a consequence, the Group's proved oil and gas reserves declined by 45,376 MBOE (thousand barrel oil equivalent) due to exclusion of the reserves associated with the divested working interest.

iv. In February 2011, MPI, as buyer, signed a Share Sale and Purchase Agreement with Gajendra Adhi Sakti (GAS), as seller, for the acquisition of 49% equity in PT Medco Gajendra Power Service (MGPS) for US$19 million. This agreement took effect in February 2011. With the effectivity of this agreement, the Group owns 99.90% equity in MGPS. MGPS owns 80.1% equity in PT Tanjung Jati B Power Services (TJB).

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

v. In early 2006, the Group entered into a commercial agreement (economic agreement) with the Singapore Petroleum Company (SPC) and Cue Energy Resources Limited (Cue) - involving the transfer of 18.2% and 6.8% interest out of their respective 40% and 15% interests in the Jeruk Field, which enabled the Group to gain an undivided, 25% economic interest in the Jeruk Field of Sampang PSC. SPC and Cue respectively are the direct holders of participating interest in Sampang PSC, in addition to Santos which is the operator of the PSC. In accordance with the economic agreement, the Group agreed to assume proportionate share of Jeruk costs.

   Whilst the Indonesian Authorities have sanctioned the commercial agreement between the participants, Sampang PSC interests (including Jeruk Field interests) remain unchanged.

   In early 2008, Santos, the operator of the Jeruk Field, disclosed that further drilling in the Jeruk Field had been put on hold pending the review of development scenarios and the resolution of commercial and technical issues that may impact the viability of any development.

   Nevertheless, under the PSC, Jeruk costs represent part of overall Sampang PSC cost pool, and therefore Jeruk costs can be recovered from the production proceeds of other fields within Sampang PSC. The Group is also entitled to such recovery of Jeruk project costs under and through the mechanism as set out in the “economic agreement”.

vi. In 2011 and 2010, the Company’s Directors have undertaken and continue to undertake asset optimization program through partial or complete divestments of certain assets of the Group. This optimization program pertains to some of the Group’s subsidiaries/assets amongst others, PT Medco Power Indonesia, Medco Tunisia Holding Ltd, and some of the Group’s PSCs. Through this optimization program, the Group expects to be able to maximize the value and to reduce the risks relating to those assets.

vii. In May 2011, MPI signed a Share Sale and Purchase Agreement for the acquisition of 70% equity in PT Sangsaka Agro Lestari (SAL) for Rp8 billion. SAL is a majority stakeholder in (i) PT Sangsaka Hidro Lestari (SHL), (ii) PT Bio Jathropa Indonesia (BJI), (iii) PT Sangsaka Hidro Selatan (SHS), and (iv) PT Sangsaka Hidro Kasmar (SHK).

viii. On September 14, 2011, the Company, through its wholly owned subsidiary, Medco Tunisia Holding Ltd (“Medco Tunisia”), has signed a Shares Sale Purchase Agreement with OMV (Tunesien) Production GmbH (“OMV”) for the sale of the entire issued share capital (“Shares”) of Medco Tunisia Anaguid Limited (“Medco Anaguid”).

   On October 27, 2011, the sale and purchase of Medco Anaguid shares has been completed. On October 28, 2011, the Company received the net payment from OMV amounting to US$56.28 million.

   Effective on October 27, 2011, the entire issued share capital of Medco Anaguid was transferred to OMV, including the 40% participating interest in Anaguid Exploration Permit and 20% participating interest in Durra Concession (“Anaguid Block”) held by Medco Anaguid.

   The gain on this divestment recognized in the 2011 consolidated statement of comprehensive income amounted to US$35.4 million.

ix. On December 16, 2011, the Company’s sale of its 51% equity ownership in PT Medco Power Indonesia (“MPI”), the Company’s subsidiary which operated the electricity power generation business, to PT Saratoga Power (Saratoga) under the Shares Purchase and Subscription Agreement became effective.

(Expressed in United States Dollars, unless otherwise stated)

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

The agreement provides for the following which will be carried out in three (3) stages:

1. The acquisition of 51% equity ownership in MPI by PT Saratoga Power for the amount of US$54,880,000;

2. The subscription to new shares to be issued in Phase I by MPI pro rata according to the ownership of each shareholder, i.e., Saratoga at 51% for a subscription price of US$32,120,000 and the Company at 49% for a subscription price of US$30,860,392; and

3. The subscription to new shares to be issued in Phase II by MPI at the latest in March 2012 pro rata according to the ownership of each shareholder, i.e., Saratoga at 51% for a subscription price of US$25,000,000 and the Company at 49% for a subscription price of US$24,019,608.

Based on the above agreement, the Company shall compensate Saratoga and/or MPI for outstanding receivables of MPI from Menamas Consortium already in existence prior to the sale of MPI amounting to Rp47 billion, should Menamas Consortium be unable to pay its debt to MPI within one year after acquisition of MPI by Saratoga.

After the divestment on December 16, 2011, MPI became 51%-owned by PT Saratoga Power and 49%-owned by the Company.

The divestment of MPI resulted in a gain of US$43 million recognized in the 2011 consolidated statement of comprehensive income.

The key items of assets and liabilities associated with the subsidiaries disposed in 2011 are as follows:

	Carrying amount
Cash and cash equivalents	10,480,564
Trade and other receivables	31,289,128
Inventories	1,795,799
Property, plant, and equipment (Note 14)	134,272,460
Oil and gas properties (Note 15)	20,925,110
Other assets	24,865,814
Trade and other payables	(17,608,165)
Long-term debt	(76,703,427)
Other liabilities	(42,210,484)

The proceeds from disposals of subsidiaries received in 2011 are as follows:

Divestment of MPI	54,880,000
Divestment of Medco Tunisia Anaguid Limited	56,284,295
Divestment of PT Apexindo Pratama Duta Tbk in 2008 (proceeds were partially received in 2011)	35,000,000
Divestment of Tomori E&P Limited in 2010 (proceeds were received in 2011)	260,000,000
Less: cash and cash equivalents of divested subsidiaries	(10,480,564)
Total	**(395,683,731)**

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

x. Based on Notarial Deed No. 3 dated January 4, 2012 of Karlita Rubianti, S.H., PT Medco Energi CBM Indonesia established PT Medco CBM Rimau with initial paid-in capital amounting to Rp1,000,000,000. PT Medco Energi CBM Indonesia's investment together with that of PT Medco Energi Nusantara's in PT Medco CBM Rimau amounting to Rp1,000,000,000, represent equity interest of 100%.

xi. Medco Yemen Malik Limited was incorporated on February 7, 2012 under the British Virgin Islands (BVI) Business Companies Act 2004, with registered number 1694649 and address at the Palm Grove House P.O. Box 438 Road Town, Tortola, VG 1110 – British Virgin Islands. Medco Yemen Malik Limited is one hundred percent (100%) owned by Medco Yemen Holding Limited with authorized capital of 50,000 shares with no par value.

xii. Based on Certificate of Incorporation No. ET-265735 dated January 19, 2012 of Joy A. Rankine, Assistant Registrar of Companies of the Cayman Islands, Medco Strait Services Pte Ltd established PT Medco Petroleum Services Limited with initial paid-in capital amounting to US$50,000. Medco Strait Services Pte Ltd's investment amounting to US$50,000 represents equity interest of 100%.

xiii. On March 19, 2012, the Company has completed the 2nd phase of the 49% subscription to the capital stock of PT Medco Power Indonesia (Note 40a).

(Expressed in United States Dollars, unless otherwise stated)

b. Gas Supply Agreements

The significant existing Gas Supply and Transfer of Power Purchase Agreements of the Group as of March 31, 2012 are as follows:

Entity	Date of Agreement	Commitment	Contract Period
PT Medco E&P Indonesia			
PT Pupuk Sriwidjaja (Persero)	August 7, 2007	Commitment to supply 45 BBTU of gas/day (BBTUD) at an average price of US$3.59/ MMBTU.	15 years in accordance with the terms and conditions as stated in the agreement.
PT Mitra Energi Buana	July 24, 2006	Commitment to supply and sell gas in the quantity of 2.5 BBTUD at an agreed price ranging from US$2.65/MMBTU to US$3.59/MMBTU.	7 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero)	January 20, 2006 last amended with agreement dated July 20, 2011	Commitment to supply and sell gas involving 38,925.20 BBTU at an agreed price ranging from US$4.17/MMBTU to US$4.83/MMBTU.	5 years.
PT Meta Epsi Pejebe Power Generation (MEPPO-GEN)	January 20, 2006	Commitment to supply gas involving 14.5 BBTUD during the contract term, at an agreed price of US$2.3/MMBTU.	7 years or when such quantity has been fully supplied, whichever occurs first.
PT Sarana Pembangunan Palembang Jaya (SP2J)	April 13, 2010	Commitment to supply gas involving 0.15 BBTUD - 1 BBTUD with an agreed gas price of US$2.73 MMBTU.	4 years or when such quantity has been fully supplied, whichever occurs first.
PT Pertamina (Persero)	January 16, 2004 the agreement has been amended several times the latest (the fifth amendment) on January 1, 2012	Commitment to deliver and sell LPG pursuant to the conditions set forth in the agreement.	5 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero)	December 30, 2003 and last amended with agreement dated March 17, 2010	Commitment to supply and sell 7 BBTUD of gas from December 2009 to March 2010 and 12.5 BBTUD from April 2010 to May 2013 and at a gas price ranging from US$4.32/MMBTU to US$4.86/ MMBTU.	10 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero)	December 30, 2002 and amended with agreement dated December 12, 2004	Commitment to supply and sell 56,182 BBTU of gas at a gas price ranging from US$2.376/MMBTU to US$2.506/MMBTU for the first year and at US$2.685/MMBTU for the second year until the end of the contract.	11 years.
PT Pertamina EP	February 19, 2010	Commitment to supply 143.09 MMSCF of gas per year with agreed price ranging from US$3.94/MMBTU to US$4.43/MMBTU.	April 27, 2009 up to November 27, 2013, or until such quantity in the agreement has been fully supplied, whichever occurs first.
Perusahaan Daerah Pertambangan dan Energi	August 4, 2009	Commitment to supply maximum of 0.5 BBTUPD of gas produced from South Sumatra Extension Block.	September 2009 up to November 2013. As of the completion date of the consolidated financial statements, the gas supply has not yet commenced because there are still some unfulfilled requirements.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements (continued)

Company	Date of Agreement	Commitment	Contract Period
PT Medco E&P Indonesia			
Perusahaan Daerah Kota Tarakan	January 22, 2009	Commitment to supply 1-3 BBTUD of gas at a price of US$3/MMBTU, escalating by 2.5% per year.	10 years.
Perusahaan Daerah Mura Energi	August 4, 2009	Commitment to supply 2.5 BBTUPD of gas produced from the Temelat Field with contract value estimated at US$8.073 million.	10 years starting from April 2011. As of the completion date of the consolidated financial statements, the gas supply has not yet commenced because there are still some unfulfilled requirements.
PT PLN Tarakan	April 1, 2010	Commitment to supply and sell 10,134 BBTU of gas at average gas price during contract period of US$ 3.98/MMBTU with total value of US$37.49 million.	5 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Gas Negara (Persero) Tbk	December 4, 2009 and last amended on July 20, 2011	Commitment to supply natural gas from Keramasan Field in South and Central Sumatra with total gas volume of 27,860 BBTU (last amended) at a maximum value of US$125 million.	December 2009 up to February 28, 2013.
PT Perusahan Daerah Kota Tarakan (PDKT)	April 2011	Commitment to supply natural gas from Tarakan PSC block with total gas volume of 268.5 BBTU at a maximum value of US$846 thousand.	May 2011 up to April 2016.
Perusahan Daerah Pertambangan dan Energi	August 10, 2011	Commitment to supply and sell 3 BBTUD of gas at a gas price ranging from US$4.02/MMBTU to US$5.09/MMBTU.	9 years or until such quantity has been fully supplied, whichever occurs first.
PT Medco E&P Lematang			
PT Perusahaan Listrik Negara (Persero)	March 21, 2007 last amended on February 8, 2010	Commitment to supply and sell gas involving 48.6 BBTUD at an agreed price ranging from US$4.93/MMBTU to US$5.18/MMBTU.	Until PSC contract expires or such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Gas Negara (Persero) Tbk	December 4, 2009 last amended on April 15, 2010	Commitment to supply natural gas from Singa Field in Lematang Block with the total gas volume of 53 thousand BBTU at an agreed price ranging from US$5.20/MMBTU to US$5.57/MMBTU.	3 years and 2 months starting March 2010.
PT Medco E&P Malaka			
PT Pupuk Iskandar Muda (Persero)	December 10, 2007 last amended on November 12, 2010	Commitment to supply 110 BBTUD of gas at a selling price of US$6.50 + 0.35 x (bulk urea prilled price - 425/34) per MMBTU.	32 months after November 12, 2010.
PT Perusahaan Listrik Negara (Persero)	April 9, 2008	Commitment to supply 14.3 BBTUD of gas with an estimated total value of US$565.99 million.	17 years
PT Medco E&P Tomori			
PT Donggi Senoro LNG	January 22, 2009	Commitment to supply 227 BBTUD of gas with the price calculated based on certain agreed formula expressed in US$/MMBTU using the value of the Japan Crude Cocktail (JCC) as basis.	15 years (starting from the date of commercial operations of the LNG Plant).
PT Medco E&P Simenggaris			
PT Pertamina Gas and PT Medco Gas Indonesia	August 28, 2009 amended on May 20,2010	Commitment to supply a maximum of 28.85 BBTUD of gas produced from South Sembakung Field.	11 years starting from the fourth quarter of 2011.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements

i. Crude Oil Transaction

In December 2008, the Group entered into a Crude Oil Sale from Purchase Agreement with Petro Diamond Singapore Pte Ltd (PDS), whereby the Group agreed to, among others, supply crude oil of approximately 250,000 barrels per month effective from January 1, 2009 to December 31, 2011 at a price based on Indonesian Crude Price (ICP) of Sumatra Light Crude (SLC) plus a certain premium per barrel as stated in the agreement. On the same date, the Group entered into a Prepayment Agreement with PDS in relation to such crude oil sale, whereby the Group received an advance of US$130 million (gross), which is recorded as advances from customer. Revenue is recognized upon actual delivery of crude oil to PDS.

PDS is a wholly-owned subsidiary of Mitsubishi Corporation (Mitsubishi). Mitsubishi is an indirect shareholder of the Group.

On June 30, 2011, the Company through its wholly-owned subsidiary, Petroleum Exploration & Production International Limited (PEPIL), signed a Crude Oil Sales and Purchases Agreement (COSPA) with Petro-Diamond Singapore Pte Ltd (PDS).

The time period for the sales of crude oil to PDS will be 3 (three) years, starting in January 2012 up to December 2014 at a price based on Indonesian Crude Price (ICP) of Sumatra Light Crude (SLC) plus a fixed premium per barrel as stated in the agreement. The first delivery has been made in January 2012.

ii. Aircraft Sale and Purchase Agreement

In May 2006, the Group entered into a Charter Agreement with PT Airfast Indonesia (Airfast) whereby the Group shall lease an aircraft from Airfast for ten years from the delivery date of the aircraft. Under the Agreement, the Company shall pay monthly rental fees and service fee which shall be based on service fee arrangements chargeable for two years after the delivery date of the aircraft.

In January 2011, Fortico International Limited (formerly known as Bawean Petroleum Limited), a wholly-owned subsidiary, signed an aircraft sale and purchase agreement with Magnate International Investment Pte Ltd for the purchase at a total value of US$14 million of the abovementioned aircraft which was previously leased from Airfast. With this aircraft acquisition, the Group no longer has a finance lease arrangement with Airfast.

iii. Agreement for the Development of Coal Bed Methane (CBM)

In February 2009, the Group through PT Medco Energi CBM Indonesia and Arrow Energy (Indonesia) Holdings Pte Ltd (Arrow), has signed a Heads of Agreement (HOA). The Group and Arrow will cooperate to explore for and develop Coal Bed Methane (CBM) over the Group's conventional oil and gas PSC working area. Each of the parties shall have a 50% participating interest.

The Group and Arrow will work together to expeditiously negotiate a CBM Production Sharing Contract with the Indonesian regulatory authorities aimed at commencing exploration operations as soon as possible.

On December 3, 2010, the Company through PT Medco CBM Pendopo, signed a CBM Production Sharing Contract with Dart Energy (Muralim) Pte Ltd (previously Arrow) and BPMIGAS to carry out CBM development activities in Muralim Block, South Sumatra.

The Group and Dart Energy (Muralim) Pte Ltd have executed the Joint Operating Agreement in May 2011 aimed at commencing exploration operations as soon as possible.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

iii. Agreement for the Development of Coal Bed Methane (CBM) (continued)

On Agustus 1, 2011, the Company through PT Medco CBM Lematang, signed a CBM Production Sharing Contract with PT Methanindo Energy Resources, PT Saka Energi Indonesia, and BPMIGAS to carry out CBM development activities in Lematang Block, South Sumatra.

iv. Portfolio Investment Management Agreement

The Company entered into portfolio investment management agreements with Julius Baer and Barclays Wealth (acting as “Fund Managers”), whereby the Company appointed these Fund Managers to invest and manage the Company’s investment portfolio. Based on such agreements, the investment portfolio will consist of cash and financial instruments, in the form of traded shares of stocks, commercial papers, mutual fund units and other marketable securities.

Under the agreements, the Fund Managers are required to report every month the net asset value of the Company’s respective investment portfolios under their management. The Fund Managers are entitled to management fee based on the Net Asset Value of the investment portfolio. The total net asset value of the Company’s funds managed by the Fund Managers amounted to about US$253 million as of March 31, 2012. These are presented as part of “Short-term Investments” in the consolidated statements of financial position (Note 5).

v. Building Rental

The Group has signed a lease agreement with PT Api Meta Graha to rent The Energy Building for 5 years starting mid-2009. The rental is paid on a quarterly basis in advance.

The remaining rental commitment on The Energy Building amounts to US$12.5 million which represents the rental cost in the next two and a half years.

vi. Joint Venture to market LNG

In October 2010, the Group and its partners in downstream Senoro Gas Development Project and the shareholders of DSLNG, namely, PT Pertamina (Persero) (Pertamina) and Mitsubishi Corporation (MC), signed a Marketing Joint Venture Heads of Agreement (MJV HOA) with Chubu. Pursuant to the MJV HOA, Chubu, Pertamina, MC and the Group will establish a joint venture to market LNG purchased by Chubu and to be diverted to other potential buyers.

vii. PSC Extension

In October 2010, the Government of the Republic of Indonesia through the Upstream Oil and Gas Supervisory Agency (BPMIGAS) approved the extensions of the respective Production Sharing Contracts (PSC) of South & Central Sumatra (S&CS), Block A and Bawean.

The extension of S&CS PSC is for 20 (twenty) years, which will be effective from November 28, 2013 up to November 27, 2033, with commitment value of US$24 million.

The extension of Bawean PSC is for 20 (twenty) years, which will be effective from February 12, 2011 up to February 11, 2031, with commitment value of US$50.5 million.

The extension of Block A PSC was also concurred with by the Government of Aceh in line with the Law No. 11 Year 2006 on the Governing of Aceh. The extension of Block A PSC is for 20 (twenty) years, which will be effective from September 1, 2011 to August 31, 2031.

40. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

vii. PSC Extension (continued)

In addition to the rights and obligations of the Contractors as set forth in the Amended and Restated Production Sharing Contract for Block A, Aceh, the Contractors agreed, among other matters, to allocate, at the minimum, 1% of the total revenue from the yearly production as their contribution to the community development based on a Memorandum of Agreement dated April 5, 2010 between PT Medco E&P Malaka and the Government of Aceh Province.

41. CONTINGENCIES

a. Litigation

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

In September, 2008, Hamzah Bin M. Amin and 5 other villagers (Plaintiff) filed a legal claim against PT Medco E&P Malaka (Defendant), a subsidiary, alleging that land erosion from the exploration activities by Asamera Oil, the previous owner of the Block A PSC in Alur Rambong I well, resulted in material damage to the Plaintiffs' land. The case was registered at Idi District Court. The Plaintiffs demand that the Defendant, as the operator of Block A, should pay compensation from land erosion totaling approximately Rp4.8 billion. The Group's portion is 41.67% (in line with participating interests in Block A PSC) of the possible total compensation, or approximately Rp1.99 billion.

The District Court has issued its decision ordering the defendant to return the rice field in its original condition.

Responding to the ruling, the plaintiff and defendant are now seeking to cassation at the Supreme Court level.

As of the date of the completion of the consolidated financial statements, the litigation process is still ongoing and no decision has yet been issued or made known. Management is unable to assess the ultimate outcome of the litigation. Nevertheless, management believes that the legal claim is without merit, and as such the Group has not made any provision for the claim.

ii. Partner Selection to Invest in the Donggi Senoro Project

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

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

In regard to the KPPU's decision which is not yet legally final and binding (in kracht van gewijsde), on January 31, 2011, pursuant to the Law No. 5/1999, the Group officially filed an objection to the District Court. However, on November 17, 2011, the Central Jakarta District Court rejected the submission of the objection by the Group, Pertamina and Mitsubishi regarding the said KPPU's decision.

41. CONTINGENCIES (continued)

a. Litigation (continued)

ii. Partner Selection to Invest in the Donggi-Senoro Project (continued)

In regard to the decision of the Central Jakarta District Court, which is also not final and binding (in kracht van gewijsde), on January 25, 2012, the Group officially submitted the memorandum of cassation to the Supreme Court through the Central Jakarta District Court.

As of the date of the completion of the consolidated financial statements, the investigation process for the objection to the KPPU decision is still ongoing in the Supreme Court. At this stage, management is unable to assess the ultimate outcome of such litigation process. Nevertheless, management believes that the decision issued by the Commissioners' Panel on the Group has no strong legal merit, and as such, the Group has not made any provision for the litigation.

b. Government and Joint Venture Audit Claims

In relation with its oil and gas exploration and production activities, the Group is subject to periodic audits by governmental agencies and joint venture partners. Claims arising from these audits are either agreed by management and recorded in the accounting records, or are disputed.

Resolution of disputed claims may require a lengthy negotiation process extending over a number of years. As of March 31, 2012, management believes that the Group has strong position against these claims, and therefore no provisions have been made for these claims.

c. Surety Obligations

Medco Energy US LLC is contingently liable to a surety insurance company in the aggregate amount of US$19.6 million as of March 31, 2012 and December 31, 2011, respectively, relative to bonds issued on Medco's behalf to the United States Department of the Interior Minerals Managements Service (MMS) and certain third parties from whom oil and gas properties were purchased. The bonds are third party guarantees by the surety insurance company that the Company will operate in accordance with applicable rules and regulations and perform certain Plugging and Abandonment obligations as specified by applicable purchase and sale agreements.

d. Gas Flow Incident at Lagan Deep–1 Well

Lagan Deep-1 well is an exploration well which spudded in September 8, 2011 with total planned depth of approximately 3,500 meters and will be completed within 75 days. The well is located in South & Central Sumatra Production Sharing Contract ("PSC") working area. On September 13, 2011, there has been an unintended flow of gas from Lagan Deep-1 well. The unintended flow of gas occurred during the drilling activity that reached the depth of approximately 800 meters. There were no fatalities, injuries, damage to facilities and fire due to this incident. Considering that Lagan Deep-1 well is an exploration well, management believes that this incident will not impact the gas production and revenue of the Group and that no significant losses will be sustained by the Group from the incident.

e. Demonstrations in Tiaka Field Production, Senoro-Toili Block

From August 20, 2011 to August 22, 2011, demonstrations occurred in the Tiaka field which damaged the facility and for safety reasons, required the evacuation of company personnel and the temporary suspension of the operational activities in the field. Based on the investigation conducted by the Company, the Company believes that the incident has no material adverse impact on the Company's financial position and operating results.

(Expressed in United States Dollars, unless otherwise stated)

41. CONTINGENCIES (continued)

f. Muslim A. Gani Lawsuit Relating to Land Acquisition of Matang Project

In December 2011, Muslim A. Gani and two other villagers (Plaintiff) filed a legal claim against PT Medco Energi Internasional Tbk (Defendant), relating to land acquisition by the defendant in Matang. The case was registered at Idi District Court, Aceh. The plaintiff demanded that the defendant pay compensation for the land acquisition totaling approximately Rp1.05 billion.

42. ASSET ABANDONMENT AND SITE RESTORATION OBLIGATIONS

The movements in site restoration and abandonment obligations are presented below:

	2012	2011
Indonesia		
Beginning balance	64,849,937	55,803,875
Additions during the year	718,450	9,046,062
Ending balance	65,568,387	64,849,937
Escrow account	(26,606,892)	(26,590,264)
Ending balance - net	38,961,495	38,259,673
United States of America (US)		
Beginning balance	15,498,319	18,240,279
Additions during the year	232,473	929,257
Divestment of US	-	(3,671,217)
Ending balance	15,730,792	15,498,319
Total	**54,692,287**	**53,757,992**

The current estimates for the asset abandonment and site restoration obligations were determined by management, not by an independent consultant. Management believes that the accumulated provisions as of the dates of the statements of financial position are sufficient to meet the environmental obligations resulting from future site restoration and asset abandonment.

The Group has escrow accounts in PT Bank Negara Indonesia (Persero) Tbk and PT Bank Rakyat Indonesia (Persero) Tbk for the funding of abandonment and site restoration obligations (ARO) relating to oil and gas operations in Indonesia amounting to US$26.6 million as of March 31, 2012, and December 31, 2011, respectively.

43. MIDDLE EAST AND NORTH AFRICA

The Group has oil and gas exploration and production joint venture contracts in Libya and Yemen and an oil and gas service contract in Oman. In early 2011, civil unrests were taking place in Libya, and to a lesser extent in Yemen and Oman. The situations in Yemen and Oman have not had any significant effects on the Group's operations in those countries.

43. MIDDLE EAST AND NORTH AFRICA (continued)

After the civil unrest in Libya in early 2011, the Group has already resumed its operations with limited activities. Currently the operational activity in libya has been recovered and resume its normal activity. The Group has total capitalized exploration expenditures of US$155 million or 6.5% of the Group's total consolidated assets as of that date. The expenditures were substantially spent for the drilling activities involving primarily sub-surface well equipment, not in the form of tangible assets on land, that have resulted in the discovery of very significant volume of hydrocarbons that reside about 10,000 feet underground. Therefore, the assets (i.e., the hydrocarbon reserves and the associated sub-surface well equipment) had not been exposed to the disturbances during the civil unrest.

44. SIGNIFICANT SUBSEQUENT EVENTS

i. On May 9, 2012, the stockholders, in their Annual General Meeting (AGM) approved the distribution of cash dividends pertaining to book year 2011 in the amount of US$0.00766 per share or equivalent to approximately US$22.5 million or US$25.5 million including amounts attributable to treasury stock. The dividends will be paid in June 20, 2012.

ii. As of June 5, 2012, PT Medco E&P Lematang has also obtained a waiver from its creditors for being unable to fulfill certain financial ration requirements as set forth in the covenants of the syndicated loan agreements obtained from BCA, Mandiri and BNI. Under the waiver, PT Medco E&P Lematang must provide monthly financial report to the creditors until the financial ratio requirements are fulfilled.

iii. On June 2012, The Company issued a Medco Energi Internasional Rupiah Bond III Year 2012 with Fixed Coupon Rate ("Bond"). The Bond offered at the amount of Rp. 1,500,000,000,000 (One Trillion and Five Hundred Billion Rupiah), at 100% of principal amount from Bond nominal. Tenure of the Bond is effective for five (5) years and will mature in 2017. The coupon applicable to this Bond is 8.75% per annum, where the first coupon will be paid by The Company to the Bond Holder on 19 September 2012 and the last coupon will be paid upon its maturity on 19 June 2017.

The Bond's proceeds, after deducting with the public offering costs, will be used for:

- 100% financing acquisition of producing oil and gas asset in Indonesia and/or outside Indonesia; or
- 70% refinancing and 30% additional working capital and/ or capital expenditure.

For the Bond issuance, the Company appointed PT DBS Vickers Securities Indonesia, PT Mandiri Sekuritas and PT Standard Chartered Securities Indonesia as the Joint Lead Underwriters. Whereas, PT Bank Mega Tbk will act as the trustee.

iv. On June 4, 2012 and June 8, 2012, the Company enter into Cross Currency Swap Agreement with Standard Chartered Bank and PT. Bank DBS Indonesia, each with notional amount in US$ for US$78,947,368.42 equivalent with notional amount in IDR for Rp 750.000.000.000,00 which will ended in June 2017. The Company receive fixed interest rate 8,75% p.a. for rupiah nominal and paid fixed interest rate 4.85% p.a. for dollar nominal every three weeks. At the end of exchange, the Company will pay US Dollar nominal value and receive rupiah value. The effective date of this transactions is June 19, 2012.

45. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

The following are several published accounting standards issued by the Indonesian Financial Accounting Standards Board (DSAK) that are considered relevant to the financial reporting of the Group but not yet effective for the 2011 financial statements.

i. PSAK No. 10 (Revised 2010), “The Effects of Changes in Foreign Exchange Rates”
This revised PSAK prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and translate financial statements into a presentation currency.

ii. PSAK No. 16 (Revised 2011), “Property, Plant and Equipment”
This revised PSAK prescribes the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

iii. PSAK No. 18 (Revised 2010), “Accounting and Reporting by Retirement Benefit Plans”
This revised PSAK is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence, this Standard complements PSAK No. 24 (Revised 2010).

iv. PSAK No. 24 (Revised 2010), “Employee Benefits”
This revised PSAK establishes the accounting and disclosures for employee benefits and requires the recognition of liability and expense when an employee has provided service and the entity consumes economic benefit arising from the service.

v. PSAK No. 26 (Revised 2011), “Borrowing Costs”
This revised PSAK provides that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

vi. PSAK No. 30 (Revised 2011), “Leases”
This revised PSAK prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases which applies to agreements that transfer the right to use assets even though substantial services by the lessor maybe called for in connection with the operation or maintenance of such assets.

vii. PSAK No. 33 (Revised 2011), “Stripping and Environmental Management Activities at the General Mining”
This revised PSAK is applied to accounting for general mining in relation with stripping activity and environmental management activity.

viii. PSAK No. 46 (Revised 2010), “Accounting for Income Taxes”
This revised PSAK prescribes the accounting treatment for income taxes to account for the current and future tax consequences of the future recovery/(settlement) of the carrying amount of assets/(liabilities) that are recognized in the consolidated statement of financial position; and transactions and other events of the current period that are recognized in the financial statements.

ix. PSAK No. 50 (Revised 2010), “Financial Instruments: Presentation”
This revised PSAK establishes the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

45. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS (continued)

x. PSAK No. 55 (Revised 2011), “Financial Instruments: Recognition and Measurement”
This revised PSAK establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in PSAK No. 50 (Revised 2010): Financial Instruments: Presentation. Requirements for disclosing information about financial instruments are in PSAK No. 60: Financial Instruments: Disclosures.

xi. PSAK No. 56 (Revised 2011), “Earnings per Share”
This revised PSAK prescribes the principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same period and between different reporting periods for the same entity.

xii. PSAK No. 60, “Financial Instruments: Disclosures”
This PSAK requires disclosures in financial statements that enable users to evaluate the significance of financial instruments to financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

xiii. PSAK No. 64, ”Exploration for and Evaluation of Mineral Resources”
This PSAK specifies the financial reporting for the exploration and evaluation of mineral resource, requires entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this PSAK and measure any impairment in accordance with PSAK No. 48 (Revised 2009), “Impairment of Assets.”

xiv. ISAK No. 15, PSAK No. 24 – “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined scheme that can be recognized as an asset under PSAK No. 24 (Revised 2010), “Employee Benefits”.

xv. ISAK No. 20, “Income Taxes - Changes in the Tax Status of an Entity or its Shareholders”
This Interpretation identifies how an entity should account for the current and deferred tax consequences of a change in tax status of an entity or its shareholders.

xvi. ISAK No. 26, “Reassessment of Embedded Derivatives”
This Interpretation provides that an entity shall not reassess whether an embedded derivative should be separated from the host contract and accounted for as a separate derivative unless there is a change in the contract terms which will significantly change the cash flows required under the contract, in which case a reassessment is necessary. The entity shall determine if the change in the cash flows is significant by considering to what extent the expected future cash flows related to the embedded derivative or to the host contract, or both, have already changed and whether the change is relatively significant compared to the cash flows previously expected under the contract.

The Group is presently evaluating and has not determined the effects of these revised standards on its consolidated financial statements.

46. OPERATIONAL RISKS

The Group's operations in the oil and gas sector are subject to hazards and risks inherent in drilling for and production and transportation of natural gas and oil, such as fires, natural disasters, explosions, encountering formations with abnormal pressures, blowouts, cratering, pipe line ruptures and spils, which can result in the loss of hydrocarbons, environmental pollution, personal injury claims and other damage to properties of the Group. Additionally, certain of the Group's oil and natural gas operations are located in areas that are subject to tropical weather disturbances, some of which can be severe enough to cause substantial damage to facilities and possibly interrupt production. As protection against operating hazards, the Group maintains insurance coverage against some, but not all, potential losses. The Group's insurance coverage for its oil and gas exploration and production activities includes, but is not limited to, loss of wells, blowouts and certain costs of pollution control, physical damage to certain assets, employer's liability, comprehensive general liability, and automobile and workers compensation insurance.

47. APPROVAL AND AUTHORIZATION FOR THE ISSUANCE OF CONSOLIDATED FINANCIAL STATEMENTS

The issuance of the consolidated financial statements of the Group as of March 31, 2012 (Unaudited) and December 31, 2011 (Audited) and for three months period ended March 31, 2012 and 2011 was approved and authorized by the Board of Directors on June 12, 2012, as reviewed and recommended for approval by the Audit Committee.

RESERVES ESTIMATION

The following information on proved developed, undeveloped and probable reserve quantities as well as contingent resources are estimates only, and do not purport to reflect realizable values or fair market values of the Group's reserves. The Group emphasizes that reserve estimates are inherently imprecise. Accordingly, these estimates are expected to change as future information becomes available. There are numerous uncertainties inherent in estimating oil and natural gas reserves including many factors beyond the control of the Group.

The following information on the Group's reserves and resources quantities are estimated either by the Group's engineers, an independent petroleum engineering consultant, i.e., Gaffney, Cline & Associates (GCA), or based on estimates by the operators of the respective blocks. Generally accepted petroleum engineering principles and definitions applied by the industry to proved and probable reserve categories and subclassifications as well as contingent resources were utilized in preparing the reserves and resources disclosures.

Management believes that the reserve quantities shown below are reasonable estimates based on available geological and engineering data.

			Proved (in MBOE*)				
			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2011				March 31, 2012
Indonesia Assets							
1	Production	Rimau (1)	37,334	-	-	1,498	35,836
2	Production	Kampar/S.S. Extension (2)	33,447	-	-	2,565	30,882
3	Production	Lematang (Lapangan Singa Field) (1)	8,084	-	-	504	7,580
4	Production	Tarakan (1)	3,809	-	-	338	3,471
5	Production	Sembakung (1)	1,200	-	-	227	973
6	Production	Senoro Toili (Tiaka Field) (3)	303	-	-	38	265
7	Production	Bawean (4)	11,237	-	-	150	11,087
8	Development	Senoro Toili (Senoro Gas Field) (5)	67,248	-	-	-	67,248
9	Development	Block A (6)	7,818	-	-	-	7,818
	Sub-total		**170,480**	**-**	**-**	**5,320**	**165,160**
International Assets							
		United States (7)					
1	Production	East Cameron 316/317/318	1,992	-	-	27	1,965
2	Production	Main Pass 64/65	5,147	-	-	44	5,103
		Libya (10)					
1	Development	Libya 47	-	30,613	-	-	30,613
	Sub-total		**7,139**	**30,613**	-	**71**	**37,681**
	Total Proved Reserves		**177,619**	**30,613**	**-**	**5,391**	**202,841**

* MBOE: Thousand Barrel Oil Equivalent. Indonesia assets are using 5.85 while US and Libya assets are using 6 for Gas to Oil conversion factor.

RESERVES ESTIMATION (continued)

			Proved and Probable (in MBOE*)				
			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2011				March 31, 2012
Indonesia Assets							
1	Production	Rimau [1]	46,721	-	-	1,498	45,223
2	Production	Kampar/S.S. Extension [2]	45,656	-	-	2,565	43,091
3	Production	Lematang (Lapangan Singa Field)[1]	10,114	-	-	504	9,610
4	Production	Tarakan [1]	5,265	-	-	338	4,927
5	Production	Sembakung [1]	1,599	-	-	227	1,372
6	Production	Senoro Toili (Tiaka Field) [3]	1,516	-	-	38	1,478
7	Production	Bawean [4]	14,133	-	-	150	13,983
8	Development	Senoro Toili (Senoro Gas Field) [5]	71,346	-	-	-	71,346
9	Development	Block A [6]	22,067	-	-	-	22,067
10	Development	Simenggaris [11]	-	9,800	-	-	9,800
	Sub-total		**218,417**	**9,800**	**-**	**5,320**	**222,897**
International Assets							
		United States [7]					
1	Production	East Cameron 316/317/318	3,303	-	-	27	3,276
2	Production	Main Pass 64/65	6,334	-	-	44	6,290
		Libya [10]					
3	Development	Libya 47	-	51,974	-	-	51,974
	Sub-total		**9,637**	**51,974**	**-**	**71**	**61,540**
	Total Proved and Probable Reserves		**228,054**	**61,774**	**-**	**5,391**	**284,437**

* MBOE: Thousand Barrel Oil Equivalent. Indonesia assets are using 5.85 while US and Libya assets are using 6 for Gas to Oil conversion factor.

RESERVES ESTIMATION (continued)

			Proved and probable (in MBOE*)				
			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2011				March 31, 2012
Contingent Resources							
1	Development	Senoro Toili (Senoro Gas Field) (5)	27,128	-	-	-	27,128
2	Exploration	Bangkanai (8)	3,638	-	-	-	3,638
3	Development	Simenggaris (8,9)	10,535	(9,800)	-	-	735
4	Exploration	Libya (10)	175,850	(96,414)	-	-	79,437

(1) The Group's reserve estimates per December 31, 2009 were certified in the GCA Report signed on March 15, 2010.

(2) The Group's reserve estimates for Kampar/S.S. Extension as of December 31, 2009 were certified by the GCA Report signed on March 15, 2010, assuming no PSC extension. Additional reserve estimates in 2010 are based on in-house estimates and take into account the PSC extensión up to 2033, which was obtained in 2010.

(3) The Group's reserve estimates for Senoro Toili block Tiaka field were certified by the GCA Report as of December 31, 2007, with effective working interest of 50%. Revision in the Group's reserves estimate is due to sale of 20% working interest effective December 31, 2010.

(4) The Group's reserves estimate for Bawean block is based on internal estimates and reflects an effective working interest of 100%. In 2010, PSC extension to 2031 has been obtained.

(5) The Group's reserves estimates for Senoro Toili Gas field were certified by the GCA Report as of February 1, 2010, with effective working interest of 50%. The decline in the Group's reserves estimate is due to the sale of 20% working interest effective December 31, 2010.

(6) The Company's reserves estimate for Block A was certified by the GCA Report as of December 31, 2007, with effective working interest of 41.67%. In 2010, PSC extension to 2031 has been obtained.

(7) The Group's reserves estimate for the US assets was certified by Netherland, Sewell & Associates, Inc (NSAI) Report as of December 31, 2010.

(8) Contingent reserves estimates for the Bangkanai and Simenggaris blocks are based on in-house estimates and subject to finalization of Gas Sales Agreements.

(9) Contingent reserves estimate for Simenggaris block is based on in-house estimates.

(10) The Company had already been granted the commerciality rights for A, L, D, and F structure on December 14th, 2011, therefore The Company decided to move the portion of contingent resources to Proved and Probable reserves with 25% of participating interest (based on The Company's participation interest after the declaration of Commerciality). The Company's contingent reserves estimates for Libya block are based on DeGoyler MacNaughton evaluation as of September 30, 2008 and in-house estimates, with effective working interest of 25%, which represent the estimated quantities of petroleum to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. There is no certainty that it will be commercially viable to produce any portion of the resources. The Best Estimate is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the Best Estimate.

(11) Proved and Probable reserves estimate for Simenggaris block is based on in-house estimates.