PT Medco Energi Internasional Tbk
and subsidiaries

Consolidated financial statements with
independent auditors' report
December 31, 2012 and 2011
and January 1, 2011/December 31, 2010
and years ended December 31, 2012 and 2011

PT Medco Energi Internasional Tbk
The Energy 52nd Fl., SCBD Area Lot 11 A
Jl. Jend. Sudirman, Jakarta 12190
Indonesia

Tel +62-21 2995.3000
Fax +62-21 2995.3001
www.medcoenergi.com

MEDCOENERGI

FORM No. VIII.G.11-1

DIRECTORS' STATEMENT ON THE RESPONSIBILITY FOR PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORT AS OF DECEMBER 31, 2012 AND 2011 AND JANUARY 1, 2011 / DECEMBER 31, 2010 AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 PT MEDCO ENERGI INTERNASIONAL TBK AND SUBSIDIARIES

We the undersigned,

1. Name : Lukman Ahmad Mahfud
   Id Number : 09.5304.260254.0142
   Address : Tanjung Mas Raya Blok.B 8/16 Rt. 002 / Rw. 001
   Tanjung Barat, Jagakarsa, Jakarta Selatan
   Telephone : 021-2995 3000
   Title : President Director

2. Name : Syamsurizal
   Id Number : 09.5308.281065.0270
   Address : Komplek Suad H 45 12 No. 12 Rt. 009 / Rw. 003
   Kalibata, Pancoran – Jakarta Selatan
   Telephone : 021-2995 3000
   Title : Finance Director

hereby declare :

1. We are responsible towards the preparation and presentation of the Consolidated financial statements with independent auditors' report as of December 31, 2012 and 2011 And January 1, 2011 / December 31, 2010 And for the years ended December 31, 2012 and 2011 PT Medco Energi Internasional Tbk And Subsidiaries ("The Annual Consolidated Financial Statements of the Company and Subsidiaries");

2. The Annual Consolidated Financial Statements of the Company and Subsidiaries has been prepared in accordance with the generally accepted accounting principles in Indonesia;

3. a. All the information in The Annual Consolidated Financial Statements of the Company and Subsidiaries have been fully and accurately disclosed;

   b. The Annual Consolidated Financial Statements of the Company and Subsidiaries does not contain any false information or material fact, and does not omit any information or material fact;

4. We are responsible towards the internal control system of the Company and Subsidiaries.

In witness whereof, the undersigned have drawn up this statement truthfully.

Jakarta, March 15, 2013
PT Medco Energi Internasional Tbk

METERAI TEMPEL
5B5D6ABF300226203
6000 DJP

Lukman Ahmad Mahfud
President Director

Syamsurizal
Finance Director

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2012 AND 2011
AND JANUARY 1, 2011/DECEMBER 31, 2010
AND YEARS ENDED DECEMBER 31, 2012 AND 2011

Table of Contents

****

Purwantono, Suherman & Surja
Indonesia Stock Exchange Building
Tower 2, 7th Floor
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190, Indonesia
Tel : +62 21 5289 5000
Fax: +62 21 5289 4100
www.ey.com/id

This report is originally issued in the Indonesian language.

Independent Auditors' Report

Report No. RPC-3400/PSS/2013

The Stockholders and the Boards of Commissioners and Directors
PT Medco Energi Internasional Tbk

We have audited the accompanying consolidated statements of financial position of PT Medco Energi Internasional Tbk ("the Company") and Subsidiaries as of December 31, 2012 and 2011 and January 1, 2011/December 31, 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PT Medco Energi Internasional Tbk and Subsidiaries as of December 31, 2012 and 2011 and January 1, 2011/December 31, 2010, and the consolidated results of their operations and their cash flows for the years ended December 31, 2012 and 2011 in conformity with Indonesian Financial Accounting Standards.

Effective January 1, 2012, the Company and Subsidiaries adopted certain revised Indonesian Statements of Financial Accounting Standards, which were applied on a prospective or retrospective basis, as disclosed in Notes 2 and 48 to the consolidated financial statements. Therefore, the consolidated financial statements as of December 31, 2011 and January 1, 2011/December 31, 2010 and for the year ended December 31, 2011 were restated.

Purwantono, Suherman & Surja

Feniwati Chendana, CPA
Public Accountant Registration No. AP.0694

March 15, 2013

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in Indonesia.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011
and January 1, 2011/December 31, 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2012	As Restated - Notes 2 and 48 December 31, 2011	As Restated - Notes 2 and 48 January 1, 2011/ December 31, 2010
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	2d,2e,2f,2q,4, 38,40,41	523,651,774	703,951,167	178,859,393
Short-term investments	2f,2q,5,40,41,43	311,668,012	247,304,920	168,047,197
Restricted cash in banks	2e,2q,11,38,40,41	1,343,426	25,278,063	36,716,355
Trade receivables	2g,2q,6,23,40,41			
Related parties	2e,38	32,701,117	69,701,987	49,132,431
Third parties - net of allowance for impairment of US$144,495 as of December 31, 2012, US$3,790,311 as of December 31, 2011 and US$3,432,887 as of January 1, 2011/ December 31, 2010		114,428,181	132,626,242	131,575,614
Other receivables	2g,2q,7,40,41			
Third parties - net of allowance for impairment of US$28,454,825 as of December 31, 2012, US$28,709,290 as of December 31, 2011 and US$62,653,490 as of January 1, 2011/ December 31, 2010		79,157,762	62,216,151	129,886,928
Finance lease receivables - net	2k	-	-	16,845,899
Inventories - net of allowance for obsolescence and decline in value of US$6,969,074 as of December 31, 2012, US$3,143,430 as of December 31, 2011 and US$2,657,732 as of January 1, 2011/ December 31, 2010	2h,8	36,503,594	43,704,972	34,138,382
Prepaid taxes	2s,9	9,379,589	9,913,564	20,790,365
Prepaid expenses	2i,10	4,066,007	4,659,566	8,542,693
Derivative assets	2q,22,41	-	2,844,957	415,155
Advance for purchase of shares of stock	16	30,080,481	-	-
Other current assets	17	1,682,237	447,208	459,268
Total Current Assets		1,144,662,180	1,302,648,797	775,409,680

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

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
December 31, 2012 and 2011
and January 1, 2011/December 31, 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2012	As Restated - Notes 2 and 48 December 31, 2011	As Restated - Notes 2 and 48 January 1, 2011/ December 31, 2010
NON-CURRENT ASSETS				
Other receivables	2g,2q,7,40,41			
Related parties	2e,38	101,615,237	46,827,782	263,276,006
Third parties - net of allowance for impairment of US$52,506 as of December 31, 2012 and US$210,195 as of December 31, 2011 and January 1, 2011/December 31, 2010		4,505,896	12,735,533	4,079,566
Restricted cash in banks	2e,2q,11 38,40,41	10,898,277	13,518,505	15,669,858
Deferred tax assets - net	2s,33	59,541,169	65,339,990	70,684,839
Finance lease receivables - net	2k	-	-	110,680,489
Long-term investments	2e,2q,12,41	200,540,593	136,142,400	10,966,515
Investment in project	2q,13	30,324,414	30,324,414	17,487,632
Property, plant and equipment - net of accumulated depreciation of US$75,015,599 as of December 31, 2012, US$64,393,848 as of December 31, 2011 and US$74,782,626 as of January 1, 2011/December 31, 2010	2j,2k,2v, 14,30c,31	120,410,982	106,152,549	123,454,067
Exploration and evaluation assets	2l,2v,15	109,552,742	90,802,201	43,759,375
Oil and gas properties - net of accumulated depreciation, depletion, amortization and allowance for impairment of US$1,001,514,489 as of December 31, 2012, US$929,355,949 as of December 31, 2011 and US$845,084,446 as of January 1, 2011/December 31, 2010	2l,2p,2v, 2x,15,30c	849,387,645	760,947,154	815,636,692
Derivative assets	2q	-	-	3,105,281
Other assets - net	17,41	24,401,569	32,356,285	35,314,083
Total Non-current Assets		1,511,178,524	1,295,146,813	1,514,114,403
TOTAL ASSETS		**2,655,840,704**	**2,597,795,610**	**2,289,524,083**

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

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
December 31, 2012 and 2011
and January 1, 2011/December 31, 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2012	As Restated - Notes 2 and 48 December 31, 2011	As Restated - Notes 2 and 48 January 1, 2011/ December 31, 2010
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans	2e,2q,23,38,40,41	60,000,000	121,399,984	85,620,671
Trade payables	2q,18,40,41			
Related parties	2e,38	69,936	-	3,987,300
Third parties		95,194,668	113,004,919	128,637,226
Other payables	2k,2q,19b,41	43,589,966	35,430,475	27,671,863
Taxes payable	2s,20	32,800,113	41,569,149	65,028,789
Accrued expenses and other provisions	2q,21,41	72,224,141	67,516,463	37,406,046
Post-employment benefits obligations – current portion	2o,37	9,153,439	217,708	8,014,396
Current maturities of long-term debt	2q,40,41			
Bank loans	23	62,855,699	291,721,364	89,741,220
Medium-term notes	24	40,386,422	64,928,129	20,523,889
Rupiah bonds	24	-	56,563,960	-
Derivative liabilities	2q	-	-	345,721
Advances from customers				
Related party	2e	-	-	32,238,271
Third parties	19a	15,897,995	19,211,686	1,103,032
Total Current Liabilities		432,172,379	811,563,837	500,318,424
NON-CURRENT LIABILITIES				
Long-term debt - net of current maturities	2q,40,41			
Related party	2e,24,38	125,735,136	69,997,758	-
Bank loans	23	654,384,407	466,408,082	493,330,538
Medium-term notes	24	-	40,320,379	128,881,891
Rupiah bonds	24	307,542,144	108,354,996	166,236,215
US Dollar bonds	24	99,334,607	79,387,679	-
Advances from customers-third parties		-	-	21,028,543
Other payables	2k,2q,19b,41	13,849,625	10,511,274	20,753,538
Deferred tax liabilities - net	2s,33	90,167,043	76,253,828	71,117,455
Post-employment benefits obligations	2o,37	15,769,959	12,370,076	13,922,436
Derivative liabilities	2q,22,41	17,985,673	1,202,270	-
Asset abandonment and site restoration obligations and other provisions	2p,45	55,675,546	53,757,992	50,705,914
Total Non-Current Liabilities		1,380,444,140	918,564,334	965,976,530
Total Liabilities		**1,812,616,519**	**1,730,128,171**	**1,466,294,954**

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

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
December 31, 2012 and 2011
and January 1, 2011/December 31, 2010
(Expressed in United States Dollars, unless otherwise stated)

	Notes	December 31, 2012	As Restated - Notes 2 and 48 December 31, 2011	As Restated - Notes 2 and 48 January 1, 2011/ December 31, 2010
EQUITY				
Capital stock - Rp100 par value per share				
Authorized - 4,000,000,000 shares				
Issued and fully paid - 3,332,451,450 shares	1b,26	101,154,464	101,154,464	101,154,464
Treasury stock - 390,454,500 shares	2n,26	(5,574,755)	(5,574,755)	(5,574,755)
		95,579,709	95,579,709	95,579,709
Additional paid-in capital	27	108,626,898	108,626,898	108,626,898
Effects of changes in equity transactions of subsidiaries/associated entities	28	107,870	107,870	107,870
Translation adjustments	2d	454,785	(23,857)	3,578,053
Fair value adjustment on cash flow hedging instruments	2u	(13,244,181)	-	-
Retained earnings				
Appropriated		6,492,210	6,492,210	6,492,210
Unappropriated		637,054,429	646,992,913	578,052,454
Total equity attributable to the equity holders of the parent company		835,071,720	857,775,743	792,437,194
Non-controlling interests	2b,25a	8,152,465	9,891,696	30,791,935
Total Equity		**843,224,185**	**867,667,439**	**823,229,129**
TOTAL LIABILITIES AND EQUITY		**2,655,840,704**	**2,597,795,610**	**2,289,524,083**

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

	Notes	2012	2011 (As Restated - Notes 2 and 48)
CONTINUING OPERATIONS			
Sales and other operating revenues	2e,2r,29,38		
Net oil and gas sales		873,031,964	800,476,758
Net sales of chemical and other petroleum products		9,089,517	8,583,999
Revenues from other services		26,928,012	8,656,180
TOTAL SALES AND OTHER OPERATING REVENUES		**909,049,493**	**817,716,937**
COST OF SALES AND OTHER DIRECT COSTS			
Production and lifting costs	2r,30a	(326,942,634)	(279,931,765)
Cost of sales of chemical and other petroleum products	2e,2r 30d,38	(7,799,586)	(8,730,524)
Depreciation, depletion and amortization	2l,2j,14,15,30c	(85,353,665)	(100,742,468)
Exploration expenses	2l,2r,30e	(17,306,526)	(24,245,872)
Cost of crude oil purchases	2r,30f	(43,166,575)	(34,225,485)
Cost of other services	2r,30b	(32,247,166)	(18,955,968)
TOTAL COST OF SALES AND OTHER DIRECT COSTS		**(512,816,152)**	**(466,832,082)**
GROSS PROFIT		**396,233,341**	**350,884,855**
Selling, general and administrative expenses	2r,31	(143,042,815)	(130,553,456)
Finance costs	23,24	(95,932,889)	(77,586,423)
Loss on impairment of assets - net	6,7,14,15	(18,731,038)	(21,762,332)
Share of net income (losses) of associated entities - net	2e,12	1,188,018	(1,952,409)
Gain on dilution of equity ownership in an associated entity	12	-	8,472,496
Finance income	4,7	21,573,568	8,896,821
Gain on disposal of subsidiaries	2b,43	5,362,723	74,364,220
Other operating income	32	25,319,919	13,679,598
Other operating expenses	32	(11,445,281)	(10,748,084)
PROFIT BEFORE INCOME TAX EXPENSE FROM CONTINUING OPERATIONS		**180,525,546**	**213,695,286**
INCOME TAX EXPENSE	2s,33	(156,339,016)	(120,769,581)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**24,186,530**	**92,925,705**

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

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

(Expressed in United States Dollars, unless otherwise stated)

	Notes	2012	2011 (As Restated - Notes 2 and 48)
DISCONTINUED OPERATIONS			
PROFIT (LOSS) AFTER INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	34	**(5,332,473)**	**3,161,821**
PROFIT FOR THE YEAR		**18,854,057**	**96,087,526**
OTHER COMPREHENSIVE INCOME			
Translation adjustments		478,642	(2,022,370)
Fair value adjustment from cash flow hedging instruments		(13,244,181)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,088,518**	**94,065,156**
PROFIT ATTRIBUTABLE TO			
Equity holders of the parent company			
Profit for the year from continuing operations		17,925,761	87,776,951
Profit (loss) for the year from discontinued operations		(5,332,473)	3,161,821
Profit for the year attributable to owners of the parent		12,593,288	90,938,772
Non-controlling interests			
Profit for the year from continuing operations	2b,25b	6,260,769	2,632,495
Profit for the year from discontinued operations	2b,25b	-	2,516,259
Profit for the year attributable to non-controlling interests		6,260,769	5,148,754
		18,854,057	**96,087,526**
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO			
Equity holders of the parent company			
Comprehensive income for the year from continuing operations		5,160,222	84,175,041
Comprehensive income (loss) for the year from discontinued operations		(5,332,473)	3,161,821
Comprehensive income (loss) for the year attributable to owners of the parent		(172,251)	87,336,862

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

	Notes	2012	2011 (As Restated - Notes 2 and 48)
Non-controlling interests			
Comprehensive income for the year from continuing operations	2b,25c	6,260,769	2,632,495
Comprehensive income for the year from discontinued operations	2b,25c	-	4,095,799
Comprehensive income for the year attributable to non-controlling interests		6,260,769	6,728,294
		6,088,518	**94,065,156**
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	2z,35	**0.0043**	**0.0309**

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

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

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

		Attributable to the equity holders of the parent company									
				Retained Earnings							
	Notes	Capital Stock	Additional Paid-in Capital	Appropriated	Unappropriated	Effect of Changes in Equity Transactions of Subsidiaries/ Associated Entities	Translation Adjustments	Fair Value Adjustment on Cash Flow Hedging Instruments	Total	Non-controlling Interests	Total Equity
Balance, December 31, 2010 (after restatement)		**95,579,709**	**108,626,898**	**6,492,210**	**578,052,454**	**107,870**	**3,578,053**	**-**	**792,437,194**	**30,791,935**	**823,229,129**
Comprehensive income for the year		-	-	-	90,938,772	-	(3,601,910)	-	87,336,862	6,728,294	94,065,156
Cash dividends paid	36	-	-	-	(21,998,313)	-	-	-	(21,998,313)	-	(21,998,313)
Effect of divestment of Subsidiaries		-	-	-	-	-	-	-	-	(27,628,533)	(27,628,533)
Balance, December 31, 2011		**95,579,709**	**108,626,898**	**6,492,210**	**646,992,913**	**107,870**	**(23,857)**	**-**	**857,775,743**	**9,891,696**	**867,667,439**
Comprehensive income for the year		-	-	-	12,593,288	-	478,642	(13,244,181)	(172,251)	6,260,769	6,088,518
Cash dividends paid	36	-	-	-	(22,531,772)	-	-	-	(22,531,772)	-	(22,531,772)
Payment of cash dividends by a Subsidiary		-	-	-	-	-	-	-	-	(8,000,000)	(8,000,000)
Balance, December 31, 2012		**95,579,709**	**108,626,898**	**6,492,210**	**637,054,429**	**107,870**	**454,785**	**(13,244,181)**	**835,071,720**	**8,152,465**	**843,224,185**

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

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

	Notes	2012	2011 (As Restated - Notes 2 and 48)
Cash Flows from Operating Activities			
Cash receipts from customers		974,044,011	769,772,812
Cash paid to suppliers and employees		(615,457,083)	(533,084,894)
Cash generated from operations		358,586,928	236,687,918
Income tax paid		(149,149,273)	(129,964,501)
Net cash provided by operating activities		**209,437,655**	**106,723,417**
Cash Flows from Investing Activities			
Additions to short-term investments	5	(143,690,189)	(232,236,461)
Proceeds from redemption of short-term investments	5	90,531,714	160,965,745
Additions to oil and gas properties	15	(161,171,764)	(80,500,555)
Additions to exploration and evaluation assets		(28,041,570)	(53,138,220)
Investment in shares of stock	43	(67,736,590)	(54,978,443)
Advance payment	16	(31,762,718)	-
Additions to other assets		(1,943,176)	(5,478,124)
Acquisitions of property, plant and equipment	14	(53,048,179)	(23,745,331)
Increase in other receivables from related parties		(48,140,400)	(12,116,752)
Proceeds from disposal of subsidiaries - net	43	9,396,007	395,683,731
Interest received		20,955,675	10,746,543
Proceeds from disposals of property and equipment	14	10,153,998	873,093
Proceeds from redemption of convertible bonds		11,878,871	-
Net cash provided by (used in) investing activities		**(392,618,321)**	**106,075,226**
Cash Flows from Financing Activities			
Proceeds from:			
- Bank loans	23	252,224,879	617,623,706
- Other long-term debts	24	230,750,818	150,673,196
- Related party debt		50,704,500	-
Payments of:			
- Bank loans	23	(329,970,969)	(330,951,125)
- Other long-term debts	24	(119,651,633)	(44,550,000)
Payment of financing charges		(91,778,682)	(75,065,675)
Decrease in restricted cash in banks		28,013,957	11,909,810
Payment of cash dividends	36	(22,531,772)	(21,998,313)
Payment of cash dividends by a Subsidiary		(8,000,000)	-
Settlement of derivative transaction		-	(120,136)
Net cash provided by (used in) financing activities		**(10,238,902)**	**307,521,463**

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

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years Ended December 31, 2012 and 2011
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2012	2011 (As Restated - Notes 2 and 48)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS		**(193,419,568)**	**520,320,106**
NET INCREASE IN CASH AND CASH EQUIVALENTS FROM DISCONTINUED OPERATIONS		**11,510,682**	**4,555,024**
NET FOREIGN EXCHANGE DIFFERENCE		**1,609,493**	**216,644**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	**703,951,167**	**178,859,393**
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**523,651,774**	**703,951,167**

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

1. GENERAL

a. General Information

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

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

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

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

The Company and its Subsidiaries ("the Group") have approximately 2,135 (unaudited) and 2,322 (unaudited) employees as of December 31, 2012 and 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-LK, formerly Capital Market Supervisory Agency/BAPEPAM) in its letter No. S-1588/PM/1994.

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

As of December 31, 2012 and 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 members of the Company's Boards of Commissioners and Directors and Audit Committee as of December 31, 2012 and 2011 are as follows:

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

The Annual General Meeting of Stockholders (AGMS) 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 compensation for the Commissioners and Directors amounted to US$5.7 million and US$5.0 million for the years ended December 31, 2012 and 2011, respectively. Post-employment benefits and other long-term benefits for them amounted to US$0.8 million annually. No severance payments were made to key management personnel in the year ended December 31, 2012 (December 31, 2011: US$1.9 million).

d. Subsidiaries

i. As of December 31, 2012 and 2011, the Company has consolidated all of its subsidiaries in line with its accounting policy as described in Note 2b, "Principles of Consolidation". For disclosure purposes, only subholding entities or 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	Date of exploration/ exploitation permit obtained	Effective percentage of ownership		Total assets (before elimination) in millions	
			December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Exploration and production of oil and gas						
PT Medco E&P Tarakan (MEPT) [6] Indonesia	1992	Jan' 14, 2002	100.00	100.00	59.0	53.0
PT Medco E&P Kalimantan (MEPK) [5,6] Indonesia	1992	-	100.00	100.00	7.9	8.1
PT Medco E&P Indonesia (MEPI) [6] Indonesia	1995	Nov' 28,1993	100.00	100.00	591.9	552.9
PT Medco E&P Tomori Sulawesi [2,6] Indonesia	2005	Dec' 4,1997	100.00	100.00	288.8	308.1
PT Medco E&P Sembakung [6] Indonesia	2005	Dec' 22, 1993	100.00	100.00	22.0	17.3
Medco Far East Limited [2,6] Cayman Islands	Inactive	-	100.00	100.00	77.6	77.6
PT Medco E&P Simenggaris [6] Indonesia	2009	Feb' 24, 1998	100.00	100.00	29.5	27.7
PT Medco E&P Bengara [6] Indonesia	Exploration stage	Sept' 27, 1999	95.00	95.00	9.8	9.6
PT Medco E&P Lematang [6] Indonesia	2003	Apr' 6, 1987	100.00	100.00	154.0	148.2
Medco Energi Global Pte Ltd [1,2,13] Singapore	Inactive	-	100.00	100.00	329.1	333.1
PT Medco CBM Sekayu [6] Indonesia	Exploration stage	May 27, 2008	100.00	100.00	4.5	4.1
PT Medco E&P Merangin [6] Indonesia	Exploration stage	Oct' 14, 2003	100.00	100.00	0.6	8.9
PT Medco E&P Malaka [6] Indonesia	Exploration and development stage	Sept' 1, 1991	100.00	100.00	4.5	60.8
PT Medco E&P Rimau [6] Indonesia	2005	Apr' 23, 2003	100.00	100.00	495.9	474.7
PT Medco E&P Nunukan [6] Indonesia	Exploration stage	Dec' 12, 2004	100.00	100.00	4.5	2,.4
PT Medco E&P Bangkanai [1,6] Indonesia	Exploration stage	-	100.00	100.00	13.1	5.4
Medco Bawean (Holdings) Pte Ltd (MBHPL) [1,6] Singapore	2008	Feb' 12, 2011	100.00	100.00	98.4	92.9
Medco Yemen Malik Ltd [15]	2012	-	100.00	-	106.0	-
Support services for oil and gas activities						
PT Exspan Petrogas Intranusa (EPI) [1,6] Indonesia		1999	100.00	100.00	74.9	51.9
PT Medco Gas Indonesia [1,6] Indonesia		2009	100.00	100.00	18.4	20.0
Production and trading of chemicals						
PT Medco Downstream Indonesia [1,2,6] Indonesia		2004	100.00	100.00	185.2	137.0
PT Medco Niaga Internasional [6] Indonesia		2006	100.00	100.00	0.8	0.1
Liquefied Natural Gas (LNG)						
PT Medco LNG Indonesia [6] Indonesia		2007	100.00	100.00	139.3	83.0
Others						
MEI Euro Finance Limited (MEFL) [2,6] Mauritius		2002	100.00	100.00	1.9	36.3
Medco CB Finance BV [2,6] The Netherlands		2006	100.00	100.00	0.3	0.4
PT Medco Energi Mining International [1,6] Indonesia		2009	100.00	100.00	35.6	17.1
Medco Strait Services Pte Ltd [1,2,6] Singapore		2007	100.00	100.00	759.3	976.9

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

d. Subsidiaries (continued)

The subsidiaries that are not active, or not significant or have become associated entities in 2012 and 2011, or owned indirectly by the Company are as follows:

	Effective percentage of ownership		
	Date of exploration/ exploitation permit obtained	December 31, 2012	December 31, 2011
Exploration and production of oil and gas			
Bangkanai Petroleum (L) Berhad [7)]	December 30, 2003	100.00	100.00
BUT Medco Madura Pty Ltd [6)]	-	51.00	51.00
PT Medco E&P Bawean [6)]	-	100.00	100.00
PT Medco E&P Madura [6)]	-	100.00	100.00
Medco Simenggaris Pty Ltd [6)]	-	100.00	100.00
PT Medco E&P Yapen [1) 6)]	-	100.00	100.00
Camar Bawean Petroleum Ltd [8)]	February 12, 2011	100.00	100.00
Perkasa Equatorial Sembakung Ltd [10)]	-	100.00	100.00
Exspan Cumi-cumi (L) Inc [9)]	-	100.00	100.00
Sulawesi E&P Limited [6)]	-	100.00	100.00
Lematang E&P Limited [11)]	April 6, 1987	100.00	100.00
Medco Arabia [14)]	-	100.00	100.00
Medco International Services Pte Ltd [14)]	-	100.00	100.00
Medco International Ventures Ltd [14)]	March 12, 2005	100.00	100.00
Medco Yemen Holding Ltd [1) 14)]	-	100.00	100.00
Medco Yemen Amed Ltd [15)]	April 13, 2008	100.00	100.00
Medco Yemen Arat Ltd [15)]	April 13, 2008	100.00	100.00
Medco Cambodia Holding Limited [14)]	-	100.00	100.00
Medco Cambodia Tonle Sap [16)]	September 2007	100.00	100.00
Medco International Enterprise Ltd [1) 14)]	-	100.00	100.00
Medco LLC [17)]	January, 2006	68.00	68.00
Medco International Petroleum Ltd [14)]	July 2, 2007	100.00	100.00
Medco Energi USA Inc [1) 14)]	-	100.00	100.00
Medco Energi US LLC [18)]	*)	100.00	100.00
Medco Petroleum Management LLC [18)]	-	100.00	100.00
Medco Energi (BVI) Ltd [14)]	-	100.00	100.00

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

d. Subsidiaries (continued)

	Effective percentage of ownership	
	December 31, 2012	**December 31, 2011**
Support services for oil and gas activities		
PT Sistim Vibro Indonesia [23)]	100.00	100.00
PT Medco Integrated Resources [23)]	100.00	100.00
PT Medco Energi Gas Sumatra [24)]	100.00	100.00
PT Medco Energi CBM Indonesia [1) 6)]	100.00	100.00
PT Medco CBM Pendopo [12)]	100.00	100.00
PT Medco CBM Bengara [12)]	100.00	100.00
PT Medco CBM Lematang [12)]	100.00	100.00
PT Medco CBM Rimau [12)]	100.00	100.00
Medco Petroleum Services Ltd [13)]	100.00	-
Production and trading of chemicals		
PT Medco LPG Kaji [21)]	100.00	100.00
PT Puma Medco Petrolium (formerly PT Medco Sarana Kalibaru) [3)]	36.12	100.00
PT Medco Methanol Bunyu [21)]	100.00	100.00
PT Medco Ethanol Lampung [1) 21)]	100.00	100.00
PT Usaha Tani Sejahtera [4)]	100.00	100.00
PT Medco Services Indonesia [21)]	100.00	100.00
PT Bumi Agro Lampung [4)]	100.00	100.00
PT Medco Sarana Balaraja [6)]	100.00	100.00
PT Mahakam Raksa Buminusa [25)]	99.00	99.00
Petroleum Exploration & Production Int Ltd [1) 13)]	100.00	100.00
Synergia Trading International Pte Ltd [13)]	100.00	100.00
Fortico International Limited [11)]	100.00	100.00
Electricity production		
PT Medco Power Indonesia (MPI)	49.00	49.00
PT Mitra Energi Batam [19)]	31.36	31.36
PT Universal Batam Energy [19)]	34.30	34.30
PT Dalle Panaran [19)]	49.00	49.00
PT Dalle Energi Batam [19)]	39.20	28.26
PT Medco Power Sumatra [19)]	49.00	49.00
PT Medco Cahaya Geothermal [19)]	49.00	49.00

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

d. Subsidiaries (continued)

	Effective percentage of ownership	
Electricity production (continued)	**December 31, 2012**	**December 31, 2011**
PT Medco Geopower Sarulla [19)]	49.00	49.00
PT Muara Enim Multi Power [19)]	39.20	39.20
PT Medco Geothermal Sarulla [19)]	49.00	49.00
PT Energi Prima Elektrika [19)]	45.33	45.33
PT Multidaya Prima Elektrindo [19)]	41.65	41.65
PT Indo Medco Power [19)]	49.00	49.00
PT Medco Geothermal Indonesia [19)]	49.00	49.00
PT Medco Energi Menamas [19)]	49.00	49.00
PT Medco General Power Services [19)]	48.95	48.95
PT TJB Power Services [19)]	39.21	39.21
PT Sangsaka Agro Lestari [19)]	34.30	34.30
Medco Power Venture Pte Ltd [1) 19)]	49.00	49.00
Biofuel Power Pte Ltd [20)]	49.00	49.00
Sky Investment Venture Ltd [8)]	100.00	100.00
PT Medco Energi Nusantara [6)]	100.00	100.00
International Power Venture Ltd [8)]	100.00	100.00
PT Duta Tambang Rekayasa [26)**)]	100.00	100.00
PT Duta Tambang Sumber Alam [26)***)]	100.00	100.00
PT Satria Raksa Buminusa [25)]	100.00	100.00
PT Musi Raksa Buminusa [25)]	100.00	100.00

1) and subsidiary/subsidiaries
2) 90%-95% of the assets are intercompany accounts within the Group which were eliminated in the consolidated financial statements
3) Interest of 63.88% in PT Medco Sarana Kalibaru was divested on December 3, 2012
4) PT Medco Ethanol Lampung sold its investments in PT Usaha Tani Sejahtera and PT Bumi Agro Lampung to the subsidiary of PT Medco Downstream Indonesia, PT Medco Service Indonesia, in September and December 2012, respectively
5) Technical Assistance Contract (TAC) of Kalimantan was relinquished in 2008
6) Subsidiary of PT Medco Energi Internasional Tbk
7) Subsidiary of PT Medco E&P Bangkanai
8) Subsidiary of Medco Bawean (Holding) Pte Ltd
9) Subsidiary of PT Medco E&P Kalimantan
10) Subsidiary of Medco Far East Limited
11) Subsidiary of Petroleum Exploration & Production Int Ltd
12) Subsidiary of PT Medco Energi CBM Indonesia
13) Subsidiary of Medco Strait Services Pte Ltd
14) Subsidiary of Medco Energi Global Pte Ltd
15) Subsidiary of Medco Yemen Holding Ltd
16) Subsidiary of Medco Cambodia Holding Ltd
17) Subsidiary of Medco International Enterprise Ltd
18) Subsidiary of Medco Energi USA, Inc
19) Subsidiary of PT Medco Power Indonesia
20) Subsidiary of PT Medco Power Venture Pte Ltd
21) Subsidiary of PT Medco Downstream Indonesia
22) Subsidiary of PT Medco Ethanol Lampung
23) Subsidiary of PT Exspan Petrogas Intranusa
24) Subsidiary of PT Medco Gas Indonesia
25) Subsidiary of PT Medco Sarana Balaraja
26) Subsidiary of PT Medco Energi Mining Internasional
27) Restated
*) Date of exploration/exploitation varied from 2005-2009
**) Date of exploration/exploitation permit is February 2, 2010
***) Date of exploration/exploitation permit is May 6, 2008

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

d. Subsidiaries (continued)

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

Joint Venture	Country	Interest (%) December 31, 2012	Interest (%) December 31, 2011
Brazos 437/451 Block	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
Block 9	Yemen	21.25	-

*) In process of relinquishment

iii. The Group has undertaken several acquisitions and divestments of assets as disclosed in Note 43a.

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

v. Based on the Certificate of Company Incorporation No. ET-265735 dated January 19, 2012 by Joy A. Rankine, Company Registration Assistant of Cayman Islands, Medco Strait Services Pte Ltd established Medco Petroleum Services Ltd with a paid-up capital of US$50,000. The equity investment of Medco Strait Services Pte Ltd amounting to US$50,000 represents 100% share ownership.

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 No. VIII.G.7 (Appendix to the Chairman of Bapepam-LK Decree No. Kep-06/PM/2000 dated March 13, 2000, as amended by the Chairman of Bapepam-LK Decree No. Kep-347/BL/2012 dated June 25, 2012) issued by Bapepam-LK.

2. IKHTISAR KEBIJAKAN AKUNTANSI (continued)

a. Basis of Preparation of the Consolidated Financial Statements (continued)

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.

As disclosed further in the relevant succeeding notes, several other amended and issued accounting standards were adopted effective January 1, 2012, prospectively or retrospectively. Therefore, the consolidated financial statements as of December 31, 2011 and January 1, 2011/December 31, 2010 have been restated to effect the reclassifications and restatements as disclosed in Note 48.

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, 2011, except for the adoption of several amended PSAKs effective January 1, 2012 as disclosed in this note.

The consolidated financial statements have been prepared on the accrual basis using 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.

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

b. Principles of Consolidation

The Group adopts PSAK No. 4 (Revised 2009), "Consolidated and Separate Financial Statements". PSAK No. 4 (Revised 2009) provides 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.

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.

2. IKHTISAR KEBIJAKAN AKUNTANSI (continued)

b. Principles of Consolidation (continued)

Control also exists when the parent owns half or less of the voting rights of an entity when there is:

(a) Power over more than half of the voting rights by virtue of an agreement with other investors;
(b) Power to govern the financial and operating policies of the entity under a statute or an agreement;
(c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
(d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Losses of a non-wholly owned subsidiary are attributed to the non-controlling interests (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 the component 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.

c. Business Combinations

The Group adopts PSAK No. 22 (Revised 2010), “Business Combinations”, which 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.

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 and any resulting gain or loss is recognized in profit or loss.

2. IKHTISAR KEBIJAKAN AKUNTANSI (continued)

c. Business Combinations (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 2011) 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 profit or loss.

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.

d. Foreign Currency Transactions and Balances

Effective on January 1, 2012, the Group applied PSAK No. 10 (Revised 2010), "The Effects of Changes in Foreign Exchange Rates", prospectively, which describes how to include foreign currency transactions and foreign operations in the financial statements of an entity and translate financial statements into a presentation currency. The Group considers the primary indicators and other indicators in determining its functional currency. If indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

The consolidated financial statements are presented in US Dollar, which is the Company's functional currency and the Group's presentation currency.

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

At the reporting date, all monetary assets and liabilities denominated in currencies other than US Dollar are translated to US Dollar at the middle exchange rates prevailing on that date. 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 and whose functional currency is Indonesian Rupiah, are translated into US Dollars using the rates of exchange prevailing at the reporting date, equity accounts are translated using historical rates of exchange, while revenues and expenses and cash flows are translated using average rates of exchange. The resulting foreign exchange differences are credited or charged to the account "Translation Adjustments", under the Equity section of the consolidated statements of financial position. For entities that maintain their books/accounts in Indonesian Rupiah and in Euro, but their functional currency is the US Dollar, for consolidation purposes, the accounts of these entities are remeasured into the US Dollar in order to reflect more closely their economic substance. The resulting foreign exchange differences are credited or charged to current operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency Transactions and Balances (continued)

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

	2012	2011
Rupiah/US$1	9,670	9,068
Euro/US$1	1.3247	1.2945
Australian Dollar/US$1	1.0368	1.0148
Singapore Dollar/US$1	0.8177	0.7691
British Poundsterling/US$1	1.6111	1.5405
Japanese Yen 100/US$1	1.1579	1.2881

Certain Subsidiaries maintain their books in Indonesian Rupiah and remeasure their books into their functional currencies for the purpose of preparing the consolidated financial statements.

Such Subsidiaries remeasure their non-monetary assets and liabilities into their functional currencies using historical rates, while monetary assets and liabilities are translated into functional currencies using the current exchange rate at the statement of financial position date.

Revenues and expenses are remeasured into functional currencies using the original functional currencies amount or using weighted average exchange rates every month which approximate the exchange rates prevailing at the date of transactions. Foreign exchange gains or losses from the remeasurement process are recognized in profit or loss.

e. Transactions with Related Parties

The Group adopts PSAK No. 7 (Revised 2010), "Related Party Disclosures", which 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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”.

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.

g. 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.

h. 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.

i. Prepaid Expenses

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

j. Property, Plant and Equipment

Effective on January 1, 2012, the Group implemented PSAK No. 16 (Revised 2011), “Property, Plant and Equipment”, which impacts the recognition of assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them. The adoption of PSAK No. 16 (Revised 2011) has no significant impact on the consolidated financial statements.

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 profit or loss as incurred.

Property, plant and equipment acquired in exchange for a non-monetary asset or for a combination of monetary and non-monetary assets are measured at fair values unless:
(i) The exchange transactions lack commercial substance, or
(ii) The fair value of neither the assets received nor the assets given up can be measured reliably.

The acquired assets are measured this way even if the Group cannot immediately derecognize the assets given up. If the acquired assets cannot be reliably measured at fair value, their fair value is measured at the carrying amount of the assets given up.

(Expressed in United States Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property, Plant and Equipment (continued)

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	8 - 20
Control panel equipment	4 - 20
Drilling rigs and equipment *)	8 - 16
Telecommunication equipment	5
Vehicles	4 - 10
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 in 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 reporting date.

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.

k. Assets under Finance Lease

Effective on January 1, 2012, the Group prospectively adopted PSAK No. 30 (Revised 2011), “Leases”.

Based on PSAK No. 30 (Revised 2011), when a lease includes both land and building elements, an entity should assess the classification of each element separately as finance or operating lease. As the result of separate assessment performed by an entity by considering the comparison between the lease period and the economic life which is reassessed from each element and other relevant factors, each element may result in a different classification of lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Assets under Finance Lease (continued)

Prior to January 1, 2012, there is no requirement to assess separately the lease agreement which contains land and building elements. Therefore, assessment was performed compositely. One of the considerations in determining the lease classification is the comparison between the lease period and the economic life of the asset. Furthermore, land which can be owned only in the form of landright, is not amortized and is considered having unlimited useful life. Therefore, the lease agreement which contains land and building elements will be classified as operating lease.

The adoption of PSAK No. 30 (Revised 2011) has no significant impact on the financial reporting except for the related disclosures.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. Leases that transfer substantially to the lessee all the risks and rewards incidental to ownership of the leased item are classified as finance leases. Moreover, leases which do not transfer substantially all the risks and rewards incidental to ownership of the leased item are classified as operating leases.

The Group as lessee

Under a finance lease, the Group recognizes assets and liabilities in its consolidated statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rents are charged as expenses in the periods in which they are incurred. Finance charges are reflected in profit or loss. Capitalized leased assets (presented under the account 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.

Under an operating lease, the Group recognizes lease payments as an expense on the straight-line method over the lease term.

The Group as lessor

Under an operating lease, the Group presents assets subject to operating leases in its consolidated statement of financial position according to the nature of the asset. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents, if any, are recognized as revenue in the periods in which they are earned. Lease income from operating leases is recognized as income on the straight-line method over the lease term.

Under a finance lease, the Group recognizes an asset in the form of finance lease receivable in its consolidated statement of financial position in the amount of the net investment in finance lease which is the aggregate amount of (i) the minimum lease payments to be received by the lessor under the finance lease and (ii) unguaranteed residual value which becomes a right of the lessor, discounted at interest rate implicit in the lease. The difference between the net investment in finance lease and the gross investment in finance lease (representing the aggregate amount of the minimum lease payments to be received by the lessor under the finance lease and unguaranteed residual value which becomes the right of the lessor) is allocated as finance income over the term of the lease so as to produce a constant periodic rate of return on the net investment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Assets under Finance Lease (continued)

The Group as lessor (continued)

Gain or loss on sale-and-leaseback transactions where the leaseback is a finance lease, is deferred and amortized using the straight-line method over the lease term.

l. Oil and Gas Properties

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 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.

Prior to January 1, 2012

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.

Unoperated acreage is not depreciated/depleted but is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

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.

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

Starting on January 1, 2012

Effective on January 1, 2012, the Subsidiaries engaged in oil and gas exploration and production adopted PSAK No. 64, “Exploration and Evaluation of Mineral Resources”. Under this PSAK, exploration and evaluation expenditures including geological and geophysical costs, costs of drilling exploratory wells, including the costs of drilling exploratory-type stratigraphic test wells, and other costs in relation to evaluating the technical feasibility and commercial viability of extracting oil and gas are capitalized and presented separately as Exploration and Evaluation Assets in the consolidated statement of financial position.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of such assets may exceed their recoverable amount (Note 2v). Exploration and evaluation assets are reclassified to oil and gas properties when technical feasibility and commercial viability of extracting oil and gas are demonstrable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Oil and Gas Properties (continued)

Starting on January 1, 2012 (continued)

The consolidated financial statements for prior year have been restated to retroactively effect the adoption of PSAK No. 64.

m. Intangible Assets

Cost to acquire and prepare software for use is recorded as intangible asset and amortized over 4 (four) to 5 (five) years using the straight-line method.

n. 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.

o. Pension and Other Post-employment Benefits

Effective January 1, 2012, the Group adopted PSAK No. 24 (Revised 2010), “Employee Benefits”. This revised PSAK did not have material impact on the consolidated financial statements but required additional disclosures (Note 37).

Prior to 2012, the Group applied PSAK No. 24 (Revised 2004), in recognizing 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.

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 working 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 years until the benefits concerned become vested.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. 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 recognized 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.

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.

The Group adopts:

i. PSAK No. 57 (Revised 2009), “Provisions, Contingent Liabilities and Contingent Assets”, which aims to provide the appropriate recognition criteria and measurement bases that 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 the users to understand the nature, timing and amount related to the information.

ii. Interpretation of Statement of Financial Accounting Standards (ISAK) No. 9, “Changes in Existing Decommissioning, Restoration and Similar Liabilities”, which applies to changes in the measurement of any existing decommissioning, restoration or similar liability recognized 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.

q. Financial Instruments

Since January 1, 2010, the Group adopted PSAK No. 50 (Revised 2006), “Financial Instruments: Presentation”, 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) and PSAK No. 55 (Revised 2006) have been revised, and effective January 1, 2012, the Group applied PSAK No. 50 (Revised 2010) and PSAK No. 55 (Revised 2011) with the same titles, and also applied PSAK No. 60, “Financial Instruments: Disclosures”.

The application of PSAK No. 50 (Revised 2010), PSAK No. 55 (Revised 2011) and PSAK No. 60 has no significant impact on the consolidated financial statements except for the additional disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

PSAK No. 50 (Revised 2010) 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 2011) 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.

Financial assets within the scope of PSAK No. 55 (Revised 2011) 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.

PSAK No. 60 requires disclosure of significance of financial instruments for financial position and performance, and the nature and extent of risks arising from financial instruments to which the Group is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

Financial Assets

Initial recognition

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 of the consideration given 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

Financial Assets (continued)

Subsequent measurement (continued)

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 profit or loss.

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”, as “available-for-sale” or as “held-to-maturity” investments.

After initial measurement, such financial assets are carried at amortized cost using the effective interest method, and gains or losses are recognized in profit or loss 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.

- 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 as of December 31, 2011.

- 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 profit or loss.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

Financial Assets (continued)

Subsequent measurement (continued)

The Group has investments in shares of stock under this category as of December 31, 2011.

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.

Impairment of financial assets

At each reporting 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

Financial Assets (continued)

Impairment of financial asset (continued)

- Financial assets carried at amortized cost (continued)

  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 profit or loss. 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.

  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 profit or loss. 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 2011) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

Financial Liabilities (continued)

Initial recognition (continued)

The Group's financial liabilities consist of trade payables, other payables, accrued expenses, short-term bank loans, long-term liabilities 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 profit or loss.

- Loans and borrowings

  After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. At financial reporting 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 profit or loss when the liabilities are derecognized as well as through the amortization process using the effective interest method.

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Financial Instruments (continued)

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 2011), 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 Group adjusts 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.

r. Revenue and Expense Recognition

The Group adopts 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.

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.

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

Other income/revenues are recognized when earned.

Expenses are recognized as incurred on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Income Tax

Effective on January 1, 2012, the Group adopted PSAK No. 46 (Revised 2010), "Income Taxes", which prescribes the accounting treatment for income tax to account for the current and future tax consequences of the recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in the consolidated statements of financial position and transactions and other events of the current year that are recognized in the consolidated financial statements. This revised PSAK also prescribes an entity to record the underpayment/overpayment of income tax as part of "Current Tax" in the consolidated statements of comprehensive income.

Current Tax

Income tax expense represents the sum of the corporate income tax currently payable and deferred tax.

Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the tax authorities. Tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting dates.

Taxable profit is different from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Amendments to taxation obligations are recorded when an assessment is received or, if appealed, when the result of the appeal is determined.

Deferred tax

Deferred tax is recognized using the liability method on temporary differences between the financial and the tax bases of assets and liabilities at the financial reporting date.

Deferred tax assets are recognized for all deductible temporary differences and accumulated tax losses that have not been utilized, if taxable income is likely to be available so that the temporary differences can be deducted and the unutilized tax losses can be utilized.

Deferred tax liabilities and deferred tax assets (if they meet the criteria) are recognized for temporary differences associated with investments in subsidiaries and associates, unless the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable income will be available to enable some or all of the benefits of the deferred tax assets to be realized. Deferred tax assets that have not been recognized previously are reviewed at each reporting date and recognized to the extent that it has become probable that sufficient taxable income will be available to enable the deferred tax assets to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Income Tax (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured based on tax rates that are expected to apply to the year when the assets are realized and liabilities are settled based on the tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

Changes in the carrying value of deferred tax assets and liabilities due to changes in tax rates are charged in the current year, except for transactions that were previously charged or credited directly to equity.

Deferred tax relating to transactions recognized in other comprehensive income or directly in equity, is recorded in other comprehensive income or equity.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities pertain to the same entity, or the Group intends to settle its current asset and liability on a net basis.

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 a maximum rate of 50%.

Subsidiaries involved in non-oil and gas activities in Indonesia are subject to corporate income tax at 50%.

The adoption of PSAK No. 46 (Revised 2010) has no significant impact on the financial reporting except for additional disclosures required.

t. Capitalization of Borrowing Costs and Foreign Exchange Losses

In accordance with PSAK No. 26, “Borrowing Costs”, interest charges and foreign exchange differences (to the extent such differences constitute an adjustment of interest) and other costs incurred on borrowings 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.

u. Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments such as cross currency interest rate swaps, foreign currency forward contracts and cross-currency swaps to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Derivative Financial Instruments and Hedge Accounting (continued)

The Group applies hedge accounting to hedging transactions that meet the criteria for hedge accounting.

For the purpose of hedge accounting, hedges are classified as fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation.

Cash flow hedge

Cash flow hedge is used to hedge the exposure to variability in cash flows that is attributable to foreign currency risk or interest rate risk associated with a recognized asset or liability.

The effective portion of the gain or loss on the cash flow hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in profit or loss.

In 2012, the Company entered into cross-currency swap contracts that are used as a hedge for the exposure to changes in cash flows relating to interest payments and bonds repayment due to changes in foreign exchange rates. Such swap contracts are accounted for under hedge accounting.

v. Impairment of Asset Value

PSAK No. 48 (Revised 2009) “Impairment of Assets”, 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 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 profit or loss 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 profit or loss under expense categories that are consistent with the functions of the impaired assets.

An assessment is made at each 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Impairment of Asset Value (continued)

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 profit or loss. 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.

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 applies PSAK No. 12 (Revised 2009), "Financial Reporting of Interests in Joint Ventures". 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 jointly controlled entity upon loss of joint control and the fair value of the remaining investment and gain from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associated entity.

y. Segment Information

The Group applies PSAK No. 5 (Revised 2009), "Operating Segments", which 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 it operates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Segment Information (continued)

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 risks and rewards that are different from those of other segments.

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

Effective on January 1, 2012, the Group applied PSAK No. 56 (Revised 2011), "Earnings per Share", which requires performance comparisons between different entities in the same period and beween different reporting periods for the Group.

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.

The adoption of PSAK No. 56 (Revised 2011) has no significant impact on the consolidated financial statements.

aa. Revised Accounting Standard Issued But Not Yet Effective

The revised and issued accounting standard that is considered relevant to the financial reporting of the Group but not effective yet as of December 31, 2012 is PSAK No. 38 (Revised 2012), "Business Combination of Entities Under Common Control".

The revised PSAK prescribes the accounting treatment for the transactions of a business combination between entities under common control.

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:

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

Judgments (continued)

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 in the ordinary course of business. The Group recognizes liabilities for corporate income tax based on estimation 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 if they meet the definition set forth in PSAK No. 55 (Revised 2011) based on the Group’s judgment.

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

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 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 in the assumptions are reflected when they occur.

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 2010), “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 asset is subject to annual impairment test and whenever there is an indication that such asset may be impaired; management uses 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 December 31, 2012 and 2011, are US$147,273,793 and US$206,118,540, respectively. Further details are presented in Note 6 to the consolidated financial statements. The carrying amounts of the Group’s other receivables before allowance for impairment as of December 31, 2012 and 2011 inclusive of current and non-current portions, are US$213,786,226 and US$150,698,951, respectively. Further details are presented in Note 7 to the consolidated financial statements.

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

Estimates and Assumptions (continued)

Impairment of Non-Financial Assets

The Group assesses 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.

Impairment of Non-Financial Assets (continued)

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 amounts of the Group's estimated liabilities for post-employment benefits as of December 31, 2012 and 2011 are US$15,769,959 and US$12,370,076, respectively. Further details are disclosed in Note 37 to the consolidated financial statements.

Depreciation of Property, Plant and Equipment

The costs of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 3 to 20 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 amounts of the Group's property, plant and equipment as of December 31, 2012 and 2011 are US$120,410,982 and US$106,152,549, respectively. Further details are disclosed in Note 14 to the consolidated financial statements.

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 amounts of the Group's inventories before allowance for obsolescence and decline in value as of December 31, 2012 and 2011 are US$43,472,668 and US$46,848,402, respectively. Further details are disclosed in Note 8 to the consolidated financial statements.

(Expressed in United States Dollars, unless otherwise stated)

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

Estimates and Assumptions (continued)

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 amounts of the provision as of December 31, 2012 and 2011 are US$55,675,546 and US$53,757,992, respectively. Further details are disclosed in Note 45 to the consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2012	2011
Cash on hand	86,239	55,427
Bank		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	7,045,315	4,656,448
United States Dollar		
PT Bank Himpunan Saudara 1906 Tbk	23,465,320	4,105,055
Third parties		
Rupiah		
PT Bank Mandiri (Persero) Tbk	8,292,605	1,061,277
PT Bank Negara Indonesia (Persero) Tbk	788,910	723,668
Citibank, NA	354,914	1,330,056
PT Bank Internasional Indonesia Tbk	336,343	329,104
PT Bank CIMB Niaga Tbk	215,446	420,877
PT Bank Rakyat Indonesia (Persero) Tbk	7,135	579,642
Others	110,975	116,440
United States Dollar		
PT Bank Danamon Indonesia Tbk	70,746,271	30,812,829
Bank of Tokyo Mitsubishi - UFJ	41,055,280	20,569,283
Standard Chartered Bank	39,405,382	24,135,229
PT Bank Negara Indonesia (Persero) Tbk	36,258,481	103,524,460
Muscat Bank	8,088,699	8,630,225
PT Bank Central Asia Tbk	5,054,886	4,689,733
Citibank, NA	4,852,698	34,802,359
Capital One	3,534,929	1,369,619
PT Bank Mandiri (Persero) Tbk	2,622,793	30,500,580
PT Bank CIMB Niaga Tbk	2,185,195	1,907,891
Libyan Foreign Bank	2,090,023	-
PT Bank Internasional Indonesia Tbk	1,097,316	244,931
Bank of Commerce and Development	951,960	-
Bank Julius Baer & Co Ltd	769,996	-
Cooperative and Agricultural Credit Bank	546,134	-
PT Bank DBS Indonesia	345,656	-
PT Bank Rakyat Indonesia (Persero) Tbk	280,550	20,775,585
Others	993,590	530,984
Other foreign currencies	305,493	21,037
Sub-total	261,802,295	295,837,312

(Expressed in United States Dollars, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS (continued)

	2012	2011
Time deposits		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	9,320,770	7,873,255
United States Dollar		
PT Bank Himpunan Saudara 1906 Tbk	23,000,000	14,000,000
Third parties		
Rupiah		
PT Bank Muamalat Indonesia Tbk	1,155,739	-
PT Bank Bukopin Tbk	-	5,477,291
PT Bank Rakyat Indonesia (Persero) Tbk	-	2,933,392
Others	-	551,390
United States Dollar		
PT Bank DBS Indonesia	60,000,000	-
PT Bank ICBC Indonesia	40,053,094	20,000,000
PT Bank UOB Buana	40,000,000	15,038,990
PT Bank Rakyat Indonesia (Persero) Tbk	30,000,000	50,000,000
PT Bank Muamalat Indonesia Tbk	25,000,000	20,500,000
PT Bank CIMB Niaga Tbk	10,000,000	30,000,000
PT Bank DKI	10,000,000	15,000,000
PT Bank Bukopin Tbk	10,000,000	10,000,000
UBS AG	2,285,624	30,261,021
Barclays Bank	435,064	4,987,427
PT Bank Negara Indonesia (Persero) Tbk	100,000	70,100,000
PT Bank Mandiri (Persero) Tbk	-	30,000,000
PT ANZ Panin Bank	-	30,000,000
PT Bank Internasional Indonesia Tbk	-	35,038,777
PT Bank Mega Tbk	-	15,000,000
Bank Julius Baer & Co Ltd	-	884,495
Others	412,949	412,390
Sub-total	261,763,240	408,058,428
Total	**523,651,774**	**703,951,167**
Interest rate per annum		
Time deposits		
Rupiah	3.50% - 9.25%	6.00% - 9.25%
United States Dollar	0.05% - 3.25%	0.05% - 3.25%

5. SHORT-TERM INVESTMENTS

This account consists of:

	2012	2011
Marketable securities - for trading		
Rupiah		
Mutual fund units	3,919,455	3,910,935
Bonds	430,972	338,553
United States Dollar		
Managed funds	307,317,585	243,055,432
Total	**311,668,012**	**247,304,920**

(Expressed in United States Dollars, unless otherwise stated)

5. SHORT-TERM INVESTMENTS (continued)

The marketable securities for trading (bonds) earned interest for the years ended December 31, 2012 and 2011 at rates ranging from 7.35% to 10.85% per annum.

Investments in managed funds comprise of shares of publicly-listed companies, fixed income, money market and other financial instruments. For the years ended December 31, 2012, the unrealized gain from short-term investments amounted to US$10.1 million (December 31, 2011: gain of US$8.6 million).

6. TRADE RECEIVABLES - Net

The details of this account are as follows:

a. By Customer

	2012	2011
Related parties		
Petro Diamond Singapore Pte Ltd	32,636,901	68,177,731
PT Puma Medco Petroleum (formerly PT Medco Sarana Kalibaru)	64,216	-
PT Medcopapua Industri Lestari	-	1,524,256
Sub-total	32,701,117	69,701,987
Third parties		
Local customers	33,758,871	79,511,401
Foreign customers	80,813,805	56,905,152
Sub-total	114,572,676	136,416,553
Allowance for impairment	(144,495)	(3,790,311)
Net	114,428,181	132,626,242
Total	**147,129,298**	**202,328,229**

b. By Aging Category

	2012	2011
Not yet due	39,399,658	160,764,787
1 - 30 days past due	88,129,194	28,670,841
31 - 60 days past due	12,644,614	1,882,527
61 - 90 days past due	6,677,127	1,180,380
91 - 120 days past due	136,404	731,890
More than 120 days past due	286,796	12,888,115
Total	147,273,793	206,118,540
Allowance for impairment	(144,495)	(3,790,311)
Net	**147,129,298**	**202,328,229**

(Expressed in United States Dollars, unless otherwise stated)

6. TRADE RECEIVABLES - Net (continued)

c. By Currency

	2012	2011
United States Dollars	146,839,842	182,458,151
Rupiah	433,951	23,660,389
Total	147,273,793	206,118,540
Allowance for impairment	(144,495)	(3,790,311)
Net	**147,129,298**	**202,328,229**

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	144,495	1,215,147
Write-off during the year	(3,790,311)	(412,491)
Reversal during the year	-	(445,232)
Balance at end of year	**144,495**	**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 end of the year, management is of the opinion that the allowance for impairment of receivables is adequate to cover possible losses on uncollectible accounts.

As of December 31, 2012, trade receivables substantially consist of receivables from Petro Diamond Singapore Pte Ltd, Petroleum Development Oman LLC and Pertamina representing 22%, 20% and 10%, respectively, of the total trade receivables.

7. OTHER RECEIVABLES - Net

This account consists of:

a. By Party/Nature

	2012	2011
Related party - non-current		
PT Donggi Senoro LNG	**101,615,237**	**46,827,782**
Third parties		
Tax Office	32,297,299	2,670,233
Underlifting receivable	26,058,534	28,925,675
Reimbursable value added tax (VAT)	25,073,279	44,587,134
Receivables from Joint Venture	15,054,985	11,196,348
PT Pertamina EP	4,204,201	3,872,595
Loans to employees	3,975,377	830,928
Salamander Energy	1,317,417	-
Interest receivable	773,282	-
PT Antareja Resources	-	5,973,188
Others (each below US$1,000,000)	3,416,615	5,815,068
Total before allowance for impairment	**112,170,989**	**103,871,169**

(Expressed in United States Dollars, unless otherwise stated)

7. OTHER RECEIVABLES - Net (continued)

a. By Party/Nature (continued)

	2012	2011
Long-term portion	4,558,402	12,945,728
Allowance for impairment	(52,506)	(210,195)
Long-term portion - net	**4,505,896**	**12,735,533**
Current portion	107,612,587	90,925,441
Allowance for impairment	(28,454,825)	(28,709,290)
Current portion - net	**79,157,762**	**62,216,151**

b. By Currency

	2012	2011
United States Dollars	160,700,911	135,744,199
Rupiah	53,085,315	14,954,752
Total	213,786,226	150,698,951
Long-term portion	106,173,639	59,773,510
Allowance for impairment	(52,506)	(210,195)
Long-term portion - net	**106,121,133**	**59,563,315**
Current portion	107,612,587	90,925,441
Allowance for impairment	(28,454,825)	(28,709,290)
Current portion - net	**79,157,762**	**62,216,151**

Receivables from PT Donggi Senoro LNG (DSLNG) as of December 31, 2012 and 2011, mainly represent advances to finance the ongoing liquefied natural gas project. The receivable is charged interest at cost of funds plus 3.75% per annum.

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

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

The underlifting receivable as of December 31, 2012 and 2011 from SKKMIGAS relates to Tarakan Block.

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

(Expressed in United States Dollars, unless otherwise stated)

7. OTHER RECEIVABLES - Net (continued)

Other receivable from PT Antareja Resources (Antareja) consists of advances covered by a promissory note issued on December 20, 2011 maturing on December 20, 2012. This receivable is subject to interest from the date of the promissory note at 3 months LIBOR plus margin of 4% per annum. The receivable and interest were collected in full on August 8, 2012.

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	41,646,388	30,907,816
Chemical and other petroleum products	241,972	15,940,586
Coal inventory	1,584,308	-
Total	43,472,668	46,848,402
Allowance for obsolescence and decline in value	(6,969,074)	(3,143,430)
Net	**36,503,594**	**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	3,825,644	485,698
Balance at end of year	**6,969,074**	**3,143,430**

Coal inventory in 2012 was produced by PT Duta Tambang Rekayasa, a subsidiary of PT Medco Energi Mining Internasional (MEMI).

As of December 31, 2012, all inventories were insured with various insurance companies (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 year-end, management is of the opinion that the allowance for obsolescence and decline in value is adequate.

(Expressed in United States Dollars, unless otherwise stated)

9. PREPAID TAXES

The details of this account are as follows:

	2012	2011
Company		
Value added tax (VAT)	1,344,522	1,102,771
Corporate income tax overpayments	1,199,018	939,904
Sub-total	2,543,540	2,042,675
Subsidiaries		
VAT	5,990,802	6,903,288
Corporate income tax overpayments	845,247	967,601
Sub-total	6,836,049	7,870,889
Total	**9,379,589**	**9,913,564**

10. PREPAID EXPENSES

The details of this account are as follows:

	2012	2011
Insurance	3,005,723	3,597,120
Rental	440,065	489,897
Others	620,219	572,549
Total	**4,066,007**	**4,659,566**

11. RESTRICTED CASH IN BANKS

The details of this account are as follows:

	2012	2011
Current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	33,587	-
Third parties		
United States Dollar		
PT Bank Central Asia Tbk	1,309,839	1,258,455
Citibank, NA	-	24,019,608
Total	**1,343,426**	**25,278,063**

11. RESTRICTED CASH IN BANKS (continued)

	2012	**2011**
Non-current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906 Tbk	6,368,332	8,680,508
Third parties		
Rupiah		
PT Bank CIMB Niaga Tbk	2,780,455	3,297,089
PT Bank Mandiri (Persero) Tbk	-	40,908
United States Dollar		
PT Bank Mandiri (Persero) Tbk	1,749,490	1,500,000
Total	**10,898,277**	**13,518,505**

Restricted cash account (US Dollar) with PT Bank Mandiri (Persero) Tbk as of December 31, 2012 and 2011, represents the performance bond in relation to oil produ

12. LONG-TERM INVESTMENTS (continued)

	2011			
	Percentage of Ownership (%)	Cost	Accumulated Share in Net Income	Net Carrying Value
Investments in shares of stock				
Equity Method				
Kuala Langsa (Block-A) Limited (KLL), formerly ConocoPhillips Aceh Ltd	50.00	216,000	550,961	766,961
PT Medco Power Indonesia	49.00	87,033,068	-	87,033,068
Cost Method				
PT Antareja International Services	3.80	1,000,000	-	1,000,000
PT Donggi Senoro LNG (DSLNG) - Indonesia	11.10	36,463,500	4	36,463,504
Total		**124,712,568**	**550,965**	**125,263,533**
Investment in convertible bonds of PT Antareja International Services				10,878,867
Total Long-term Investments				**136,142,400**

The share of net income or losses of associated companies are as follows:

	2012	2011
KLL	135,490	137,252
DSLNG	(4)	(2,089,661)
MPI	2,878,674	-
MSK	(1,826,148)	-
Net	**1,188,012**	**(1,952,409)**

In April 2011, the Group equity ownership in DSLNG was diluted from 20% to 11.1% because the Group 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 Group 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 Group 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.

(Expressed in United States Dollars, unless otherwise stated)

12. LONG-TERM INVESTMENTS (continued)

The carrying value of the bonds is determined as follows:

	2012
Carrying value as of December 31, 2011	10,878,867
Interest income accrued	922,863
Repayment	(11,801,730)
Carrying value as of December 31, 2012	**-**

	2011
Fair value of debt component on initial recognition on August 18, 2011	10,560,802
Interest income accrued	318,065
Carrying value as of December 31, 2011	**10,878,867**

On August 8, 2012, Antareja repurchased its shares amounting to US$1,000,000 through payment from PT Bank Himpunan Saudara 1906 Tbk. On the same date, Antareja paid the convertible bonds amounting to US$11,000,000 and interest thereon was paid on August 30, 2012.

13. INVESTMENT IN PROJECT

Investment in project as of December 31, 2012 and 2011 represents the Jeruk Project-Indonesia amounting 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 43(a)(xii)]. 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.

The original investment cost of the Group 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 Group reversed in 2011 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**	**Reclassi-fications**	**Translation Adjustments**	**Effects from Divestment of PT Medco Sarana Kalibaru**	**Ending Balance**
Cost							
Land	4,098,032	41,296	(29,172)	-	-	(2,699,666)	1,410,490
Buildings and land improvements	24,132,599	2,347,675	(1,214)	162,443	-	(7,904,087)	18,737,416
Machinery	25,049,248	11,092,756	-	-	-	-	36,142,004
Control panel equipment	49,723,848	397,542	(6,581,330)	285,484	-	(7,453,860)	36,371,684
Drilling rigs and equipment	25,790,350	37,997,168	-	702,295	-	-	64,489,813
Vehicles	6,015,455	1,263,279	(253,941)	94,365	(4,358)	(148,852)	6,965,948
Office and other equipment	11,066,348	738,523	(1,399,316)	(20,134)	(3,497)	(262,478)	10,119,446
Leasehold improvements	6,518,121	244,396	-	-	-	-	6,762,517
Telecommunication equipment	74,230	-	-	(74,230)	-	-	-
Aircraft	14,004,200	-	-	-	-	-	14,004,200
Assets under finance lease	569,857	12,223	(120,993)	-	(38,024)	-	423,063
Construction in progress	3,504,109	213,941	(2,567,827)	(1,150,223)	-	-	-
Total Cost	170,546,397	54,348,799	(10,953,793)	-	(45,879)	(18,468,943)	195,426,581

(Expressed in United States Dollars, unless otherwise stated)

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

	2012						
	Beginning Balance	Additions	Deductions	Reclassi-fications	Translation Adjustments	Effects from Divestment of PT Medco Sarana Kalibaru	Ending Balance
Accumulated Depreciation							
Buildings and land improvements	6,829,063	1,330,866	-	-	-	(2,422,392)	5,737,537
Machinery	12,597,327	2,064,978	-	-	-	-	14,662,305
Control panel equipment	16,642,759	7,487,783	-	-	-	(2,176,481)	21,954,061
Drilling rigs and equipment	8,614,604	2,460,199	-	-	-	-	11,074,803
Vehicles	4,133,760	993,217	(205,246)	57,140	(2,147)	(110,804)	4,865,920
Office and other equipment	8,450,588	795,116	(512,805)	(15,901)	(2,447)	(246,376)	8,468,175
Leasehold improvements	6,067,639	451,518	-	-	-	-	6,519,157
Telecommunication equipment	41,239	-	-	(41,239)	-	-	-
Aircraft	700,212	700,209	-	-	-	-	1,400,421
Assets under finance lease	316,657	96,346	(56,463)	-	(23,320)	-	333,220
Total Accumulated Depreciation	64,393,848	16,380,232	(774,514)	-	(27,914)	(4,956,053)	75,015,599
Net Book Value	**106,152,549**						**120,410,982**

	2011						
	Beginning Balance	Additions	Deductions	Reclassi-fications	Translation Adjustments	Effects from Divestment of PT Medco Power Indonesia	Ending Balance
Cost							
Land	4,695,090	144,698	-	-	(4,743)	(737,013)	4,098,032
Buildings and land improvements	26,240,040	43,610	-	76,476	(18,431)	(2,209,096)	24,132,599
Machinery	56,085,851	3,505,397	(1,737,842)	-	(209,263)	(32,594,895)	25,049,248
Control panel equipment	43,486,371	24,893	-	397,109	(206,269)	6,021,744	49,723,848
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	198,236,693	31,497,233	(22,571,787)	-	(2,499,732)	(34,116,010)	170,546,397
Accumulated Depreciation							
Buildings and land Improvements	6,267,147	1,218,727	-	-	(8,501)	(648,310)	6,829,063
Machinery	22,852,386	628,533	(1,736,505)	-	(1,258,277)	(7,888,810)	12,597,327
Control panel equipment	10,232,977	3,225,256	-	-	39,151	3,145,375	16,642,759
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 Acc Tf-452c ( ) Tj/F1 5.04 Tf-452.2Tc ( ) T341.16 3Tc (29-0.096 Tc (2) TjUj0.132 Tc (2) TDep Tj-0.12 Tc (s) 0.08112 Tc (i) Tj-0.1625888 Tc (f)de) Tj0 Tc (r) Tj0.03888 Tc (Tj-0.080 Tc (rcr) Tj-0.) Tj0 Tc (r) Tj0.03888 Tc (o Tj0.3 5.712 Tc (s) Tj-0.042

AcckTj-0.04224 Tc (o) Tj0.03888Vr

(Expressed in United States Dollars, unless otherwise stated)

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

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 in 2011 mainly represents the construction of drilling rigs and equipment which were 95% completed, and has been completed in 2012.

No borrowing costs were capitalized as part of property, plant and equipment in 2012 and 2011.

Property, plant and equipment amounting to US$37.9 million as of December 31, 2012 and US$56.1 million as of December 31, 2011 are used as collateral to the loans obtained by the Subsidiaries (Note 23).

All inventories and property, plant and equipment, except land, were insured against fire, theft and other possible risks for US$66 million and Rp37 billion as of December 31, 2012, and US$142 million and Rp153 billion as of December 31, 2011 (Note 8). Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

The Company formerly had a lease agreement with PT Airfast Indonesia (Airfast) for an aircraft with a lease term of 10 years [Note 43(c)(xvii)]. 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. With the execution of the agreement, the Group became the owner of the aircraft which has since been recorded as part of property, plant and equipment.

Disposals of property, plant and equipment are as follows:

	2012	2011
Net proceeds	996,396	917,447
Net book value	(1,030,122)	(271,232)
Gain (loss)	**(33,726)**	**646,215**

As of December 31, 2012, the acquisition value of property, plant and equipment that have been fully depreciated but still used by the Group amounted to US$13.8 million, consisting of drilling rigs and equipment, vehicles, and office and other equipment.

As of December 31, 2012, the carrying value of property, plant and equipment that have been temporarily idle amounted to US$9 million, consisting of drilling rigs and equipment.

Based on the review of the individual property, plant and equipment values as of December 31, 2012, the Group recognized an impairment loss in 2012 on the property, plant and equipment of PT Medco Ethanol Lampung amounting to US$6.6 million. Management believes that there is no impairment in the carrying value of property, plant and equipment other than those of MEL.

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 on January 1, 2011. This change increased the consolidated income before tax by US$1.7 million in 2011, US$1.4 million in 2012, US$1.4 million in 2013, US$1.4 million in 2014, US$1.1 million in 2015, and US$0.5 million in 2016.

(Expressed in United States Dollars, unless otherwise stated)

15. OIL AND GAS ASSETS

a. Exploration and Evaluation Assets

	Amount
Beginning balance, December 31, 2010	**43,759,375**
Additions	53,138,220
Transfer to oil and gas properties	(1,329,604)
Impairment and dry hole	(4,765,790)
Ending balance, December 31, 2011	**90,802,201**
Additions	28,041,570
Transfer to oil and gas properties	-
Impairment and dry hole	(9,291,029)
Ending balance, December 31, 2012	**109,552,742**

b. Oil and Gas Properties - Net

This account consists of the following:

	2012	2011
Wells and related equipment and facilities	1,439,839,786	1,246,335,291
Finance lease assets	15,302,380	15,302,380
Uncompleted wells, equipment and facilities	302,118,349	337,362,051
Operated acreage	72,902,882	72,902,882
Office equipment	19,671,003	17,332,765
Vehicles	1,067,734	1,067,734
Total	1,850,902,134	1,690,303,103
Accumulated depreciation, depletion, amortization and impairment reserves	(1,001,514,489)	(929,355,949)
Net Book Value	**849,387,645**	**760,947,154**

The movements in oil and gas properties are as follows:

		2012			
Area of Interest	**Location**	**Beginning Balance December 31, 2011**	**Additions**	**Deductions**	**Ending Balance December 31, 2012**
Block A	Aceh	57,250,932	4,305,394	-	61,556,326
Kampar/S,S, Extension	South Sumatera	109,632,112	4,678,330	17,966,483	96,343,959
Rimau	Sumatera	142,878,678	27,329,668	17,701,931	152,506,415
Senoro Toili	Sulawesi	20,804,137	15,245,510	2,058,723	33,990,924
Lematang	Sumatera	116,626,020	-	11,929,556	104,696,464
Tarakan	Kalimantan	17,630,931	2,537,682	3,399,778	16,768,835
Bawean	East Java	57,401,654	1,528,853	7,531,227	51,399,280
Simenggaris	Kalimantan	13,237,821	2,820,039	-	16,057,860
Sembakung	Kalimantan	2,129,528	-	2,129,528	-
Main Pass	USA	39,639,937	970,972	-	40,610,909
East Cameron	USA	26,821,322	-	2,658,713	24,162,609
Area 47 Libya	Libya	155,070,593	-	176,531	154,894,062
Malik 9	Yemen	-	91,187,711	5,355,312	85,832,399
Other blocks in Yemen	Yemen	1,823,489	10,567,603	1,823,489	10,567,603
		760,947,154	**161,171,762**	**72,731,271**	**849,387,645**

(Expressed in United States Dollars, unless otherwise stated)

15. OIL AND GAS ASSETS (continued)

b. Oil and Gas Properties - Net (continued)

		2011			
Area of Interest	**Location**	**Beginning Balance December 31, 2010**	**Additions**	**Deductions**	**Ending Balance December 31, 2011**
Block A	Aceh	55,719,355	1,531,577	-	57,250,932
Kampar/S,S, Extension	South Sumatera	118,456,346	18,817,826	27,642,060	109,632,112
Rimau	Sumatera	129,290,720	33,720,315	20,132,357	142,878,678
Senoro Toili	Sulawesi	16,928,220	7,222,711	3,346,794	20,804,137
Lematang	Sumatera	129,134,684	8,581,370	21,090,034	116,626,020
Tarakan	Kalimantan	19,292,664	2,693,178	4,354,911	17,630,931
Bawean	East Java	64,046,556	565,437	7,210,339	57,401,654
Simenggaris	Kalimantan	1,398,852	11,838,969	-	13,237,821
Sembakung	Kalimantan	7,441,572	10,150	5,322,194	2,129,528
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 USA	USA	2,729,211	-	2,729,211	-
Area 47 Libya	Libya	150,418,758	4,651,835	-	155,070,593
Other blocks in Yemen	Yemen	529,124	1,294,365	-	1,823,489
Tunisia*)	Tunisia	19,958,244	966,866	20,925,110	-
		815,636,692	**94,250,957**	**148,940,495**	**760,947,154**

*) Working interests were divested in 2011

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 43(a)(ix)].

In 2012, the Group revised its proved reserves (P1) estimation in Kampar, South Sumatera Extension, Tarakan, Rimau, Senoro Toili, Lematang, Sembakung and Bawean Blocks, based on the reports of Netherland, Sewell & Associates Inc. dated April 27, 2012. As a result, depletion expense decreased by US$8.81 million.

In 2012, the Group impaired the oil and gas assets relating to PT Medco E&P Merangin in the amount of about US$7.1 million.

Based on the review of the individual oil and gas properties at the end of the year, the management is of the opinion that no further impairment in value of oil and gas properties is necessary.

As of December 31, 2012, all wells and related equipment and facilities of Subsidiaries involved in oil and gas exploration and production activities were insured for US$1.68 billion.

16. ADVANCE FOR PURCHASE OF SHARES OF STOCK

This account pertains to advance payment for the acquisition of the shares of PT Api Metra Graha [Note 43 (a) (i)].

(Expressed in United States Dollars, unless otherwise stated)

17. OTHER ASSETS

This account consists of the following:

	2012	2011
Current		
Advances to supplier	**1,682,237**	**447,208**
Non-current		
Signing bonuses - net	9,750,000	12,750,000
Advance payments for purchase/rental	5,421,605	3,052,186
Security deposits	2,658,730	1,402,736
Others	6,571,234	15,151,363
Total	**24,401,569**	**32,356,285**

The signing bonuses above are related to a service contract entered into with Oman Oil Company and Petroleum Development Oman LLC (Note 42b).

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

18. TRADE PAYABLES

This account consists of the following:

a. By Supplier

	2012	2011
Related party	69,936	-
Third parties		
Local suppliers	67,454,572	76,689,368
Foreign suppliers	27,740,096	36,315,551
	95,194,668	113,004,919
Total	**95,264,604**	**113,004,919**

b. By Aging Category

	2012	2011
Up to 1 month	36,560,230	92,454,782
1 - 3 months	39,354,142	11,634,657
3 - 6 months	16,918,022	1,352,056
6 months - 1 year	2,045,225	7,310,381
More than 1 year	386,985	253,043
Total	**95,264,604**	**113,004,919**

(Expressed in United States Dollars, unless otherwise stated)

18. TRADE PAYABLES (continued)

c. By Currency

	2012	2011
United States Dollar	79,381,397	105,970,584
Rupiah	15,856,392	7,034,335
Others	26,815	-
Total	**95,264,604**	**113,004,919**

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

19. OTHER LIABILITIES

a. Advances from customers

	2012	2011
Third parties		
PT Perusahaan Listrik Negara (Persero)	14,470,500	19,082,950
PT Molindo Raya Industrial	1,427,495	-
Others	-	128,736
Total	15,897,995	19,211,686
Less portion due within one year	15,897,995	19,211,686
Long-term portion	**-**	**-**

b. Other payables

	2012	2011
Overlifting payable	31,642,509	27,826,121
Payables to Joint Ventures	6,615,045	6,588,174
BP West Java Ltd	4,536,217	4,536,217
Tax payable on First Tranche Petroleum	3,560,491	201,665
Insurance payable	1,155,805	875,045
Cityview Energy Corp Ltd	1,008,980	1,008,980
Others (each below US$1,000,000)	8,920,544	4,905,547
Total	57,439,591	45,941,749
Current portion	(43,589,966)	(35,430,475)
Long-term portion	**13,849,625**	**10,511,274**

The overlifting payable to SKKMIGAS related primarily 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 West Java Ltd 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.

(Expressed in United States Dollars, unless otherwise stated)

19. OTHER LIABILITIES (continued)

b. Other payables (continued)

Tax payable on First Tranche Petroleum (FTP) is part of underpayment of income tax and dividend tax on FTP from PT Medco E&P Lematang for fiscal years 2008 until 2012. The Subsidiary will pay the tax if there is "*Equity to be split"* from the sale of gas.

20. TAXES PAYABLE

This account consists of:

	2012	2011
Company		
Income tax		
Article 4(2)	116,573	53,278
Article 15	13,975	16,136
Article 21	451,915	283,730
Article 23	164,397	191,748
Article 26	5,957,658	837,728
Sub-total	6,704,518	1,382,620
Subsidiaries		
Corporate income tax	18,683,424	31,048,246
Income tax		
Article 4(2)	91,810	116,925
Article 15	1,276	44,965
Article 21	1,642,408	1,378,508
Article 22	-	133,898
Article 23	635,553	743,176
Article 25	11,949	4,320
Article 26	42,525	30,830
Value added tax (VAT)	4,986,650	5,844,303
Tax penalties	-	841,358
Sub-total	26,095,595	40,186,529
Total	**32,800,113**	**41,569,149**

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 as of the completion date of the consolidated financial statements.

For fiscal year 2007, the Tax Court has rejected the VAT appeals amounting to Rp11.1 billion and accepted the corporate income tax appeal amounting to US$65 million as tax deduction. The Company has filed a Reconsideration Request to Supreme Court for the Tax Court Decision on the 2007 VAT amounting to Rp10.8 billion which was rejected by the Tax Court. The Tax Office has filed a Reconsideration Request to Supreme Court against the decision of the Tax Court regarding the corporate income tax in 2007 amounting to US$65 million. No decision letter from the Supreme Court has yet been received as of the completion date of the consolidated financial statements.

20. TAXES PAYABLE (continued)

Tax Assessments (continued)

a. The Company (continued)

The tax audits by the ITO for fiscal years 2006, 2008, 2009 and 2010 have been closed.

The tax audit by the ITO on MEI for fiscal year 2011 is still on-going, and no assessment letter has been received until the completion date of the consolidated financial statements.

b. PT Exspan Petrogas Intranusa (EPI)

The tax audits by the ITO for fiscal years up to 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 objection to the tax assessments which were rejected by the ITO amounting to Rp5.9 billion for corporate income tax. No decision letter from the Tax Court has yet been received as of the completion date of the consolidated financial statements.

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

The VAT objection for the period from January up to June 2010 amounting to Rp1.7 billion has been rejected by the ITO. EPI filed an appeal to the Tax Court. No decision letter from the Tax Court has yet been received as of the completion date of the consolidated financial statements.

The tax audit by the ITO for the restitution of VAT for the period from July up to December 2010 has been completed. EPI received tax letter for the overpayment of VAT for fiscal year 2010 amounting to Rp3.5 billion. EPI also received tax assessment letter for underpayment of VAT for the period from July up to November 2010 amounting to Rp568 million. EPI filed objection letter to the ITO on the VAT assessment and no decision letter has yet been received as of the completion date of the consolidated financial statements.

The tax audit by the ITO on EPI for fiscal year 2011 including VAT is still on-going and no tax assessment letter has yet been received as of the completion date of the consolidated financial statements.

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

The tax audit by the ITO on MDI for fiscal year 2009 has been closed. 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 2010 and prior to 2008 have been closed.

For fiscal year 2008, the ITO has rejected 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 yet been received as of the completion date of the consolidated financial statements.

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 milion. MLK received tax underpayment assessment on VAT amounting to Rp7.6 million. MLK filed objection letters to the ITO on VAT assessment letter and the ITO has partially granted MLK's objection amounting to Rp1.9 million. On the remaining amount of the objection amounting to Rp5.7 million which was rejected by the ITO, MLK filed an appeal to the Tax Court. No decision letter from the Tax Court has yet been received as of the completion date of the consolidated financial statements.

20. TAXES PAYABLE (continued)

Tax Assessments (continued)

c. PT Medco Downstream Indonesia (MDI) and its Subsidiaries (continued)

For fiscal year 2010, the tax audit by the ITO has been completed. MLK received tax overpayment letter on corporate income tax amounting to Rp589 million on August 7, 2012.

The tax audits by the ITO on PT Medco Methanol Bunyu (MMB) for fiscal years up to 2008 have been closed.

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 of income tax article 23 amounting to Rp3.1 billion and underpayment of VAT for the months of January, February, March, April, October and November 2009 amounting to Rp3.4 billion. MMB filed objection letters to the ITO for the tax assessments and the ITO has partially granted MMB's objection for VAT for the month of October 2009 amounting to Rp47 million. On MMB's objection amounting to Rp3.1 billion for underpayment of income tax article 23 and Rp3.4 billion for the underpayment of VAT for the months of January, February, March, April and November 2009, no decision letter has yet been received as of the completion date of the consolidated financial statements.

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

The tax audit by the ITO on MEL for fiscal year 2010 is still on-going, and no assessment letter has yet been received as of the completion date of the consolidated financial statements.

The tax audits by the ITO on PT Usaha Tani Sejahtera (UTS) for fiscal years 2007, 2008 and 2009 have been closed. For fiscal year 2007, UTS received tax underpayment letter for corporate income tax, tax collection letter (STP) for corporate income tax and STP income tax article 21 amounting to Rp1.4 million, Rp700,000 and Rp700,000, respectively. For fiscal year 2008, UTS received tax underpayment letters for income tax article 23, income tax article 21 and final income tax article 4 (2) amounting to Rp342.4 million and STP for corporate income tax, income tax article 21, income tax article 23, final income tax article 4 (2) and VAT amounting to Rp114.9 million, which have all been paid on February 7, 2013. For fiscal year 2009, UTS received tax underpayment letter for corporate income tax amounting to Rp367.8 million which has all been paid on December 27, 2012 and STP for corporate income tax, income tax article 21, income tax article 23 and final income tax article 4 (2) amounting to Rp132.7 million which have all been paid on February 7, 2013.

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 as of the completion date of the consolidated financial statements.

The tax audit by ITO for fiscal year 2008 has been completed. On the appeal to the Tax Court for the abolition of the administrative sanction on the VAT Collection Letters amounting to Rp640 million which was rejected by the ITO, the Tax Court has turned down MEPL's appeal.

20. 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 yet been received as of the completion date of the consolidated financial statements.

The tax audit by the ITO for fiscal year 2008 has been completed. MEPT received assessment letter for the underpayment of VAT amounting to Rp418 million which was paid on February 7, 2011. On January 3, 2012 and February 1, 2012, MEPT withdrew the appeal it previously filed to the Tax Court and recorded the underpayment as expense.

f. PT Medco Energi Nusantara (MEN)

The tax audits by the ITO for fiscal years 2005, 2006, 2007 and 2008 are still on-going and no assessment letter has yet been received as of the completion date of the consolidated financial statements.

g. PT Medco E&P Kalimantan (MEPK)

The tax audit by the ITO for fiscal year 2006 is still on-going and no assessment letter has been received as of the completion date of the consolidated financial statements.

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 as of the completion date of the consolidated financial statements.

The tax audit by the ITO for fiscal year 2008 has been completed. MEPR received assessment letter for the underpayment of VAT amounting to Rp1.5 billion which was paid on February 7, 2011. On January 3, 2012 and February 1, 2012, MEPR withdrew the appeal it previously and recorded the underpayment as expense.

The tax audit by the ITO for fiscal year 2009 has been completed. MEPR received assessment letter for the underpayment of income tax article 21, income tax article 23 and final income tax Article 4 (2) amounting to Rp5.1 billion, Rp703 million and Rp2.7 billion, respectively. MEPR will file an objection on the tax assessments.

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 as of the completion date of the consolidated financial statements.

j. PT Medco E&P Indonesia (MEPI)

The tax audit by the ITO for fiscal year 2009 has been completed. MEPI received assessment letter for the underpayment of income tax article 26 and STP on VAT administrative sanction from the ITO for fiscal year 2009, amounting to Rp17.4 million and Rp1.3 billion, respectively, which were paid on February 23, 2012.

(Expressed in United States Dollars, unless otherwise stated)

20. TAXES PAYABLE (continued)

Tax Assessments (continued)

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 fiscal years 2005 and 2006, and no assessment letter has yet been received as of the completion date of the consolidated financial statements.

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 VAT for the years prior to the acquisition of these working interests from the previous operators of the respective production sharing contracts (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.

No provisions were recognized for tax assessments for which the Group has filed a tax appeal as it believes those assessments have no merit.

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 not allowed 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.

21. ACCRUED EXPENSES AND OTHER PROVISIONS

This account consists of:

	2012	2011
Contract services	25,795,980	16,135,762
Rentals	16,464,866	13,996,666
Other operating expenses	10,223,723	10,094,023
Joint ventures	7,482,085	13,085,259
Repairs and maintenance of property, plant and equipment	5,644,090	5,644,209
Interest	4,998,116	4,586,775
Labor supply	389,140	1,604,083
Others (each below US$500,000)	1,226,141	2,369,686
Total	**72,224,141**	**67,516,463**

(Expressed in United States Dollars, unless otherwise stated)

22. DERIVATIVES

		2012			2011		
Counterparties	Type	Derivative Assets	Derivative Liabilities	Gain (Loss)	Derivative Assets	Derivative Liabilities	Gain (Loss)
Company							
PT Bank DBS Indonesia	Cross-currency swap	-	9,033,377	(9,033,377)	-	-	-
Standard Chartered Bank	Cross-currency swap	-	7,945,475	(7,945,475)	-	-	-
Bank of Tokyo Mitsubishi-UFJ	Cross-currency swap	-	551,362	(551,362)	-	-	-
PT ANZ Panin Bank	Cross-currency swap	-	-	(1,467,320)	2,844,957	-	(260,324)
Morgan Stanley & Co International PLC	Cross-currency swap	-	455,459	746,811	-	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		-	17,985,673	(18,250,723)	2,844,957	1,202,270	(1,532,028)
Other comprehensive income		-	-	17,411,048	-	-	-
Total		**-**	**17,985,673**	**(839,675)**	**2,844,957**	**1,202,270**	**(1,532,028)**
Less current portion		-	-		2,844,957	-	
Long-term portion		-	17,985,673		-	1,202,270	

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

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

Counterparties	Type	Notional amount In US$	Notional amount In IDR	Date	Final exchange date	Terms and Conditions
Company						
PT Bank DBS Indonesia	Cross-currency swap	31,088,083	300,000,000,000	December 19, 2012 *	December 19, 2017	The Company shall receive a fixed interest rate of 8.80% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.60% per annum on the US Dollar notional amount every March 19, June 19, September 19 and December 19. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.
Standard Chartered Bank	Cross-currency swap	20,725,388	200,000,000,000	December 19, 2012 *	December 19, 2017	The Company shall receive a fixed interest rate of 8.80% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.60% per annum on the US Dollar notional amount every March 19, June 19, September 19 and December 19. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.

(Expressed in United States Dollars, unless otherwise stated)

22. DERIVATIVES (continued)

Counterparties	Type	Notional amount In US$	Notional amount In IDR	Date	Final exchange date	Terms and Conditions
Company						
Bank of Tokyo Mitsubishi – UFJ	Cross-currency swap	15,000,000	143,100,000,000	September 10, 2012 *	June 16, 2014	The Company shall receive a fixed interest rate of 14.25% per annum on the Rupiah notional amount and pay a fixed interest rate of 9.20% per annum on the US Dollar notional amount every March 16, June 16, September 16 and December 16. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount.
PT Bank DBS Indonesia	Cross-currency swap	41,731,872	400,000,000,000	September 27, 2012 *	September 24, 2015	The Company shall receive a fixed interest rate of 9.00% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.22% per annum on the US Dollar notional amount every March 25, June 25, September 25 and December 25. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.
Standard Chartered Bank	Cross-currency swap	52,164,841	500,000,000,000	September 27, 2012 *	September 24, 2015	The Company shall receive a fixed interest rate of 9.00% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.22% per annum on the US Dollar notional amount on December 20, 2012; March 24, June 24, September 24, December 24, 2013; March 24, June 24, September 24, December 24, 2014; March 24, June 24 and September 24, 2015. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.
Bank of Tokyo Mitsubishi – UFJ	Cross-currency swap	52,164,841	500,000,000,000	September 27, 2012 *	September 24, 2015	The Company shall receive a fixed interest rate of 9.00% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.22% per annum on the US Dollar notional amount every March 25, June 25, September 25 and December 25. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.

(Expressed in United States Dollars, unless otherwise stated)

22. DERIVATIVES (continued)

Counterparties	Type	Notional amount In US$	Notional amount In IDR	Date	Final exchange date	Terms and Conditions
Company						
PT Bank DBS Indonesia	Cross-currency swap	78,947,368	750,000,000,000	June 19, 2012 *	June 19, 2017	The Company shall receive a fixed interest rate of 8.75% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.85% per annum on the US Dollar notional amount every March 19, June 19, September 19 and December 19. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.
Standard Chartered Bank	Cross-currency swap	78,947,368	750,000,000,000	June 19, 2012 *	June 19, 2017	The Company shall receive a fixed interest rate of 8.75% per annum on the Rupiah notional amount and pay a fixed interest rate of 4.85% per annum on the US Dollar notional amount every March 19, June 19, September 19 and December 19. Initial exchange occurred on the Effective Date in which the Company paid the Rupiah notional amount and received the US dollar notional amount. On the final exchange date, the Company pays the US Dollar notional amount and receives the Rupiah notional amount with conditions applied.
PT ANZ Panin Bank	Cross-currency swap	20,000,000	202,400,000,000	September 8, 2009 *	June 15, 2012 Settled in June 2012	The Company shall receive a fixed interest rate of 13.375% per annum on the Rupiah notional amount and pay a fixed interest rate of 6.00% per annum 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 Rupiah notional amount.
Morgan Stanley & Co International PLC, Singapore	Cross-currency swap	35,000,000	323,750,000,000	January 19 and 28, 2011 *	June 17, 2014	The Company shall receive a fixed interest rate of 14.25% per annum on the Rupiah notional amount and pay a fixed interest rate of 10.35% and 10.75% per annum 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 Rupiah notional amount with conditions applied.
JPMorgan Chase, NA	Capped non-deliverable forward transaction	9,600,000	89,437,320,000	July 2, 2012 **	December 28, 2012 Settled in December 2012	Sell Dollar/ Purchase Rupiah

(Expressed in United States Dollars, unless otherwise stated)

22. DERIVATIVES (continued)

Counterparties	Type	Notional amount In US$	Notional amount In IDR	Date	Final exchange date	Terms and Conditions
Company						
Morgan Stanley & Co International PLC	Capped non-deliverable forward transaction	2,800,000	27,230,000,000	May 25, 2012 **	December 26, 2012 Settled in December 2012	Sell Dollar/ Purchase Rupiah
Morgan Stanley & Co International PLC	Capped non-deliverable forward transaction	3,500,000	33,600,000,000	May 23, 2012 **	December 28, 2012 Settled in December 2012	Sell Dollar/ Purchase Rupiah
Standard Chartered Bank	Foreign exchange transaction	4,250,000	39,747,000,000	April 20, 2012 **	December 20, 2012 Settled in December 2012	Sell Dollar/ Purchase Rupiah
Morgan Stanley & Co International PLC	Non-deliverable forward transaction	5,750,000	53,705,000,000	June 1, 2012 **	December 28, 2012 Settled in December 2012	Sell Dollar/ Purchase Rupiah
PT ANZ Panin Bank	Forward exchange contract	24,000,000	221,035,500,000	September 15, 2010 **	August 15, 2011 Settled in August 2011	Sell Dollar/ Purchase Rupiah
Morgan Stanley & Co International PLC	Non-deliverable forward transaction	24,000,000	219,504,000,000	September 15, 2010 **	August 15, 2011 Settled in August 2011	Sell Rupiah/ Purchase Dollar
JPMorgan Chase, NA	Foreign exchange contract	23,000,000	215,371,000,000	June 15, 2010 **	December 15, 2011 Settled in December 2011	Sell Dollar/ Purchase Rupiah
JPMorgan Chase, NA	Foreign exchange contract	23,000,000	213,062,000,000	June 15, 2010 **	December 15, 2011 Settled in December 2011	Sell Dollar/ Purchase Rupiah

Notes:

* effective date
** initial exchange date

23. BANK LOANS

	2012	2011
Short-Term Bank Loans	60,000,000	121,399,984
Long-Term Bank Loans - current portion	62,855,699	291,721,364
	122,855,699	413,121,348
Long-Term Bank Loans - long-term portion	654,384,407	466,408,082
Total	**777,240,106**	**879,529,430**

(Expressed in United States Dollars, unless otherwise stated)

23. BANK LOANS (continued)

a. Bank Loans

		2012		
Lenders	Total	Current	Maturing Within One Year	Non-current
US Dollar				
Third parties				
PT Bank Mandiri (Persero) Tbk	245,000,000	50,000,000	-	195,000,000
PT Bank Negara Indonesia (Persero) Tbk	165,000,000	-	50,000,000	115,000,000
Syndicated loan from PT Bank Central Asia Tbk PT Bank Mandiri (Persero) Tbk PT Bank Negara Indonesia (Persero) Tbk	30,934,223	-	12,399,996	18,534,227
PT Bank CIMB Niaga Tbk	19,388,027	-	-	19,388,027
PT Bank ICBC Indonesia	11,980,006	10,000,000	-	1,980,006
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))	382,311	-	382,311	-
PT Bank Danamon Indonesia Tbk	4,611,973	-	-	4,611,973
PT Bank Rakyat Indonesia (Persero) Tbk	110,000,000	-	-	110,000,000
PT Bank DKI	25,000,000	-	-	25,000,000
Bank of Tokyo - Mitsubishi UFJ	20,000,000	-	-	20,000,000
Sub-total	632,296,540	60,000,000	62,782,307	509,514,233
Rupiah				
Third parties				
PT Bank Negara Indonesia (Persero) Tbk (in original currency: Rp1.4 trillion)	144,777,663	-	-	144,777,663
PT Bank Rakyat Indonesia (Persero) Tbk (in original currency: Rp1.6 billion)	165,903	-	73,392	92,511
Sub-total	144,943,566	-	73,392	144,870,174
Total	**777,240,106**	**60,000,000**	**62,855,699**	**654,384,407**

(Expressed in United States Dollars, unless otherwise stated)

23. BANK LOANS (continued)

a. Bank Loans (continued)

		2011		
Lenders	**Total**	**Current**	**Maturing Within One Year**	**Non-current**
US Dollar				
Third parties				
PT Bank Mandiri (Persero) Tbk	305,000,000	50,000,000	125,000,000	130,000,000
PT Bank Negara Indonesia (Persero) Tbk	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	43,400,000	-	12,400,000	31,000,000
PT Bank CIMB Niaga Tbk	3,413,939	-	3,413,939	-
PT Bank ICBC Indonesia	10,000,000	10,000,000	-	-
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))	32,299,858	31,000,000	917,547	382,311
PT Bank Rakyat Indonesia (Persero) Tbk	110,000,000	-	-	110,000,000
PT Bank DKI	25,000,000	-	-	25,000,000
Bank of Tokyo - Mitsubishi UFJ	20,000,000	-	-	20,000,000
Sub-total	849,057,459	91,000,000	291,675,148	466,382,311
Rupiah				
Related party				
PT Bank Himpunan Saudara 1906 Tbk (in original currency: Rp5.9 billion)	654,743	654,743	-	-
Third parties				
PT Bank Rakyat Indonesia (Persero) Tbk (in original currency: Rp207.4 billion)	22,870,435	22,798,448	46,216	25,771
PT Bank Mandiri (Persero) Tbk (in original currency: Rp62 billion)	6,946,793	6,946,793	-	-
Sub-total	30,471,971	30,399,984	46,216	25,771
Total	**879,529,430**	**121,399,984**	**291,721,364**	**466,408,082**

(Expressed in United States Dollars, unless otherwise stated)

23. 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 Fully paid in 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			
Term Loan Facility	July 2007	July 2012 Fully paid in July 2012	The loan facility is unsecured.
General Financing Facility	June 2010	June 2013	The loan facility is unsecured.
Term Loan Facility	February 2011	July 2012 Fully paid in July 2012	The loan facility is unsecured.
Revolving Working Capital Loan Facility	July 2011	July 2016 Fully paid in February 2013	The loan facility is unsecured.
Term Loan Facility	September 2012	September 2015	The loan facility is unsecured.
PT Bank DKI			
Special Transaction Credit Facility	May 2011	June 2014	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 Credit Facility	June 2011	June 2016	The loan facility is unsecured.
Bank of Tokyo - Mitsubishi UFJ			
Standby Loan Credit Facility	May 2011	May 2016 Fully paid in January 2013	The loan facility is unsecured.

(Expressed in United States Dollars, unless otherwise stated)

23. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	Loan effectivity date	Repayment schedule	Security
PT Medco E&P Lematang			
PT Bank Central Asia Tbk PT Bank Mandiri (Persero) Tbk PT Bank Negara Indonesia (Persero) Tbk Syndicated Loan for financing the Singa Project	June 2010	June 2015 Fully paid in March 2013	Collateralized by pledge over the debt service account and operational account, and fiduciary security over the receivables.
Medco US LLC (MEUS)			
Compass BBVA Bank *Reserve Based Lending*	June 2008	June 2011 Fully paid in July 2011	Secured by first liens on oil and gas assets of Medco US LLC in the United States (Note 15).
PT Usaha Tani Sejahtera			
PT Bank Himpunan Saudara 1906 Tbk Working Capital Credit Facility	May 2011	August 2013 Fully paid in December 2012	Secured by cessie over accounts receivable from all sales and time deposit (Note 11).
Working Capital Credit Facility	May 2011	August 2013 Fully paid in December 2012	Secured by cessie over accounts receivable from sales of Cassava.
PT Mitra Energi Gas Sumatera			
PT Bank CIMB Niaga Tbk Project Financing	October 2009	Fully paid in October 2012	Secured by machinery and equipment, proceeds from the pipeline lease contract, shares, escrow account, and assignment of rights (Notes 7 and 14).
PT Medco Ethanol Lampung			
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero)) Working Capital Credit Facility	June 2011	Fully paid in March 2012	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.
Investment Credit Facility	June 2010	Fully paid in March 2012	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.

(Expressed in United States Dollars, unless otherwise stated)

23. BANK LOANS (continued)

a. Bank Loans (continued)

Lenders	Loan effectivity date	Repayment schedule	Security
PT Exspan Petrogas Intranusa (EPI)			
Lembaga Pembiayaan Ekspor Indonesia (LPEI) (formerly PT Bank Ekspor Indonesia (Persero))			
Financing for purchase of Rig 11	April 2010	5 monthly installments (2010 - 2013)	Collateralized by fiduciary right over rig, all receivables of EPI related to the work contract and limited corporate guarantee from MEI.
PT Bank CIMB Niaga Tbk			
Financing for purchase of Rig DPC #11, DPC#01, DPC #02, DPC #03, DPC #04, DPC #05, DPC #06	September 2012	September 2019 Fully paid in March 2013	Collateralized by 1 unit Drilling Rig Ex Energy Tata Persada Rig DPC#11 1500 HP with serial number Mast Sn No. 172004 & Sub Structure Sn No. 172001 and accessories, 6 units of Workover Rig and accessories (Rig DPC#01, DPC#02, DPC#03, DPC#04, DPC#05, DPC#06), with fiduciary right amounting to US$30,268,026.51.
PT Bank Danamon Indonesia Tbk			
Financing for purchase of Rig AR7 capacity 450 HP	September 2012	May 2019 Fully paid in March 2013	Collateralized by 1 unit Heavy Equipment 450 HP Rig and receivables from the use of Heavy Equipment.
PT Bank ICBC Indonesia			
Financing for purchase of Rig 8	December 2012	21 monthly installments (December 2012 - September 2014)	Collateralized by 1 unit Heavy Equipment 450 HP Rig and receivables from the use of Heavy Equipment.

	2012	2011
Interest rate per annum		
Rupiah	8.00% - 12.00%	7.00% - 12.00%
United States Dollar	3.31% - 6.75%	3.58% - 6.75%

(Expressed in United States Dollars, unless otherwise stated)

23. BANK LOANS (continued)

b. Bank Facilities

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

Bank	Facility	Maximum Facility Amount	Unused Portion of the Facility as of December 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$15,000,000
PT Bank Mandiri (Persero) Tbk	Non-Cash Loan Facility	US$100,000,000	US$88,442,423
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$10,000,000	US$10,000,000

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.

On March 19, 2012, PT Medco Ethanol Lampung (MEL) early repaid the working capital and investment obligation to LPEI amounting to US$3,000,000 and US$28,000,000, respectively.

On October 1, 2012, PT Mitra Energi Gas Sumatera settled the entire outstanding investment credit from PT Bank CIMB Niaga Tbk amounting to US$283,050.

On December 19, 2012, the Company settled the entire investment credit from PT Bank Mandiri (Persero) Tbk amounting to US$125,000,000.

Effective on December 16, 2011, in connection with the divestment of its controlling ownership in MPI and its subsidiaries, the Company no longer consolidated the accounts of MPI and its subsidiaries [Note 43(a)(viii)].

Effective on December 3, 2012, in connection with the divestment of its indirect controlling ownership in MSK (Note 34), the Company no longer recognized the trust receipt loan payable of MSK as its bank loan.

As of December 31, 2012, in management's opinion, the Group is in compliance with the covenants of all obligations, except as discussed below.

As of December 31, 2012, PT Medco E&P Lematang has obtained a waiver from its creditors for being unable to fulfill certain financial ratio requirements as set forth in the covenants of the syndicated loan agreement with BCA, Mandiri and BNI. Under the waiver, PT Medco E&P Lematang must provide monthly financial reports to the creditors until the financial ratio requirements are fulfilled.

(Expressed in United States Dollars, unless otherwise stated)

24. OTHER LONG-TERM DEBT

	2012	2011
Related Party		
Mitsubishi Corporation		
Due in 2014	125,735,136	69,997,758
Third Parties		
Medium-Term Notes		
Due in 2012	-	65,000,000
Due in 2013	40,450,000	40,450,000
	40,450,000	105,450,000
Less unamortized discount	63,578	201,492
Net	40,386,422	105,248,508
Less current portion	40,450,000	65,000,000
Less unamortized discount	63,578	71,871
Current portion - net	**40,386,422**	**64,928,129**
Long-term portion	**-**	**40,320,379**
Rupiah Bonds		
Due in 2012	-	56,627,701
Due in 2014	102,016,545	108,789,149
Due in 2017	206,825,233	-
	308,841,778	165,416,850
Less unamortized discount	1,299,634	497,894
Net	307,542,144	164,918,956
Less current portion	**-**	**56,563,960**
Long-term portion	**307,542,144**	**108,354,996**
US Dollar Bonds		
Due in 2016	80,000,000	80,000,000
Due in 2017	20,000,000	-
Less unamortized discount	665,393	612,321
Net	**99,334,607**	**79,387,679**
Interest rates per annum		
Rupiah	8.75% - 14.25%	13.38% - 14.25%
United States Dollar	4.10% - 8.00%	4.00% - 8.00%

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

(Expressed in United States Dollars, unless otherwise stated)

24. OTHER LONG-TERM DEBT (continued)

Long-Term Debt	Principal	Rating	Listed	Maturity	Coupon	Security
Company						
Rupiah Bonds II Year 2009	Rp1,500,000,000,000 Tranche A amounting to Rp513,500,000,000 (Fully paid in June 2012) 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 December 2011 and February 2012) Tranche B amounting to US$22,000,000 (Fully paid in December 2012 and February 2013)	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$50,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2010)	-	October 2013	6.375% Payable quarterly	These notes are unsecured.
US$ Shelf Registered Bonds I	US$100,000,000 First phase amounting to US$ 50,000,000 Second phase amounting to US$ 30,000,000 Third phase amounting to US$20,000,000	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2012)	Indonesia Stock Exchange	July 2016 November 2016 August 2017	6.05% Payable quarterly	These bonds are unsecured.
Rupiah Bonds III Year 2012	Rp1,500,000,000,000 and swapped into US$157,894,737	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2012)	Indonesia Stock Exchange	June 2017	8.75% Payable quarterly	These bonds are unsecured.
Rupiah Shelf Registered Bonds I	First phase amounting to US$500,000,000,000 and swapped into US$51,813,471	PT Pemeringkat Efek Indonesia (PEFINDO) : AA- (2012)	Indonesia Stock Exchange	December 2017	8.80% Payable quarterly	These bonds are unsecured.
PT Medco LNG Indonesia						
Mitsubishi Corporation	Term loan facility amounting to US$120,000,000 maximum	-	-	December 2014	Cost of funds + margin of 3.75%, capitalized as part of the principal amount	This liability is collateralized by pledge of DSLNG shares.

24. OTHER LONG-TERM DEBT (continued)

a. Debt Covenants

Under the terms and conditions of these long-term obligations, the Group is subject to various covenants, among others, obtaining approval from the lenders/designated trustees prior to undertaking certain actions such as: mergers or acquisitions, reducing the authorized, issued and fully paid capital stock of the Company, changing the main business activities of the Company; restrictions on granting loans to third parties, pledging and transferring the Company's assets, issuing senior debt, filing 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 requirement to comply with certain financial ratios.

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

Management states that during the reporting periods and as of the date of the consolidated financial statements, the Group has never defaulted on paying its maturing bonds.

b. Trustees

The Group engaged Trustees to act as the intermediaries between the Group and the Bondholders. The Trustee for Rupiah Bonds II Year 2009 is PT Bank CIMB Niaga Tbk and for Shelf Registered USD Bonds I, Rupiah Bonds III Year 2012, and Shelf Registered IDR Bonds I is PT Bank Mega Tbk.

c. Others

Signing of the Loan Facility Agreement

In December 2010, the Group, through PT Medco LNG Indonesia (MLI), a Subsidiary, entered into a term loan facility agreement in the amount of US$120 million with Mitsubishi Corporation (MC), an indirect shareholder of the Group. MLI holds a minority equity investment in PT Donggi Senoro LNG (DSLNG) which will build, own and operate a Liquefied Natural Gas (LNG) plant at Senoro, Sulawesi. This term loan facility will be used for funding MLI's share in the capital expenditures of DSLNG for the construction of the LNG plant.

This facility will be repaid for a period of 12 (twelve) months after DSLNG draws down the facility from MLI, with the first payment due on the first drawdown date.

Although MC is an affiliate of the majority shareholder of the Group, the Group's management believes that the transaction does not constitute a conflict of interest transaction because it was made on reasonable terms.

Repayment of Medium-Term Notes Payable

On February 3, 2012, the Company repaid the principal of Medium-Term Notes I Phase 2 Tranche A in full, with principal amount of US$7,400,000, including treasury notes of US$2,900,000.

On March 22, 2012, the Company repaid the principal of Medium-Term Notes II Tranche A amounting to US$40,000,000, including treasury notes of US$1,000,000.

On December 23, 2012, the Company repaid the principal of Medium Term Notes I Phase I Tranche B amounting to US$21,500,000.

Repayment of Rupiah Bonds

On June 15, 2012, the Company repaid in full the principal of Rupiah Bonds Medco Energi Internasional II Year 2009 with principal amount of Rp513,500,000,000.

(Expressed in United States Dollars, unless otherwise stated)

24. OTHER LONG-TERM DEBT (continued)

c. Others (continued)

Issuance of Rupiah Bonds III

On June 19, 2012, the Company issued Rupiah Bonds III Year 2012 amounting to Rp1,500,000,000,000. The obligation will mature after 5 (five) years from the issuance date.

Issuance of Shelf Registered US$ Bonds I Phase III

On July 30, 2012, the Company issued the third phase of Shelf Registered US$ Bonds I amounting to US$20 million. The bonds will mature on August 1, 2017.

Issuance of Shelf Registered Rupiah Bonds I

On December 19, 2012, the Company issued Shelf Registered Rupiah Bonds I amounting to Rp4,500,000,000,000. As of December 31, 2012, the Company has released Shelf Registered IDR Bonds I Phase I in the amount of Rp500,000,000,000. The bonds will mature on December 19, 2017.

25. NON-CONTROLLING INTERESTS

a. Non-controlling interests in net assets of subsidiary pertain to Medco Oman LLC.

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

	2012	2011
Non-controlling interests from continuing operations Medco Oman LLC	6,260,769	2,632,495
Non-controlling interests from discontinued operations	-	2,516,259
Total	**6,260,769**	**5,148,754**

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

	2012	2011
Non-controlling interests from continuing operations Medco Oman LLC	6,260,769	2,632,495
Non-controlling interests from discontinued operations	-	4,095,799
Total	**6,260,769**	**6,728,294**

26. CAPITAL STOCK

	2012			
	Number	Percentage of	Amount	
Shareholders	of Shares	Ownership	Rp'000	US$
Encore Energy Pte Ltd	1,689,393,006	57.42%	168,939,301	51,285,313
PT Medco Duta	413,000	0.01%	41,300	12,536
PT Multifabrindo Gemilang	2,000,000	0.07%	200,000	60,693
Public (each below 5%)	1,250,190,944	42.50%	125,019,094	44,221,167
Sub-total	2,941,996,950	100.00%	294,199,695	95,579,709
Treasury stock	390,454,500		39,045,450	5,574,755
Total	**3,332,451,450**		**333,245,145**	**101,154,464**

	2011			
	Number	Percentage of	Amount	
Shareholders	of Shares	Ownership	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	623,472
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	43,610,231
Sub-total	2,941,996,950	100.00%	294,199,695	95,579,709
Treasury stock	390,454,500		39,045,450	5,574,755
Total	**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 Shareholders' Meetings dated June 23, 2000 and June 25, 2001 with regard to the sale of the Company's treasury stocks.

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 stocks in compliance with applicable laws and regulations, including capital market regulations.

In May 2008, in an Extraordinary Shareholders' Meeting, the shareholders approved a buy-back of the Company's issued and fully paid shares up to a maximum of 3.29% of the total shares issued with maximum cost of US$80 million within 18 months, which ended in November 2009.

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 its paid-up capital during potential market crisis conditions. The shares 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.

(Expressed in United States Dollars, unless otherwise stated)

26. CAPITAL STOCK (continued)

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 shares 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.

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%.

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 2n).

27. 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 stocks	(33,600,836)	(33,600,836)
Total	**108,626,898**	**108,626,898**

28. EFFECTS OF CHANGES IN EQUITY TRANSACTIONS OF SUBSIDIARIES/ASSOCIATED ENTITIES

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

(Expressed in United States Dollars, unless otherwise stated)

29. 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	873,031,964	800,476,758
Net sales of chemical and other petroleum products	9,089,517	8,583,999
Revenues from other services	26,928,012	8,656,180
Total	**909,049,493**	**817,716,937**

b. By customer

	2012	2011
Related parties		
Petro Diamond Singapore Pte Ltd	369,038,531	386,213,887
Petro Diamond Co Ltd, Hong Kong	25,368,778	13,504,912
PT Medcopapua Industri Lestari	-	2,053,572
Third parties		
Local customers	332,356,099	247,347,330
Foreign customers	182,286,085	168,597,236
Total	**909,049,493**	**817,716,937**

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

	2012	2011
Petro Diamond Singapore Pte Ltd	369,038,531	386,213,887
Petroleum Development Oman LLC	103,035,442	113,685,524
PT PLN (Persero)	59,221,385	151,729,971
Total	**531,295,358**	**651,629,382**

(Expressed in United States Dollars, unless otherwise stated)

30. 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	148,315,792	116,711,604
Cost for oil and gas contracts	90,132,689	79,625,235
Operations and maintenance	55,067,980	41,877,837
Pipeline and transportation fees	23,207,490	32,644,474
Operational support	10,218,683	9,072,615
Total	**326,942,634**	**279,931,765**

b. Cost of Other Services

This account mainly represents operational costs of EPI.

c. Depreciation, Depletion and Amortization

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

	2012	2011
Oil and gas operations	72,405,290	94,525,904
Chemical and other petroleum products	7,575,027	3,618,025
Other contracts and related services	5,373,348	1,634,594
Lease of electric power plants and related services	-	963,945
Total	**85,353,665**	**100,742,468**

d. Cost of Sales of Chemical and Other Petroleum Products

This account consists of:

	2012	2011
Raw materials	5,138,419	2,474,070
Salaries and other allowances	1,689,496	1,684,459
Fuel	1,510,273	142,809
Contract labor	647,105	431,806
Materials and supplies	439,700	2,659,380
Others	551,118	438,674
Total production costs	9,976,111	7,831,198
Inventories:		
At beginning of year	1,100,273	1,999,599
At end of year	(3,276,798)	(1,100,273)
Total	**7,799,586**	**8,730,524**

(Expressed in United States Dollars, unless otherwise stated)

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

e. Exploration Expenses

This account consists of:

	2012	2011
Exploration overhead	15,170,361	24,245,872
Dry hole cost	2,136,165	-
Total	**17,306,526**	**24,245,872**

f. Cost of Crude Oil Purchases

This account consists of cost of crude oil purchased by the Group from SKKMIGAS and Pertamina. There were no purchases from a single vendor which exceeded 10% of revenues for the years ended December 31, 2012 and 2011, except for the purchase from Synergia Trading Pte Ltd in 2011 representing to 15.24% of total Group revenues.

31. OPERATING EXPENSES

	2012	2011
General and administrative		
Salaries, wages and other employee benefits	63,616,336	61,558,901
Rental	10,851,127	10,306,706
Professional fees	14,205,216	8,729,068
Contract charges	6,101,482	2,901,454
Insurance	4,210,803	5,050,309
Office supplies and equipment	3,943,024	678,703
Repairs and maintenance	3,770,879	8,964,287
Depreciation (Note 14)	2,966,582	1,957,871
Education	2,482,426	1,564,099
Service	1,982,282	93,071
Impairment loss on receivables	1,515,762	2,873,471
Transportation	935,357	717,849
Others (each below US$100,000)	5,271,674	2,709,727
Sub-total	121,852,950	108,105,516
Selling		
Export expenses	13,187,641	14,693,565
Business travel	3,931,966	3,535,451
Advertising and promotion	3,549,897	3,275,463
Entertainment	520,361	943,461
Sub-total	21,189,865	22.447.940
Total Operating Expenses	**143,042,815**	**130,553,456**

(Expressed in United States Dollars, unless otherwise stated)

32. OTHER OPERATING INCOME (EXPENSES)

Other income for the years ended December 31, 2012 and 2011 consists of income from short-term investments amounting to US$11,403,365 and US$10,658,360, respectively, and foreign exchange gain of US$2,968,639 and US$194,522, respectively.

Other expenses for the years ended December 31, 2012 and 2011 include adjustments for transactions with related parties amounting to US$1,645,418 and derivative and swap transactions amounting to US$1,939,004, respectively.

33. INCOME TAX

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

	2012	2011
Continuing Operations		
Current income tax expense		
Subsidiaries	(136,792,080)	(107,751,634)
Deferred tax benefit (expense)		
Company	(13,755,622)	(17,826,176)
Subsidiaries	(5,791,314)	4,808,229
Sub-total	(19,546,936)	(13,017,947)
Total Tax Expense from Continuing Operations	**(156,339,016)**	**(120,769,581)**

b. Current Income Tax

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

	2012	2011
Consolidated profit before income tax expense from continuing operations	180,525,546	213,695,286
Less income before income tax expense of Subsidiaries	(247,390,985)	(209,078,691)
Profit (Loss) before income tax of the Company	**(66,865,439)**	**4,616,595**
Dividends from subsidiaries	**243,728,075**	**-**
Profit before income tax of the Company	**176,862,636**	**4,616,595**

(Expressed in United States Dollars, unless otherwise stated)

33. INCOME TAX (continued)

b. Current Income Tax (continued)

	2012	2011
Temporary differences		
Unrealized loss from derivative transactions	2,217,045	1,462,861
Depreciation of property, plant and equipment	(826,737)	202,737
Amortization of deferred charges	103,312	74,221
Employee benefits	1,087,426	(1,355,910)
Unrealized gain on marketable securities	(11,158,854)	(9,022,528)
Fair value adjustment of investment in associated entity	(2,878,674)	(29,962,178)
Permanent differences		
Non-deductible expenses	3,946,494	3,654,379
Non-taxable income	(243,745,535)	(335,945)
Income subjected to final income tax	(9,712,217)	(1,913,333)
Interest expense	-	(2,802,534)
Other provisions	-	1,022,117
Tax loss of the Company for the year	**(84,105,104)**	**(34,359,518)**
Prior years tax losses	(227,731,046)	(180,140,159)
Adjustment to prior year tax loss	(8,844,838)	(13,231,369)
Accumulated tax loss carry-forward at end of year-Company	**(320,680,988)**	**(227,731,046)**

The Company does not recognize provision for current income tax for the years ended December 31, 2012 and 2011 as the Company is still in a tax loss position.

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	December 31, 2012
Company				
Deferred Tax Assets				
Tax losses	10,891,500	-	10,891,500	-
Employee benefit liabilities	1,892,914	-	(271,856)	2,164,770
Amortization of deferred expenses	1,766,674	-	(25,828)	1,792,502
Depreciation of property, plant and equipment	979,607	-	206,684	772,923
Unrealized loss from derivative transactions	-	-	(143,656)	143,656
Sub-total	15,530,695	-	10,656,844	4,873,851

(Expressed in United States Dollars, unless otherwise stated)

33. INCOME TAX (continued)

c. Deferred Tax (continued)

	2012			
	December 31, 2011	Cumulative deferred tax assets/liabilities of divested subsidiaries	Charged (credited) to consolidated statement of comprehensive income	December 31, 2012
Deferred Tax Liabilities				
Unrealized income on marketable securities	(2,157,693)	-	2,789,714	(4,947,407)
Unrealized loss from derivative transactions	(410,605)	-	(410,605)	-
Fair value adjustment of investment in associated entity	(7,490,545)	-	719,669	(8,210,214)
Sub-total	(10,058,843)	-	3,098,778	(13,157,621)
Net Deferred Tax Assets (Liabilities) - Company	**5,471,852**	**-**	**13,755,622**	**(8,283,770)**
Deferred Tax Assets - Subsidiaries	59,868,138	-	326,969	59,541,169
Deferred Tax Liabilities - Subsidiaries	(76,253,828)	(374,208)	5,255,237	(81,883,273)
Net Deferred Tax Assets of the Group	**65.339.990**	**-**	**5.798.821**	**59.541.169**
Net Deferred Tax Liabilities of the Group	**(76,253,828)**	**(374,208)**	**13,539,007**	**(90,167,043)**
Deferred Tax Expense from Continuing Operations			**19,337,828**	
Effect of foreign exchange rate			**209,108**	
Net Deferred Tax Expense from Continuing Operations			**19,546,936**	

	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 associated entity	-	-	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**
Net Deferred Tax Assets - Subsidiaries	**47,386,811**	-	**(12,481,237)**	**59,868,138**

(Expressed in United States Dollars, unless otherwise stated)

33. 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
Net Deferred Tax Assets of the Group	**70,684,839**	**-**	**5,344,849**	**65,339,990**
Net Deferred Tax Liabilities of the Group	**(71,117,455)**	**2,734,212**	**7,870,585**	**(76,253,828)**
Deferred Tax Expense from Continuing Operations			**13,215,434**	
Effect of foreign exchange rate			**(197,487)**	
Net Deferred Tax Expense from Continuing Operations			**13,017,947**	

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

	2012	2011
Consolidated profit before income tax expense from continuing operations	180,525,546	213,695,286
Less profit before income tax expense of Subsidiaries	(247,390,985)	(209,078,691)
Profit (Loss) before income tax of the Company	**(66,865,439)**	**4,616,595**
Dividends from subsidiaries	**243,728,075**	**-**
	176,862,636	**4,616,595**
Tax expense using statutory tax rate	(44,215,659)	(1,154,148)
Tax effects of permanent differences:		
Non-taxable income	60,936,384	83,986
Income already subjected to final income tax	2,428,054	478,333
Adjustment to tax loss	(31,917,776)	(16,765,856)
Non-deductible expenses	(986,625)	(913,595)
Other provisions	-	(255,529)
Interest expense	-	700,633
Tax expense from continuing operations:		
Company	(13,755,622)	(17,826,176)
Subsidiaries	(142,583,394)	(102,943,405)
Income Tax Expense - Net	**(156,339,016)**	**(120,769,581)**

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

(Expressed in United States Dollars, unless otherwise stated)

34. DISCONTINUED OPERATIONS

On July 4, 2012, the Group signed the Head of Agreement with Puma Energy (Singapore) Pte Ltd to dispose 63.88% ownership in PT Medco Sarana Kalibaru (MSK). The business of MSK has been operating in an unpredictable environment, making it difficult for management to derive real growth and profitability from this business segment. The disposal of MSK was completed on December 3, 2012 [Note 43(a)(iv)]. MSK has been classified as a discontinued operation. As a result, in 2012 and 2011, the loss after tax of MSK was presented as single line item in the consolidated statements of comprehensive income.

The 51% share ownership in PT Medco Power Indonesia and subsidiaries (MPI) was sold in 2011 and is presented as discontinued operation in the 2011 consolidated financial statements [Note 43 (a) (viii)]. The results of operations and cash flows of MSK and MPI are presented below:

MSK

	2012	2011
Sales	190,489,554	229,108,255
Cost of sales of chemical and other petroleum products	(183,201,168)	(226,202,877)
Depreciation	-	(462,963)
Gross profit	7,288,386	2,442,415
Selling, general and administrative expenses	(9,920,702)	(2,847,360)
Finance costs	(1,824,507)	(2,153,865)
Interest income	-	110,192
Other income	336,529	219
Other expenses	(837,971)	(986,934)
Loss before income tax	(4,958,265)	(3,435,333)
Income tax expense	(374,208)	(4,222)
Loss after tax	**(5,332,473)**	**(3,439,555)**

Information regarding cash flows of MSK is as follows:

	2012	2011
Cash flows from operating activities	30,014,015	(1,955,736)
Cash flows from investing activities	(147,848)	(125,860)
Cash flows from financing activities	(18,355,485)	8,503,462

MPI

	2011
Revenues	90,997,056
Depreciation and amortization	(146,066)
Electric production related costs	(56,124,202)
Gross profit	34,726,788
Selling, general and administrative expenses	(18,927,208)
Finance costs	(9,758,764)
Interest income	472,222
Other income	2,539,957
Other expenses	(7,743)
Profit before income tax	9,045,252
Income tax expense	(2,443,876)
Profit after tax	**6,601,376**

(Expressed in United States Dollars, unless otherwise stated)

34. DISCONTINUED OPERATIONS (continued)

Information regarding cash flows of MPI is as follows:

	2011
Cash flows from operating activities	43,205,890
Cash flows from investing activities	(27,433,642)
Cash flows from financing activities	(17,639,090)

35. EARNINGS PER SHARE

a. Earnings per share

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

	2012	2011
Profit for the year	12,593,288	90,938,772
Basic earnings per share	0.0043	0.0309

b. Diluted earnings per share

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

36. CASH DIVIDENDS

On May 9, 2012, the shareholders, 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. The dividends were paid in June 2012.

On May 19, 2011, the shareholders, 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.

37. 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 his 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 defined contribution pension cost of Subsidiaries involved in oil and gas exploration and production amounted to US$2,673,594 for 2012 and US$2,795,586 for 2011.

(Expressed in United States Dollars, unless otherwise stated)

37. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

b. Defined Benefit Pension Plan

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

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

The number of people eligible for the benefits is 1,198 and 1,182 personnel as of December 31, 2012 and 2011, respectively.

Post-employment benefit obligations are determined based on the calculation of an independent actuary, PT Sentra Jasa Aktuaria, set out in its report dated March 14, 2013.

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

	2012	2011
Present value of defined benefit obligations	122,313,973	105,616,686
Fair value of plan assets	(113,139,579)	(105,052,194)
Unfunded defined benefit obligations	9,174,394	564,492
Unrecognized actuarial loss	(20,955)	(346,784)
Defined benefit obligations - net	**9,153,439**	**217,708**

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

	2012	2011
Current service cost	13,376,839	10,447,942
Interest expense	7,104,980	8,207,118
Actuarial loss (gain) recognized	13,581,250	(6,107,263)
Expected return on plan assets	(6,093,224)	(4,988,700)
Others	6,345	(515)
Total	**27,976,190**	**7,558,582**

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

	2012	2011
Balance at beginning of year	217,708	8,014,396
Employee benefit costs	27,976,190	7,558,582
Contributions for the year	(18,000,844)	(15,148,253)
Benefits paid	(188,199)	(101,115)
Effect of foreign exchange differences	(851,416)	(105,902)
Balance at end of year	**9,153,439**	**217,708**

(Expressed in United States Dollars, unless otherwise stated)

37. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

b. Defined Benefit Pension Plan (continued)

iv. Movements of present value of obligations:

	2012	2011
Balance at beginning of year	105,616,686	92,721,383
Current service cost	13,376,839	10,447,942
Interest expense	7,104,980	8,207,118
Benefits paid	(12,540,608)	(101,115)
Actuarial loss (gain) on obligation	16,473,399	(5,552,226)
Effect of foreign exchange differences	(7,717,323)	(106,416)
Balance at end of year	**122,313,973**	**105,616,686**

v. Movements of fair value of plan assets:

	2012	2011
Balance at beginning of year	105,052,194	84,042,022
Expected return on plan assets	6,093,224	4,988,700
Contributions for the year	18,000,844	15,148,253
Actuarial gain on plan assets	3,163,690	873,219
Benefits paid	(12,338,586)	-
Effect of foreign exchange differences	(6,831,787)	-
Balance at end of year	**113,139,579**	**105,052,194**

vi. The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2012	2011
Government bonds	39%	85%
Time deposits	61%	15%
Total	**100%**	**100%**

vii. The defined benefit obligations as of December 31, 2012 and 2011 were calculated using the following assumptions:

	2012	2011
Discount rates	5.0% - 6.0%	4.0% - 7.7%
Expected rate of return on assets:		
- Rupiah Portfolio	0% - 6%	0% - 6%
Salary increment rate	9.5% - 10%	9% - 12%
Mortality rate	TMI 2011 and GAM'71	TMI 1999 and GAM'71
Morbidity rate (disability rate)	0.75% - 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%

As of December 31, 2012, if the discount rate is increased/decreased by 1% with all other variables held constant, the employee benefits liability would have been lower/higher by US$15,573,571/US$18,979,751.

(Expressed in United States Dollars, unless otherwise stated)

37. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

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 912 and 1,038 as of December 31, 2012 and 2011, respectively.

Post-employment benefits obligations are determined based on the calculation of an independent actuary, PT Dayamandiri Dharmakonsilindo, for employees other than directors and PT Sentra Jasa Aktuaria for directors, as set forth in their reports dated March 14, 2013. The actuarial valuation is performed at each reporting date or as necessary.

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 post-employment benefits obligations	18,250,667	17,200,174
Unrecognized past service cost-non-vested	(301,755)	(172,404)
Unrecognized actuarial loss	(1,923,261)	(2,899,091)
Effect of deconsolidating subsidiaries	(255,692)	(1,758,603)
Total post-employment benefits obligations	**15,769,959**	**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	3,556,501	3,348,932
Interest expense	754,099	990,899
Termination expense	128,524	184,996
Past service cost recognized	579,246	(110,112)
Amortization of actuarial losses (gain)	721,419	(1,277,344)
Curtailments	(202,690)	(282,548)
Others	(65,702)	47,973
Total	**5,471,397**	**2,902,796**

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 for the year	5,471,397	2,902,796
Benefits paid	(488,261)	(2,701,396)
Effect of deconsolidating subsidiaries	(255,692)	(1,758,603)
Effect of foreign exchange differences	(1,327,561)	4,843
Balance at end of year	**15,769,959**	**12,370,076**

(Expressed in United States Dollars, unless otherwise stated)

37. POST-EMPLOYMENT BENEFITS OBLIGATIONS (continued)

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

iv. Movements of present value of obligation:

	2012	2011
Beginning balance	17,200,174	14,952,802
Current service cost	3,556,501	3,348,932
Termination expense	128,524	184,996
Interest expense	754,099	990,899
Benefits paid	(488,261)	(2,701,396)
Effect of deconsolidating subsidiaries	(255,692)	(1,758,603)
Actuarial loss (gain) on obligation	(202,690)	3,517,184
Effect of foreign exchange differences	(1,327,560)	4,843
Others	(1,114,428)	(1,339,483)
Ending balance	**18,250,667**	**17,200,174**

v. The Labor Law No. 13/2003 and other post-employment benefits obligations as of December 31, 2012 and 2011 were calculated using the following assumptions:

	2012	2011
Discount rates	4% - 7%	6.5% - 7%
Salary increment rate	6% - 10%	6% - 10%
Mortality rate	TMI 2011	TMI 1999
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%

As of December 31, 2012, if the annual discount rate was increased/decreased by 1% with all variables held constant, post-employment benefit liability as of December 31, 2012 will be lower/higher by US$2,282,744/US$358,395.

38. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

a. Nature of Relationships

i. The majority stockholder 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 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 owned 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 controlling shareholder as the Company.

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

(Expressed in United States Dollars, unless otherwise stated)

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

a. Nature of Relationships (continued)

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.

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	
	Amount	**Percentage to related totals (%)**
Assets		
Cash and cash equivalents		
PT Bank Himpunan Saudara 1906 Tbk	62,831,405	2.37
Trade receivables		
Petro Diamond Singapore Pte Ltd	32,636,901	1.23
PT Medco Sarana Kalibaru	64,216	0.002
Restricted cash in bank		
PT Bank Himpunan Saudara 1906 Tbk	6,401,919	0.24
Other receivables		
PT Donggi Senoro LNG	101,615,237	3.83
Liabilities		
Trade payable		
PT Medco Inti Dinamika	69,936	0.004
Other long-term debt		
Mitsubishi Corporation	125,735,136	6.94
Transactions		
Net oil sales		
Petro Diamond Singapore Pte Ltd	369,038,531	40.60
Petro Diamond Co Ltd, Hong Kong	25,368,778	2.79

(Expressed in United States Dollars, unless otherwise stated)

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

b. Transactions with Related Parties (continued)

	2011	
	Amount	**Percentage to related totals (%)**
Assets		
Cash and cash equivalents		
PT Bank Himpunan Saudara 1906 Tbk	30,634,758	1.18
Trade receivables		
Petro Diamond Singapore Pte Ltd	68,177,731	2.62
PT Medcopapua Industri Lestari	1,524,256	0.06
Restricted cash in bank		
PT Bank Himpunan Saudara 1906 Tbk	8,680,508	0.33
Other receivables		
PT Donggi Senoro LNG	46,827,782	1.80
Liabilities		
Bank loan		
PT Bank Himpunan Saudara 1906 Tbk	654,743	0.04
Other long-term debt		
Mitsubishi Corporation	69,997,758	4.05
Transactions		
Net oil sales		
Petro Diamond Singapore Pte Ltd	386,213,887	47.23
Petro Diamond Co Ltd, Hong Kong	13,504,912	1.65
High speed diesel sales		
PT Medcopapua Industri Lestari	2,053,572	0.25
Purchase of high speed diesel and transportation services		
Synergia Trading International Pte Ltd	124,654,659	15.24

39. 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 engaged in the following business activities:

i. Exploration for and production of oil and gas

ii. Other services

iii. Chemicals

iv. Leasing of electric power plants

(Expressed in United States Dollars, unless otherwise stated)

39. 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 contracts and related services	Chemical	Trading	Funding for Group operations	Discontinued operations	Elimination	Consolidated
External sales	482,982,470	26,928,012	199,579,071	390,049,494	-	(190,489,554)	-	909,049,493
Inter-segment Sales	442,111,302	8,315,435	3,982,289	4,357,815	-	-	(458,766,841)	-
Total revenues	925,093,772	35,243,447	203,561,360	394,407,309	-	(190,489,554)	(458,766,841)	909,049,493
Gross profit	387,195,534	5,795,225	840,723	9,690,245	-	(7,288,386)	-	396,233,341
Selling, general and administrative expenses	(101,801,444)	(6,346,095)	(17,830,356)	(26,858,420)	(127,202)	9,920,702	-	(143,042,815)
Finance costs	(2,370,969)	(4,088,873)	(11,602,662)	(84,067,141)	(715)	1,824,507	4,372,964	(95,932,889)
Gain on disposal of subsidiaries - net	-	-	5,362,723	-	-	-	-	5,362,723
Share of net gain (loss) of associated entities - net	135,492	-	(1,826,148)	2,878,674	-	-	-	1,188,018
Finance income	878,516	668,658	3,293,360	21,143,563	-	(37,565)	(4,372,964)	21,573,568
Other operating expenses	6,818,523	-	2,079,259	19,486,170	20,318	(298,964)	-	28,105,306
Other expenses	(5,918,033)	(1,591,700)	(837,971)	(6,720,935)	-	837,971	-	(14,230,668)
Impairment loss - net	(9,126,565)	-	(9,604,473)	-	-	-	-	(18,731,038)
Income (loss) before tax expense	275,811,054	(5,562,785)	(30,125,545)	(64,447,844)	(107,599)	4,958,265	-	180,525,546
Income tax expense	(142,436,738)	623,336	(1,939,876)	(12,959,946)	-	374,208	-	(156,339,016)
Loss after tax expense from discontinued operation	-	-	-	-	-	(5,332,473)	-	(5,332,473)
Non-controlling interests	(6,260,769)	-	-	-	-	-	-	**(6,260,769)**
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**127,113,547**	**(4,939,449)**	**(32,065,421)**	**(77,407,790)**	**(107,599)**	**-**	**-**	**12,593,288**
Capital expenditures	189,209,206	50,062,571	847,609	66,871	-	(196,279)	-	239,989,978
Depreciation, depletion and amortization	73,664,115	5,624,793	8,789,699	706,915	-	(465,275)	-	88,320,247
Non-cash expenses other than depreciation, depletion and amortization	38,493,364	351,097	13,500,415	2,819,669	-	(3,895,943)	-	51,268,602

(Expressed in United States Dollars, unless otherwise stated)

39. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

	2012							
	Exploration for and production of oil and gas	Other contracts and related services	Chemical	Trading	Funding for Group operations	Discontinued operations	Elimination	Consolidated
Net cash provided by (used in) operating activities	**254,379,383**	**(4,846,683)**	**9,633,697**	**(19,714,727)**	**-**	**(30,014,015)**	**-**	**209,437,655**
Net cash provided by (used in) investing activities	**(189,592,918)**	**(38,625,323)**	**(71,012,353)**	**(93,535,575)**	**-**	**147,848**	**-**	**(392,618,321)**
Net cash provided by (used in) financing activities	**(22,156,984)**	**20,940,002**	**(13,519,912)**	**(13,857,493)**	**-**	**18,355,485**	**-**	**(10,238,902)**
Segment assets	2,832,942,981	115,587,050	152,648,419	2,422,933,472	2,729,875	-	(3,101,866,100)	2,424,975,697
Investments in stocks	902,451	-	85,706,792	344,159,577	-	-	(230,228,227)	200,540,593
Investment in project	30,324,414	-	-	-	-	-	-	30,324,414
TOTAL ASSETS	**2,864,169,846**	**115,587,050**	**238,355,211**	**2,767,093,049**	**2,729,875**	**-**	**(3,332,094,327)**	**2,655,840,704**
LIABILITIES								
Segment liabilities	2,196,262,725	92,694,564	284,022,992	2,189,558,086	151,944,252	-	(3,101,866,100)	1,812,616,519

	2011								
	Exploration for and production of oil and gas	Other contracts and related services	Chemical	Lease of electric power plants	Trading	Funding for Group operations	Discontinued operations	Elimination	Consolidated
External sales	400,757,957	8,656,180	237,692,254	90,997,056	399,718,801	-	(320,105,311)	-	817,716,937
Inter-segment sales	393,378,163	4,924,876	3,793,261	908,237	6,486,969	-	-	(409,491,506)	-
Total revenues	794,136,120	13,581,056	241,485,515	91,905,293	406,205,770	-	(320,105,311)	(409,491,506)	817,716,937
Gross profit	338,602,205	2,851,597	5,561,638	34,893,747	6,144,872	-	(37,169,204)	-	350,884,855
Selling, general and administrative expenses	(84,196,927)	(6,444,719)	(11,493,079)	(17,850,488)	(32,279,499)	(63,314)	21,774,570	-	(130,553,456)
Gain on disposal of subsidiaries	35,375,803	-	-	-	38,988,417	-	-	-	74,364,220
Finance costs	(6,261,648)	(869,402)	(5,121,556)	(12,814,763)	(66,959,460)	-	11,440,406	3,000,000	(77,586,423)
Share of net gain (loss) of associated entities - net	137,252	-	(2,089,661)	-	-	-	-	-	(1,952,409)
Finance income	1,872,906	345,484	786,627	472,222	9,028,903	-	(609,321)	(3,000,000)	8,896,821

(Expressed in United States Dollars, unless otherwise stated)

39. SEGMENT INFORMATION (continued)

a. Business Segment (continued)

	2011								
	Exploration for and production of oil and gas	Other contracts and related services	Chemical	Lease of electric power plants	Trading	Funding for Group operations	Discontinued operations	Elimination	Consolidated
Impairment loss - net	(21,762,332)	-	-	-	-	-	-	-	(21,762,332)
Gain on dilution of investment in associated entity	-	-	8,472,496	-	-	-	-	-	8,472,496
Other income	4,986,547	606,373	(5,246,948)	2,183,396	12,196,600	-	(1,046,370)	-	13,679,598
Other expenses	(9,742,561)	(825,407)	1,864,824	(80,415)	(1,964,525)	-	-	-	(10,748,084)
Income (loss) before tax expense	259,011,245	(4,336,074)	(7,265,659)	6,803,699	(34,844,692)	(63,314)	(5,609,919)	-	213,695,286
Tax expense	(102,324,213)	-	(77,426)	(2,989,864)	(17,826,176)	-	2,448,098	-	(120,769,581)
Income after tax expense from discontinued operations	-	-	-	-	-	-	3,161,821	-	3,161,821
Non-controlling interests	(2,632,495)	-	-	(2,516,259)	-	-	-	-	(5,148,754)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**154,054,537**	**(4,336,074)**	**(7,343,085)**	**1,297,576**	**(52,670,868)**	**(63,314)**	**-**	**-**	**90,938,772**
Segment assets	3,188,938,338	38,806,244	257,847,072	-	1,995,717,767	35,347,132	-	(3,085,327,757)	2,431,328,796
Investment in stocks	766,961	11,878,867	36,463,504	-	330,756,644	-	-	(243,723,576)	136,142,400
Investment in project	30,324,414	-	-	-	-	-	-	-	30,324,414
TOTAL ASSETS	**3,220,029,713**	**50,685,111**	**294,310,576**	**-**	**2,326,474,411**	**35,347,132**	**-**	**(3,329,051,333)**	**2,597,795,610**
LIABILITIES Segment liabilities	2,242,709,967	4,695,161	244,514,681	-	1,716,861,803	217,333,830	-	(2,696,059,258)	1,730,056,184
Capital expenditures	143,144,184	6,753,712	1,266,583	4,362,349	770,066	-	(4,488,209)	-	151,808,685
Depreciation, depletion and amortization	96,036,968	1,975,210	3,672,735	1,242,556	2,007,052	-	(2,234,182)	-	102,700,339
Non-cash expense other than depreciation, depletion and amortization	36,108,643	508,680	611,599	1,148,402	6,913,778	-	(1,217,532)	-	44,073,570
Net cash provided by (used in) operating activities	**180,845,298**	**5,939,462**	**(11,574,423)**	**21,103,884**	**(48,340,650)**	**-**	**(41,250,154)**	**-**	**106,723,417**
Net cash provided by (used in) investing activities	**168,549,040**	**(7,352,173)**	**(68,417,875)**	**(24,509,200)**	**10,245,932**	**-**	**27,559,502**	**-**	**106,075,266**
Net cash provided by (used in) financing activities	**(24,013,217)**	**(546,465)**	**71,256,180**	**(18,054,637)**	**269,743,974**	**-**	**9,135,628**	**-**	**307,521,463**

(Expressed in United States Dollars, unless otherwise stated)

39. 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

	2012	2011
Indonesia	336,749,830	250,461,374
Overseas		
Asia	403,492,849	399,718,799
Africa and Middle East	151,326,657	146,701,826
United States of America	17,480,157	20,834,938
Total	**909,049,493**	**817,716,937**

Total Assets

	2012	2011
Indonesia	4,099,648,909	4,151,379,318
Overseas		
Asia	1,456,802,088	1,454,931,246
Africa and Middle East	331,930,099	221,778,440
United States of America	99,553,935	98,757,939
Total	5,987,935,031	5,926,846,943
Elimination	(3,332,094,327)	(3,329,051,333)
After elimination	**2,655,840,704**	**2,597,795,610**

The Group's activities are concentrated in 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.

40. 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 millions)			US$ equivalent (Full amount)
	Rupiah	Euro	Others	
Assets				
Cash and cash equivalents	267,164	0.03	-	27,933,645
Short-term investments	42,069	-	-	4,350,427
Trade receivables	4,196	-	-	433,951
Other receivables	513,335	-	-	53,085,315
Restricted cash in banks	88,794	-	-	9,182,374
Liabilities				
Trade payables	(153,331)	(0.03)	-	(15,883,207)
Bank loans	(1,401,604)	-	-	(144,943,566)
Other long-term payables	(2,973,933)	-	-	(307,542,144)
Net Liabilities	**(3,613,310)**	**-**	**-**	**(373,383,205)**

	2011			
	in original currency (in millions)			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)**

41. FINANCIAL INSTRUMENTS

a. Fair Values of Financial Instruments

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

(Expressed in United States Dollars, unless otherwise stated)

41. FINANCIAL INSTRUMENTS (continued)

a. Fair Values of Financial Instruments (continued)

	2012		2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Current assets				
Cash and cash equivalents	523,651,774	523,651,774	703,951,167	703,951,167
Short-term investments	311,668,012	311,668,012	247,304,920	247,304,920
Restricted cash in banks	1,343,426	1,343,426	25,278,063	25,278,063
Trade receivables	147,129,298	147,129,298	202,328,229	202,328,229
Other receivables	79,157,762	79,157,762	62,216,151	62,216,151
Derivative assets	-	-	2,844,957	2,844,957
Non-current assets				
Other receivables	106,121,133	106,121,133	59,563,315	59,563,315
Restricted cash in banks	10,898,277	10,898,277	13,518,505	13,518,505
Long-term investments	67,177,201	67,177,201	48,342,371	48,342,371
Other assets	2,658,730	2,658,730	1,402,736	1,402,736
Total Financial Assets	**1,249,805,613**	**1,249,805,613**	**1,366,750,414**	**1,366,750,414**
Financial Liabilities				
Current liabilities				
Short-term bank loans	60,000,000	60,000,000	121,399,984	121,399,984
Trade payables	95,264,604	95,264,604	113,004,919	113,004,919
Other payables	43,589,966	43,589,966	35,430,475	35,430,475
Accrued expenses and other provisions	72,224,141	72,224,141	67,516,463	67,516,463
Current maturities of long-term debt				
Bank loans	62,855,699	62,855,699	291,721,364	291,721,364
Medium-term notes	40,386,422	40,386,422	64,928,129	64,928,129
Rupiah bonds	-	-	56,563,960	56,563,960
Non-current liabilities				
Long-term debt				
Bank loans	654,384,407	684,303,957	466,408,082	468,766,481
Payable to a related party	125,735,136	125,735,136	69,997,758	69,997,758
Medium-term notes	-	-	40,320,379	41,479,003
Rupiah bonds	307,542,144	300,045,136	108,354,996	108,354,996
US Dollar bonds	99,334,607	112,260,381	79,387,679	80,678,385
Derivative liabilities	17,985,673	17,985,673	1,202,270	1,202,270
Other payables	13,849,625	13,849,625	10,511,274	10,511,274
Total Financial Liabilities	**1,593,152,424**	**1,628,500,740**	**1,526,747,732**	**1,531,555,461**

i. Financial instruments carried at fair value

Fair values of derivative instruments and short-term investments 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, 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.

(Expressed in United States Dollars, unless otherwise stated)

41. FINANCIAL INSTRUMENTS (continued)

a. Fair Values of Financial Instruments (continued)

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.

v. Other financial instruments

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

The fair value measurements of financial assets and financial liabilities are classified as a whole based on the lowest level of input that is significant to the fair value measurement as a whole. The assessment of the signficance of a particular input to the fair value measurement requires judgment and may affect the valuation of the financial assets and financial liabilities being measured and their level within the fair value hierarchy.

The best evidence of fair value is the price quotations in an active market. If the market for a financial instrument is not active, the Group establishes a fair value by using a valuation method. The objective of using a valuation method is to establish what the transaction price would have been on the measurement date in an arm's length transaction based on normal business considerations.

Valuation methods include the use of recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation method commonly used by market participants to determine the price of the instrument and the method has been demonstrated to provide reliable estimates on prices obtained from actual market transactions, the Group uses that method. Valuation methods are chosen to make the maximum use of market inputs and rely as little as possible on inputs that are specific to the Group. The method takes into account all the factors that will be considered by market participants in setting a price and in tune with the economic method for the assessment of a financial instrument. Periodically, the Group reviews the valuation methods and tests it for validity using prices from current market transactions that can be observed for the same instrument (i.e., without modification and repackaging) or based on available market data and can be observed.

The hierarchy of fair value as of December 31, 2012 and 2011 is as follows:

	December 31, 2012			
	Total	Market value quotation for similiar assets and liabilities (Level 1)	Significant input and observable directly (Level 2)	Significant input but unobservable (Level 3)
Financial Assets				
Short-term investments	311,668,012	-	311,668,012	-
Financial Liabilities				
Derivative liabilities	17,985,673	-	17,985,673	-

	December 31, 2011			
	Total	Market value quotation for similiar assets and liabilities (Level 1)	Significant input and observable directly (Level 2)	Significant input but unobservable (Level 3)
Financial Assets				
Short-term investments	247,304,920	-	247,304,920	-
Derivative assets	2,844,957	-	2,844,957	-
Financial Liabilities				
Derivative liabilities	1,202,270	-	1,202,270	-

41. FINANCIAL INSTRUMENTS (continued)

b. Risk Management

The principal financial liabilities of the Group consist of short-term and long-term borrowings, 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, credit risk, liquidity risk and price volatility 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 debts in line with movements of relevant interest rates in the financial markets. Based on management's assessment, new financing will be priced either on a fixed rate or floating rate basis.

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

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

	December 31, 2012 (in US Dollars)				
Description	Within 1 year	1-2 years	2-5 years	More than 5 years	Total
Receivable from a related party	-	100,727,841	-	-	100,727,841
Payable to a related party	-	125,735,136	-	-	125,735,136
Short-term bank loans	60,000,000	-	-	-	60,000,000
Long-term bank loans	50,000,000	25,000,000	440,000,000	-	515,000,000
Derivative liabilities	-	574,625	17,411,048	-	17,985,673

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 either non-interest bearing or have fixed interest rates and are therefore not subject to interest rate risk.

As of December 31, 2012, if the borrowing rate increases/decreases by 0.5% with all variables constant, income before tax expense for the year will be lower or higher by US$3,885,371.

41. FINANCIAL INSTRUMENTS (continued)

b. Risk Management (continued)

ii. Foreign exchange rate risk

The Group maintains its bookkeeping in US Dollar, therefore, a portion of its revenues, expenses, assets and liabilities which are denominated in currencies 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 currency risk, the Group entered into several swap and forward contracts. These contracts are accounted for as transactions that are not designated as hedging contracts except for six contracts entered into in 2012, in which the gain or loss arising from the effective portion of cash flow hedge is credited or charged to other comprehensive income (Note 22).

As of December 31, 2012, if the exchange rate of the US dollar against foreign currencies increases/decreases by 10% with all variables constant, income before tax expense for the year will be higher/lower by US$361,331 primarily as a result of translations of bank loans and other long-term debt.

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 the 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.

As of December 31, 2012, a significant portion of the trade receivables of the Group is due from three debtors whose respective accounts constitute 22%, 20% and 10% of the total trade receivables as of that date.

The credit risk on trade receivables and other receivables as of December 31, 2012 based on information provided by management is as follows:

a. By Geographical Area

	Trade Receivables	Other Receivables
Indonesia	70,583,668	201,753,537
Singapore	37,029,844	431,856
Oman	29,869,199	1,196,595
Switzerland	4,309,566	-
United States	2,933,075	860,234
Yemen	2,548,441	7,948,127
Cambodia	-	238,987
Libya	-	1,282,412
United Kingdom	-	70,055
Japan	-	4,423
Total	**147,273,793**	**213,786,226**

41. FINANCIAL INSTRUMENTS (continued)

b. Risk Management (continued)

iii. Credit risk (continued)

b. By Debtor

	Trade Receivables	Other Receivables
Related parties	32,701,117	101,615,237
Third parties:		
State - owned enterprises	55,229,825	4,634,037
Other companies	49,198,505	18,696,889
Government	10,144,346	83,722,876
Multinational companies	-	931,375
Companies listed in the Indonesia Stock Exchange	-	76,247
Individuals	-	4,109,565
Total	**147,273,793**	**213,786,226**

iv. Liquidity risk

The liquidity risk is defined as a risk where the cash flow position of the Group indicates that the short-term revenue is not sufficient 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 flows, 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 issuance of equity in the capital market.

The table below presents the carrying amount, by maturity period of the Group's financial instruments that are affected by liquidity risk:

	December 31, 2012 (in US Dollars)				
Description	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**
Trade payables					
- Related party	69,936	-	-	-	69,936
- Third parties	95,194,668	-	-	-	95,194,668
Other payables	43,589,966	-	-	13,849,625	57,439,591
Accrued expenses	72,224,141	-	-	-	72,224,141
Bank loans	122,855,699	26,997,305	603,387,102	24,000,000	777,240,106
Medium term notes	40,386,422	-	-	-	40,386,422
Rupiah bonds	-	102,345,971	205,196,173	-	307,542,144
US Dollar bonds	-	-	99,334,607	-	99,334,607
Derivative liabilities	-	574,625	17,411,048	-	17,985,673
Payable to a related party	-	125,735,136	-	-	125,735,136

41. FINANCIAL INSTRUMENTS (continued)

b. Risk Management (continued)

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.

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.

For capital management purposes, management regards total equity attributable to the owners of parent company as capital. The amount of capital as of December 31, 2012 is US$835,071,720 which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities. Also, over the past recent 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.

42. 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 SKKMIGAS. A general description of those arrangements and applicable oil and gas law is as follows:

42. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

a. Production Sharing Arrangements - Indonesia (continued)

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.

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 PT Pertamina (Persero) (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 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 SKKMIGAS if certain production levels are attained.

(Expressed in United States Dollars, unless otherwise stated)

42. OIL AND GAS PRODUCTION SHARING ARRANGEMENTS (continued)

a. Production Sharing Arrangements - Indonesia (continued)

iii. Technical Assistance Contracts (TAC) - Indonesia (continued)

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

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

The remaining commitment for exploration and development expenditures relating to the above contracts as of December 31, 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:

				Concession Production Sharing Agreement	
Subsidiaries	**Block Ownership**	**Country**	**Contract Term**	**Local Government**	**Subsidiaries**
Medco Oman LLC	Karim Small Field	Oman	10 years	96.02% of profit from total production	3.98% of profit oil
Medco International Venture Ltd	Block 47	Libya	5 years	86.3% of profit from total production	2.99% of profit from total production
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)
Medco Yemen Malik Ltd	Block 9	Yemen	25 years	70% of profit oil (for production over 25,000 bopd)	30% of profit oil (for production over 25,000 bopd)

The total remaining commitment for exploration expenditures relating to the above contracts as of December 31, 2012 is US$42.3 million.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS

a. Major Acquisitions and Disposals

i. On December 20, 2012, the Company signed a Shares Sales and Purchase Agreement or SPA for the purchase of 49% stake in PT Api Metra Graha (AMG) held by Jaden Holdings Limited (Jaden). As of December 31, 2012, an advance payment to Jaden of US$25 million, representing 24% of the purchase price has been made and US$5.1 million for income tax article 26 has been paid which are recorded as "Advance for purchase of shares of stock" in the consolidated statement of financial position. This transaction has been completed on February 12, 2013.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

ii. Based on Notarial Deed No. 21 dated December 30, 2012 of Edwar, S.H., PT Medco Ethanol Lampung (MEL) agreed to sell and transfer all of its shares held in PT Usaha Tani Sejahtera (UTS) totaling 500 shares (representing 50% ownership) with a par value of Rp1,000,000 per share or a total of Rp500,000,000 to PT Medco Service Indonesia (MSI) at the price of Rp1. After the sale of shares, the shareholding structure of UTS consists of 999 shares (99.9%) owned by MSI with a par value of Rp1,000,000 per share or total par value of Rp999,000,000 and 1 share owned by PT Medco Energi Nusantara (MEN), with par value of Rp1,000,000.

iii. Under the Share Purchase Agreement signed in December 2012, MEL agreed to sell and transfer to MSI its 4,999 shares (representing 49.99% ownership) held in PT Bumi Agro Lampung (BAL) with par value of Rp25,000 per share at the price of Rp1. After the sale and transfer of shares, the shareholding structure of BAL comprises 5,000 shares with a par value of Rp 25,000 per share or a total of Rp125,000,000, consisting of 4,999 shares owned by MSI (49.99%), with total par value of Rp124,975,000 and 1 share owned by MEN (0.1%), with par value of Rp25,000.

iv. On October 10, 2012, the Company, through its wholly owned subsidiary, PT Medco Downstream Indonesia (MDI), signed a Share Purchase and Subscription Agreement (SPSA) with Puma Energy (Singapore) Pte Ltd (“Puma”) for the sale of 63.88% or 1,852,520 shares of PT Medco Sarana Kalibaru (MSK) owned by MDI for the price of US$13,003,200, and subsequently, Puma together with MDI will subscribe to the issuance of new shares by MSK pro-rata in accordance with the ownership percentage of each shareholder, that is, Puma at 63.88% with subscription price of US$22,996,800 and MDI at 36.12% with subscription price of US$13,003,200. The transaction was completed on December 3, 2012.

Based on the above agreement, MSK should pay for the following:
1. Under a loan agreement dated September 15, 2012 between MSK and MEI, MSK obtained a loan from MEI to finance the VAT payment on the cargo delivery to PT Freeport Indonesia amounting to US$8,000,000, plus interest.
2. Based on the Management Services Agreement with MDI, MSK has outstanding payable to MDI amounting to US$800,000 for the management services provided by MDI to MSK in fiscal years 2011 and 2010.
3. Based on the Intercompany Loan Agreements between MSK and MDI, MSK has outstanding intercompany payable totaling Rp39,612,995,000 (including interest charged on the settlement date), which consists of payables to MEI and MDI amounting to Rp27,580,000,000 and Rp12,032,995,000, respectively, to be reduced by the intercompany receivables of MSK from MEI and MDI amounting to Rp8,898,243,643 and Rp232,565,688, respectively.

Since all the obligations above had been paid by MSK on December 5, 2012, MDI and Puma agree on the following:
a. For purposes of calculating the "Sale Consideration", the MSK business is valued by Puma on the date of the agreement, at US$20,355,867 of which US$ 6,000,000 is attributable to the Tanjung Priok Lease Agreement. If the Tanjung Priok Lease Agreement is terminated or expires without renewal or extension at any time within 10 years starting from December 31, 2012, the value of the MSK business shall be deemed to have declined equivalent to the amortization amount under the Tanjung Priok Lease Agreement on the date of termination or expiration. MDI must transfer to Puma the additional shares issued by MSK.
b. MDI and Puma acknowledge that the accounts below ("Unpaid Receivables") remain outstanding and unpaid more than 180 days as of the date of the agreement:

(Expressed in United States Dollars, unless otherwise stated)

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

Relevant Party	Amount (Rp)
PT Medcopapua Industri Lestari	2,308,325,000
PT Sapta Prima Adikarya	3,581,404,725
PT Partner Resource Indonesia	1,689,589,006
PT Pelayaran Nesitor Sakti Segara	2,912,685,540
Others	697,915,588

c. MDI and Puma agree that if any portion of the unpaid receivables remains outstanding 180 days after the transaction is completed, MDI must transfer to Puma additional shares issued by MSK. MSK agrees to promptly determine and pay its debts to MDI, or reduce it considering the conditions below:
   1. After the adjustment made by the shareholders as described in paragraph b above, MSK shall pay back to MDI the unpaid receivables arising from such adjustment,
   2. After the transaction completion date, MSK shall pay back to MDI the receivables from PT Kiani Kertas Nusantara or PT Optima Enviro Resources, or
   3. After the transaction completion date, MSK shall pay less than a predetermined amount of claims against MSK by BPH Migas (now SKKMIGAS), amounting to Rp4,678,000,000.

The effect of the divestment of the above subsidiary on the consolidated statement of financial position as of the disposal date is as follows:

	Carrying amount
Cash and cash equivalents	3,607,193
Trade and other receivables	12,133,690
Inventories	588,635
Prepaid tax	11,518,873
Prepaid expenses	33,593
Property, plant and equipment (Note 14)	13,512,888
Other assets	28,225,719
Short-term bank loans	(13,662,103)
Trade and other payables	(2,833,251)
Taxes payable	(464,083)
Accrued expenses	(2,117,556)
Other liabilities	(35,550,581)

v. Based on Notarial Deed No. 29 dated September 14, 2012 of Edwar, S.H., PT Medco Ethanol Lampung (MEL) agrees to sell and transfer to PT Medco Service Indonesia (MSI) the 499 shares (49.9%) of PT Usaha Tani Sejahtera (UTS) it owns with Rp1,000,000 par value per share or a total amount of Rp499,000,000 at a price of Rp1. After the sale and transfer of shares, the shareholding structure of UTS comprises 500 shares with a par value of Rp1,000,000 per share, or a total par value of Rp500,000,000, with MSI owning 499 shares (49.9%) with total par value of Rp499,000,000 and MEN owning 1 share (0.1%) with total par value of Rp1,000,000.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

vi. On August 10, 2012, a subsidiary engaged in drilling services and wholly owned by the Company, PT Exspan Petrogas Intranusa (EPI), signed a Rigs Sale and Purchase Agreement with PT Antareja Resources (AR) and PT Deka Petrindo (DP).

The purchase of 6 workover rigs and 1 drilling rig chain from DP was completed on September 6, 2012, with total acquisition cost of US$30,268,027. The purchase of 1 workover rig from AR was completed on September 26, 2012, with acquisition cost of US$4,611,973.49.

vii. On July 5, 2012, Medco Yemen Malik Limited signed a Sale and Purchase Agreement (SPA) with Reliance Exploration and Production DMCC, to purchase 25% participating interest in Block 9 in Yemen at a cost of US$90 million. This agreement was completed on December 4, 2012. After the conditions precedent to the transaction are completed, including obtaining the approval of the Ministry of Oil and Minerals of Yemen, Medco has effective participating interest of 21.25% in Block 9. Besides Medco, the other parties holding participating interests in Block 9 are Calvalley Petroleum (Cyprus) Ltd, as operator with interest of 42.5%, Hood Oil Limited with interest of 21.25%, and Yemen Oil and Gas Company (YOGC) with interest of 15%.

viii. On December 16, 2011, the Company sold its 51% equity ownership in PT Medco Power Indonesia (MPI), the Company's subsidiary which operated the electricity business, to PT Saratoga Power (Saratoga) under the Shares Purchase and Subscription Agreement.

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.

   On March 19, 2012, the Company has completed the second phase of the 49% subscription to the capital stock of PT Medco Power Indonesia.

Based on the above agreement, the Company shall compensate Saratoga and/or MPI for the outstanding receivables of MPI from Menamas Consortium amounting to Rp47 billion, already in existence prior to the sale of MPI, 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.

(Expressed in United States Dollars, unless otherwise stated)

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

The effect of the divestments of the subsidiaries in 2011 is 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 presented in the 2011 statement of cash flows consist of the following:

Divestment of MPI and subsidiaries (after deducting cash and cash equivalents of MPI of US$10,480,564)	44,399,436
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
Divestment of Medco Anaguid in 2011 [Note 43(a)(ix)]	56,284,295
Total	**395,683,731**

ix. On September 14, 2011, the Company, through its wholly owned subsidiary, Medco Tunisia Holding Ltd (Medco Tunisia), signed a Shares Sale and 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 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.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

a. Major Acquisitions and Disposals (continued)

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 consolidated statement of comprehensive income for the year ended December 31, 2011 amounted to US$35.4 million.

x. 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).

xi. In February 2011, MPI, as buyer, signed a Share Sale and Purchase Agreement with PT 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 99.9% equity in MGPS. MGPS owns 80.1% equity in PT Tanjung Jati B Power Services (TJB).

xii. 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 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”.

b. Gas Supply Agreements

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

(Expressed in United States Dollars, unless otherwise stated)

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements (continued)

Entity	Date of Agreement	Commitment	Contract Period
PT Medco E&P Indonesia			
Perusahaan 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 Perusahan Daerah Kota Tarakan (PDKT)	April 6, 2011	Commitment to supply gas to meet the needs of household in Tarakan of 0.15 BBTU at a gas price of US$3.00/MMBTU escalating by 2.5% per year.	5 years since June 2011 until such quantity in the agreement has been fully supplied.
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 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 Pertamina EP	February 19, 2010	Commitment to supply 1,359.96 MMSCF of gas per year at a gas price ranging from US$3.94/MMBTU to US$4.43/MMBTU.	4 years (April 27, 2009 up to November 27, 2013), or when such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Gas Negara (Persero) Tbk	December 4, 2009 and last amended on January 21,2013	Commitment to supply natural gas from Keramasan Field in South and Central Sumatra with total gas volume of 41,900 BBTU (last amended) at a price range from US$4.17/MMBTU to US$7.32/MMBTU.	December 2009 up to December 31,2014
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.
Perusahaan Daerah Mura Energi	August 4, 2009	Commitment to supply 2.5 BBTUD of gas produced from the Temelat Field with contract value estimated at US$3/MMBTU, escalating by 2.5% per year.	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.

(Expressed in United States Dollars, unless otherwise stated)

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements (continued)

Entity	Date of Agreement	Commitment	Contract Period
PT Medco E&P Indonesia (continued)			
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.
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.	11 years and could be amended to 15 years in accordance with terms and conditions as stated in the agreement.
PT Mitra Energi Buana	July 24, 2006 last amended with agreement dated December 1, 2012	Commitment to supply and sell gas in the quantity of 2.5 BBTUD until November 2012 and 3.7 BBTUD until December 2017, at an agreed price ranging from US$2.65/MMBTU to US$7.00/MMBTU.	11 years or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero) (for central electricity in Keramasan, Palembang, Sumatera Selatan)	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.	Until November 27, 2013 or when such quantity has been fully supplied, whichever occurs first.
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.	6 years and 9 months or when such quantity has been fully supplied, whichever occurs first.
PT Pertamina (Persero)	January 16, 2004 The agreement has been amended several times and the latest (the fifth amendment) on January 1, 2012	Commitment to deliver and sell LPG pursuant to the conditions set forth in the agreement.	Until such quantity has been fully supplied.
PT Perusahaan Listrik Negara (Persero) (for PLTG Borang, Palembang, Sumatera Selatan)	December 30, 2003 and last amended with agreement dated October 9, 2012	Commitment to supply and sell 7 BBTUD of gas from December 2009 to March 2010 and 12.5 BBTUD from April 2010 to September 2012 and 18.3 BBTUD from October 2012 to August 2014. Gas price ranging from US$4.32/MMBTU to US$6.36/ MMBTU.	10 years and 8 months or until such quantity has been fully supplied, whichever occurs first.
PT Perusahaan Listrik Negara (Persero) (for PLTG Simpang Tiga, Indralaya, Palembang, Sumatera Selatan)	December 30, 2002 and last amended with agreement dated May 8, 2012	Commitment to supply and sell 56.182 BBTU of gas at a gas price ranging from US$4.30/MMBTU to US$5.30/MMBTU for 2012 and from US$4.43/MMBTU to US$5.46/MMBTU for 2013.	11 years or when such quantity has been fully supplied, whichever occurs first.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

b. Gas Supply Agreements (continued)

Entity	Date of Agreement	Commitment	Contract Period
PT Medco E&P Lematang			
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 a 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 in April 2010.
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.	Gas supply is expected to be from December 1, 2012 until April 1, 2017
PT Medco E&P Malaka			
PT Perusahaan Listrik Negara (Persero)	April 9, 2008	Commitment to supply 15 BBTUD of gas for electricity in Nanggroe Aceh Darussalam at an agreed price of US$5.30/MMBTU escalating by 3% per year.	At the time when quantity in the agreement has been fully supplied, or gas no longer has an economic value or until the termination of Block A PSC (September 1, 2031), whichever occurs first.
PT Pupuk Iskandar Muda (Persero)	December 10, 2007 last amended on November 12, 2010	Commitment to supply gas with the total gas volume 110 BBTUD with a total of 233 TBTU at an agreed selling price, calculated using a formula whereby the price will not be less than US$5.00 per MMBTU.	At the time when such quantity in the agreement has been fully supplied or gas no longer has an economic value, or until the termination of the Block A PSC (September 1, 2031), whichever occurs first.
PT Medco E&P Tomori			
PT Donggi Senoro LNG	January 22, 2009	Commitment to supply 227 BBTUD of gas with the price calculated based on certain agreed formula expressed in US$/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.
Perusda Nusa Serambi Persada (through JOB P-MEPS)	October 29, 2012	Commitment to supply 5 MMSCFD from South Sembakung well at a gas price US$5.2/MMBTU with an escalation of 3% per year.	11 years starting from 2013.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements

i. Supply of Service Agreement

Under the services agreement (Supply of Service Agreement) between MDI and MSK dated December 3, 2012, MDI as service provider must provide services to MSK for the stipulated period of one year renewable automatically on an annual basis until terminated by either party, through a written notice to be given three months prior to the expiration date.

Services to be provided under the agreement are as follows:

1. Business Development Services and Government Liaison Services at a cost of Rp3,000,000,000 per year;
2. IT Support Services at a cost of US$10,000 per month for a six - month transition period with the number of users, types of systems, software, services, and conditions. The cost of IT service to access SAP system during the transition period for the purpose of the audit of government/local authorities amounts to US$3,000 per month with a maximum of 3 SAP IDs.

ii. Extension of Plan Of Development (POD) for Bengara

On November 26, 2012, the Ministry of Energy and Mineral Resources (ESDM) in its letter has given approval to grant additional time in order to process the first POD in the Bengara I work area for one (1) year from November 27, 2012 to November 26, 2013 or approval of the first POD of South Sebuku Field by the Minister, whichever occurs first in accordance with the applicable terms and conditions.

The PSC of Bengara I Work Area was originally signed between PT Petroner Bengara and the then BPMIGAS (now SKKMIGAS) on September 27, 1999 to explore and develop Bengara-I Block in the province of East Kalimantan, Indonesia with exploration period up to September 26, 2009. Bengara I Work Area has been extended several times, the most recent on November 26, 2012.

iii. Termination of Gas Sale and Purchase Agreement between JOB Simenggaris and the Bunyu Consortitum for Methanol Refinery

On October 24, 2012, PT Medco Simenggaris received two letters from SKKMIGAS No. 0899/BPO2000/2012/S2 and No. 0900/BPO2000/2012/S2. The first letter No. 0899/BPO2000/2012/S2 stated that the Gas Sale and Purchase Agreement between Simenggaris JOB (PJBG JOB Simenggaris) and the Consortium for Bunyu Methanol Refinery (BMR) will be terminated, based on certain considerations. The letter stated that it would not be economical to buy gas to produce methanol due to the low efficiency of the refinery and the low selling price of methanol. In addition, the buyer has not obtained the licenses in principle and location permits from the Regent of Tana Tidung.

The second letter of SKKMIGAS No. 0900/BPO2000/2012/S2 stated that, with respect to the termination of the Gas Sale and Purchase Agreement between PJBG JOB Simenggaris and the Consortium, SKKMIGAS decided that the gas from South Sembakung, Simenggaris Block can be utilized to supply the needs of PLN in East Kalimantan. There has been no further disposition from the parties regarding this matter.

Thus, the Joint Operating Agreement between PT Medco Methanol Bunyu (MMB) and PT Pertamina (Persero) shall be canceled and MMB has the obligation to perform the reconditioning of the Bunyu methanol refinery until the refinery can be operated again under normal conditions.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

iv. Contract of Sale and Purchase of Coal

On September 10, 2012 ("effective date"), PT Duta Tambang Rekayasa, a subsidiary of PT Medco Energi Mining Internasional (MEMI), and China Coal Solutions (Singapore) Pte Ltd, signed a contract of sale of coal whereby PT Duta Tambang Rekayasa (DTR) agrees to sell and deliver 35,000 metric tons of coal with optional tonnage of +/- 10% at the buyer’s option. The price of the coal is US$60 per metric ton, to be loaded from Nunukan Port, East Kalimantan, Indonesia.

On October 15, 2012 ("effective date"), DTR and Transammonia AG, signed a contract of sale of coal (002/CSPC/X/2012), whereby DTR agrees to sell and deliver 35,000 metric tons of coal with optional tonnage of +/- 10% at the buyer's option. The price of the coal is US$64.00 per metric ton or US$2,484,060.85 in total to be loaded from Nunukan Port, East Kalimantan, Indonesia.

On November 1, 2012 ("effective date"), DTR and PT Arta Pacific Permai signed agreement No. 001/KON/APP/X/2012 whereby PT Arta Pacific Permai agreed to provide "TOTAL" lubricants to support the operations of PT Duta Tambang Rekayasa. Evaluation of the price will be done every 6 months from the date of signing the agreement taking into account the real conditions affecting the changes in the prices of the manufacturers.

On December 12, 2012 ("effective date"), DTR and Transammonia AG, signed a contract of sale of coal (003/CSPC/X/2012) whereby DTR agrees to sell 50,000 metric tons of coal with optional tonnage of +/- 10% at the buyer's option. The price of the coal is US$75.20 per metric ton or US$4,309,566 in total, loaded from Nunukan Port, East Kalimantan, Indonesia.

v. Gas Compression Service Agreement

On August 13, 2012, PT Mitra EnergI Gas Sumatra (MEGS) signed the Agreement for Gas Compression Services for Soka Field with PT Medco E&P Indonesia. Based on this agreement, MEGS will lease out three reciprocating gas compressors to PT Medco E&P Indonesia with a contract value of approximately US$3,395,653 with a minimum volume of gas served of 21,900 MMSCF until August 13, 2015.

vi. Contract for Gas Extraction Services and Feed Gas Processing

On August 1, 2011, PT Medco LPG Kaji (MLK) and PT Medco E & P Indonesia (MEPI) signed a Contract for Gas Extraction Service around the Kaji-Semoga Field. Under this contract, MLK shall provide gas extraction services to MEPI. The contract is valid from August 1, 2011 until December 31, 2011 with a total contract value of US$1,575,000.

On December 13, 2011, MLK and MEPI signed the first amendment of the contract whereby the contract period was extended to January 31, 2012. In connection with the extension of the term of the contract, the contract value was increased by US$157,500 to become US$1,732,500.

On January 20, 2012, MLK and MEPI signed the bridging agreement for Gas Extraction Services around the Kaji-Semoga Field to extend the above mentioned contract to July 19, 2012.

On July 20, 2012, MLK and MEPI signed the Agreement on Fee for Processing Feed Gas from Kaji-Semoga Field which is effective up to January 20, 2013. Based on the agreement, MLK agreed to provide gas processing services to MEPI with a contract value of US$1,889,415.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

On December 6, 2012, MLK received a letter from MEPI stating that the supply of gas from the Rimau Block for the LPG refinery was terminated, therefore, the agreement between MEPI and MLK was also terminated on December 31, 2012 and was not renewed.

vii. Swap Agreement among Bangkanai, Simenggaris and Bengara

Three (3) Subsidiaries, namely Bangkanai Petroleum (Labuan) Berhad (“Bangkanai Bhd”), PT Medco E & P Simenggaris (“Medco Simenggaris”) and PT Medco E & P Bengara ("Medco Bengara"), entered into Swap Agreement involving the exchange of participating interests in PSCs with Salamander Energy (Bangkanai) Limited (“Salamander Bangkanai”), Salamander Energy (Simenggaris) Ltd (“Salamander Simenggaris”) and Salamander Energy (Bengara) Ltd (“Salamander Bengara”) (Salamander Bangkanai, Salamander Simenggaris and Salamander Bengara are collectively referred to herein as the "Salamander").

Bangkanai Bhd is the holder of 15% participating interest in the Bangkanai PSC. Salamander Simenggaris is the holder of 21% participating interest in the Simenggaris PSC. Meanwhile, Salamander Bengara is the holder of 41.67% participating interest in the Bengara PSC.

With the signing of the agreement but subject to the consummation of the transaction,
(i) Bangkanai Bhd shall assign its participating interest in the Bangkanai PSC to Salamander Bangkanai;
(ii) Salamander Simenggaris shall transfer its participating interest in Simenggaris PSC to Medco Simenggaris;
(iii) Salamander Bengara shall transfer its participating interest in Bengara PSC to Medco Bengara.

Upon fulfillment of all conditions precedent in the Swap Agreement, including obtaining the approval of the Government of Indonesia and SKKMIGAS, the holders of the participating interests in the respective PSCs will be changed as follows:
(i) Bangkanai Bhd will no longer have a participating interest in the Bangkanai PSC;
(ii) Medco Simenggaris will have a 62.5% participating interest in the Simenggaris PSC; and
(iii) Medco Bengara will have a 100% participating interest in the Bengara PSC.

viii. Joint Venture to Market LNG

In October 2010, the Group and its partners in the Senoro Downstream Gas Development Project which are also shareholders of DSLNG namely, PT Pertamina (Persero) (Pertamina) and Mitsubishi Corporation (MC), signed the Principles of Marketing Cooperation Agreement to do joint marketing of LNG (MJV HOA) with Chubu Electric Power Co, Inc (Chubu). Under the MJV HOA, Chubu, Pertamina, MC and the Group will cooperate to market LNG purchased by Chubu and to be transferred to other potential buyers.

ix. Extension of PSCs

In October 2010, the Government of the Republic of Indonesia through the Badan Pelaksana Usaha Hulu Minyak dan Gas Bumi (BPMIGAS, now known as SKKMIGAS) approved the extension of the respective Production Sharing Contracts (PSC) of South Sumatra Working Blocks, Block A and Bawean.

The extension of South Sumatra PSC is valid for 20 (twenty) years, which will be effective from November 28, 2013 to November 27, 2033 with a commitment value of US$24 million.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

The extension of PSC Bawean is valid for a period of 20 (twenty) years from February 12, 2011 to February 11, 2031 with a commitment value of US$50.5 million.

For Block A PSC, the PSC extension has also been agreed to by the Government of Aceh in accordance with the provisions of Law No. 11 Year 2006 on the Governing of Aceh. The extension of Block A PSC is for 20 (twenty) years effective from September 1, 2011 to August 31, 2031.

In addition to the rights and obligations of the contractors as set forth in the amended and restated Production Sharing Contract for Block A in Aceh, the contractors agreed, among other matters, to allocate, at the minimum 1% of the total revenues from the yearly production as their contribution to community development programs in accordance with the Memorandum of Agreement between PT Medco E&P Malaka and the Aceh Provincial Government dated April 5, 2010.

x. LNG Purchase and Sell Agreement

In October 2010, PT Donggi Senoro LNG (DSLNG), which was 20% owned by the Group at that time, signed the amended and restated Agreement on the Principles for the Sale and Purchase of LNG (A&R LNG HOA) with Chubu Electric Power Co, Inc. Based on the A&R LNG HOA, Chubu will buy as much as 1 million tons of LNG per year from DSLNG for a period of 13 years starting in 2014. LNG will be produced by the LNG refinery to be owned by DSLNG starting in 2014.

In April 2011, the Group’s equity ownership in DSLNG was diluted from 20% to 11.1% since the Group did not subscribe to the new shares issued by DSLNG in 2011.

xi. Building Rental

The Group has a lease agreement with PT Api Metra Graha to rent office space at The Energy Building for 5 years starting in the middle of 2009. The rental is paid on a quarterly basis in advance.

The remaining rental commitment on The Energy Building amounts to US$7 million which represents the rental cost for 1.5 years.

xii. 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), 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 SKKMIGAS to carry out CBM development activities in Muralim Block, South Sumatra.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

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

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.

Based on Notarial Deed No. 26 dated February 18, 2011 of Karlita Rubianti, S.H., PT Medco Energi CBM Indonesia established PT Medco CBM Bengara with initial paid-in capital amounting to Rp4,000,000,000. PT Medco Energi CBM Indonesia's investment together with share ownership of PT Medco Energi Nusantara's in PT Medco CBM Bengara amounting to Rp1,000,000,000, represents share ownership of 100%.

On August 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 SKKMIGAS to carry out Coal Bed Methane (CBM) development activities in Lematang Block, South Sumatra.

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, represents equity interest of 100%.

xiii. 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$307.3 million as of December 31, 2012. These investments are presented as part of "Short-term Investments" in the consolidated statements of financial position (Note 5).

xiv. Crude Oil Transaction

In December 2008, the Group entered into a Crude Oil Sale and 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.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

xiv. Crude Oil Transaction (continued)

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

The 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 occured in January 2012.

xv. Development of Potential Geothermal Energy Resources

(a) In April 2007, the Group and Kyushu Electric Power (KEP) signed The Development of Joint Business and Joint Cooperation Agreement that is a joint venture base in the future for electric power business.

(b) In April 2007, a non-institution Consortium formed by the Group together with Ormat International Inc and Itochu Corporation, entered into an agreement with PT PB Power Indonesia (PBPI), whereby PBPI agreed to provide certain services to the Sarulla Project.

xvi. Operation and Maintenance Agreement

Under an Operation and Maintenance Agreement (O&M Agreement) entered into by the Consortium of Fortum and the Group with PT Perusahaan Listrik Negara (Persero) (PLN) in 2005, a Special Purpose Company (SPC) was established to be the Operator of the Tanjung Jati B coal fired steam power plant and be responsible for the execution of the services as stated in the O&M agreement for 23 years. For this purpose, in April 2006, PT TJB Power Services (TJBPS), a subsidiary then, was established to undertake the role as the Operator.

For the operation and maintenance services, TJBPS earns annual fees in Rupiah and US Dollars throughout the contract term, which are adjusted in line with inflation, exchange rates and the level of future operations.

Upon the divestment of MPI in 2011, TJBPS ceased to be a subsidiary and became an associated entity.

xvii. 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 base on the terms stipulated in the agreement.

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.

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

xviii. Purchase of Electric Power Agreement

(a) PT Mitra Energi Batam (MEB), a former subsidiary, has a Power Purchase Agreement with PT Pelayanan Listrik Nasional Batam (PLN Batam). In accordance with the agreement, MEB procured, operates and maintains 2 Gas Turbine Generator Dual Fuel units, and PLN Batam is required to purchase the electricity generated by the units. The units commenced electricity production in 2004.

Under the Agreement, PLN Batam is required to purchase certain minimum kwh per year throughout the contract years, at certain prices which comprise of capital investment, fuel, maintenance and overhead components.

(b) PT Dalle Energy Batam (DEB), a former subsidiary, has a Power Purchase Agreement with PT Pelayanan Listrik Nasional Batam (PLN Batam). In accordance with the agreement, DEB procured, operates and maintains 2 Gas Turbine Generator units and Chiller, and PLN Batam is required to purchase the power supply generated by the units over a period of 12 years until 2018 (which was extended to 15 years until 2025) commencing from the commercial operation date of the Combined Cycle Plant. The units commenced electricity production in 2005 and 2006.

Under the Agreement, PLN Batam is required to purchase certain minimum kwh per year throughout the contract years, at certain prices as stated in the agreement.

Upon the divestment of MPI in 2011, MEB and DEB ceased to be subsidiaries and became associated entities.

xix. Methanol Bunyu Refinery Operations Agreement

In April 1997, the Group entered into an Operations Agreement with Pertamina (Operation Agreement) related to the Bunyu Methanol Plant, which was valid for 20 years effective from April 1, 1997. Under this agreement, Pertamina agreed to hand over the responsibilities to operate the management of the Bunyu Methanol refinery to the Group. As compensation, the Group agreed to pay a fixed rental fee and a non-fixed rental fee in US Dollars equivalent to the sales of methanol produced, with the price determined in accordance with the agreement.

Due to the continuing decline in gas supply, on February 1, 2009, the Group decided to close down the methanol plant, and subsequently proposed to Pertamina the termination of the Operation Agreement. On December 17, 2009, the Group and Pertamina entered into Agreement for the Early Termination of the Operation Agreement. On December 29, 2009, the Group and Pertamina signed minutes for the return of the Bunyu Methanol plant to Pertamina. Under these agreements, the Group is obligated to perform reconditioning of the methanol plant. An obligation relating to the reconditioning estimated at US$6.7 million was accrued in the consolidated financial statements. As of the date of the completion of the consolidated financial statements, the Group is still in the process to perform reconditioning of the methanol plant.

On August 6, 2012, MDI represented by Bambang W. Sugondo and PT Pertamina (Persero) represented by Chrisna Damayanto have signed the agreement on the lease of Methanol Bunyu refinery plant. Based on the agreement, Pertamina will lease the plant to MDI for 11 years after gas supply becomes available with annual lease fee of US$1,670,000. The agreement also included all the obligations from previous operation or known as early termination of the agreement ("Kesepakatan Pengakhiran Lebih Awal"). Besides the annual fee, MDI and Pertamina will also share the benefits and risks through profit and loss sharing scheme with composition of 60% for MDI and 40% for Pertamina. The effectivity of this

43. SIGNIFICANT CONTRACTS, AGREEMENTS AND COMMITMENTS (continued)

c. Other Agreements (continued)

xix. Methanol Bunyu Refinery Operations Agreement (continued)

transaction is subject to some conditions precedent. i.e.: corporate approvals of each party and the execution of the gas sale agreement between the Konsorsium PT Pertamina Gas - PT Medco Gas Indonesia as the seller and MDI as the buyer.

On October 24, 2012, PT Medco Simenggaris received a letter from SKKMIGAS stating that the Gas Sale and Purchase Agreement between JOB Simenggaris (PJBG JOB Simenggaris) and the Consortium for Methanol Bunyu refinery (KMB), based on some considerations, will be terminated. This agreement has been cancelled and MMB has the obligation to perform the reconditioning of the Bunyu methanol refinery until the refinery can be operated again under normal conditions [Note 43(c)(iii)].

44. CONTINGENCIES

a. Litigations

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 interest 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 field in its original condition.

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

Based on the decision of the Supreme Court No. 431K/Pdt/2011 on May 31, 2011, the plaintiff's appeal was rejected and to date, 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).

44. CONTINGENCIES (continued)

a. Litigations (continued)

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

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.

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.

Based on website *http://kepaniteranaan.mahkamahagung.co.id*, it was known that on July 30, 2012, the Supreme Court has decided to grant the memorandum of cassation filed by the Group with PT Pertamina (Persero) and MC. Thus, this Supreme Court decision cancels the decision of the District Court of Central Jakarta and the above decision of the KPPU.

As of the date of the completion of the consolidated financial statements, the Group has yet to receive the copy of the said Supreme Court decision. 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.

iii. Legal Claim of PT Permata Alchemy Sejahtera

In 2011, PT Permata Alchemy Sejahtera (Plaintiff) filed a lawsuit against PT Medco E&P Rimau (Defendant), a Subsidiary, in the South Jakarta District Court for unlawful act regarding the execution of the contract No. 3510002608 about technichal service, procurement, and construction contract of work of clean water facility and production facility for Enhanced Oil Recovery Project in Kaji field, Rimau, South Sumatra. The plaintiff demanded that the defendant pay compensation for material and non-material loss of approximately Rp23.6 billion and Rp1trillion, respectively. PT Medco E&P Rimau is currently considering to sue and request for compensation from the plaintiff for the damage and potential losses related to the delay in the implementation of the contract. The case is being processed in the South Jakarta District Court. On June 21, 2012, the lawsuit of PT Permata Alchemy Welfare (Plaintiff) against PT Medco E&P Rimau (Defendant) with Registration No. 537/Pdt.G/2011/ PN.Jkt.Sel. at the South Jakarta District Court was disqualified by the judges. PT Medco E&P Rimau believes that the legal case filed by the Plaintiff has no strong legal basis. Accordingly, no provision for the litigation was recognized in the consolidated financial statements.

44. CONTINGENCIES (continued)

a. Litigations (continued)

iv. Legal Claim of PT Rio Kurnia Pratama

In 2011, PT Rio Kurnia Pratama (Plaintiff) filed a lawsuit against PT Medco E&P Rimau (Defendant), a Subsidiary, in South Jakarta District Court. The plaintiff demanded that the defendant pay compensation of Rp9.2 billion for material losses and Rp50 billion for non-material losses. The plaintiff claimed that the defendant did not comply with the law in regard to the termination of Contract No. 3510002261 for transportation of crude oil from Sei Karas, Ukui, Kayu Ara to the Terminal. The Defendant believes that the termination of the contract was in accordance with the agreement. Based on the results of the judges' deliberation, the judges of the South Jakarta District Court on July 2, 2012, decided that the Court has no authority to prosecute this case. PT Medco E&P Rimau believes that the lawsuit filed by the Plaintiff has no strong legal basis, therefore no provision for the lawsuit was recognized in the consolidated financial statements.

v. Arbitration against PT Pertamina (Persero) and PT Pertamina EP

On June 7, 2012, PT Medco E&P Indonesia and PT Medco E&P Kalimantan (Medco) filed an arbitration case based on International Chamber of Commerce (ICC) Rules of Arbitration against PT Pertamina (Persero) and PT Pertamina EP, with respect to unpaid invoices amounting to US$3.5 million related to Medco's entitlement of the TAC East Kalimantan before the handover of TAC East Kalimantan from Medco to PT Pertamina (Persero). On July 10, 2012, PT Pertamina (Persero) filed a lawsuit against Medco and PT Pertamina EP (co-defendant) because that involved PT Pertamina (Persero) as a Respondent in the arbitration court, whereas Medco and PT Pertamina EP knew that PT Pertamina's position is no longer as part of the Technical Assistance Contract (TAC). In its lawsuit, PT Pertamina (Persero) asks Medco to revise the arbitration case and pay both material and immaterial compensations amounting to Rp200 million and Rp5 billion. On August 31, 2012, based on the minutes of meeting between Medco and PT Pertamina EP, both sides agreed to create a Settlement Agreement which states that PT Pertamina EP agrees to pay the invoice. In return, Medco will withdraw the arbitration case against PT Pertamina EP and PT Pertamina (Persero) after its receipt of the invoice payment. On the other hand, PT Pertamina EP will ask PT Pertamina (Persero) to revoke the aforementioned lawsuit. PT Pertamina (Persero) has formally withdrawn the arbitration case and the District Court of South Jakarta has issued the final decision which is binding on November 21, 2012.

vi. Arbitration against Singapore Petroleum Sampang Ltd (SPC) and Cue Sampang Pty Ltd (Cue)

On August 10, 2012, Medco Strait Services Pte Ltd, a Subsidiary, served a Notice of Arbitration to Singapore Petroleum Sampang Ltd (SPC) and Cue Sampang Pty Ltd (Cue) to recover its claims from these two parties totaling about US$35.06 million relating to the Subsidiary's investment in the Jeruk Project. As of the completion date of these consolidated financial statements, there has been no significant progress on this case.

vii. Muslim A. Ganli Lawsuit for Land Acquisition 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 Rp1.05 billion.

Management believes that the claim has no strong legal basis, accordingly, no provision for such claim was recognized in the consolidated financial statements.

44. CONTINGENCIES (continued)

b. Government and Joint Venture Audit Claims

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

Resolution of disputed claims may require a lengthy negotiation process extending over a number of years. As of December 31, 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$19.8 million as of December 31, 2012 relative to bonds issued on Medco's behalf to the United States Department of the Interior Minerals Management 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 was spudded on 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)

45. 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	4,245,658	9,046,062
Ending balance	69,095,595	64,849,937
Escrow accounts	(29,847,525)	(26,590,264)
Ending balance - net	39,248,070	38,259,673
United States of America (USA)		
Beginning balance	15,498,319	18,240,279
Additions during the year	929,157	929,257
Partial divestment of US assets	-	(3,671,217)
Ending balance	16,427,476	15,498,319
Total	**55,675,546**	**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 consolidated statements of financial position are sufficient to meet the environmental obligations resulting from future site restoration and asset abandonment.

The above escrow accounts are placed 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. Escrow accounts placed in PT Bank Mandiri (Persero) Tbk will be used to fund the reclamation area in connection with mining operations.

46. 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.

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 recovered and normal activity has resumed. The Group has total capitalized exploration expenditures of US$155 million or 6% of the Group's total consolidated assets as of December 31, 2012. Those 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.

47. SIGNIFICANT SUBSEQUENT EVENTS

i. On February 1, 2013, the Company made an early repayment of its Working Capital Credit Facility Year 2011 obtained from PT Bank Negara Indonesia (Persero) Tbk amounting to US$50,000,000. After such repayment, the remaining outstanding debt under this facility amounted to US$65 million which will mature in July 2016.

ii. On January 31, 2013, the Company made an early repayment of its Loan Facility obtained from the Bank of Tokyo-Mitsubishi UFJ (BTMU) amounting to US$20 million and canceled the outstanding Standby Credit Loan Facility from BTMU. With this repayment and cancellation, the Company no longer has loan payable to BTMU.

iii. On March 3, 2013, PT Medco E & P Lematang made an early repayment of the outstanding balance of the Syndicated Credit Facility Tranche A with PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Central Asia Tbk amounting to US$31 million as of December 31, 2012.

iv. On February 3, 2013, the Company repaid the Medium Term Notes I Series B Phase II of US$500,000.

v. In March 2013, the Company entered into a Credit Agreement with PT Bank Mandiri (Persero) Tbk to extend the Working Capital Credit Facility of US$50 million that has expired. The credit facility will mature on March 12, 2014.

vi. In February 2013, the Company entered into a Credit Agreement with PT Bank ICBC Indonesia to extend the Working Capital Credit Facility of US$10 million that has expired. The credit facility will mature on February 25, 2014.

vii. Based on the Notarial Deed No. 21 dated February 3, 2013 of Edwar S.H., PT Medco Ethanol Lampung agreed to sell its entire 50% share ownership (5,000 shares) in PT Bumi Agro Lampung (BAL) with total par value of Rp125,000,000 to PT Medco Service Indonesia (MSI) at a price of Rp1. After the divestment, MSI has a 99.99% ownership in BAL and PT Usaha Tani Sejahtera (UTS) has a 0.01% ownership.

viii. On January 30, 2013 ("effective date"), PT Duta Tambang Rekayasa, a Subsidiary of PT Medco Energi Mining Internasional, and Transammonia AG signed a long-term coal purchase agreement (004/CSPC/I/2013) whereby PT Duta Tambang Rekayasa (DTR) agrees to sell 300,000 metric tons of coal with optional tonnage of +/- 10% at the buyer's option. The coal will be delivered over the period from February 2013 to December 2013. Each delivery will be done every two months, i.e., February 2013, April 2013, June 2013, August 2013, October 2013, December 2013, with maximum quantity per shipment of 50,000 metric tons with optional tonnage of +/- 10% at the buyer's option, at a price of US$82.50 per metric ton, loaded from Nunukan Port, North Kalimantan, Indonesia. For the month of February 2013, DTR generated revenues of US$4,561,975 from the sale of coal.

ix. On February 20, 2013 ("effective date"), PT Duta Tambang Rekayasa and Transammonia AG signed a purchase agreement (005/CSPC/II/2013) where PT Duta Tambang Rekayasa agrees to sell 50,000 metric tons of coal with an optional tonnage of +/- 10% at the buyer's option, at a price of US$83.00 per metric ton loaded from the Nunukan Port, North Kalimantan, Indonesia.

x. On March 15, 2013, the Company entered into cross-currency swaps with four banks in Indonesia to hedge the risk of fluctuations in foreign currency exchange rates on the issuance of the Rupiah Shelf Registered Bonds Medco Energi Internasional Phase II with a term of five years amounting to Rp1.5 trillion.

xi. On March 15, 2013, PT Exspan Petrogas Intranusa made an early repayment of its loans to PT Bank Danamon Indonesia Tbk amounting to US$4,611,973 and PT Bank CIMB Niaga Tbk amounting to US$19,380,027. Under the loan agreements, the loans will be due on May 26, 2019 and September 6, 2019, respectively.

(Expressed in United States Dollars, unless otherwise stated)

48. RECLASSIFICATIONS AND RESTATEMENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

In 2012, the Group restated its consolidated financial statements as of December 31, 2011 and January 1, 2011/December 31, 2010 and for the year ended December 31, 2011 to adjust and reclassify property, plant and equipment, finance lease receivable, deferred tax assets (liabilities) and related profit and loss accounts in connection with the application of PSAK No. 30, "Leases" on electric power plant transactions, PSAK No. 64, "Exploration for and Evaluation of Mineral Resources", and PSAK No. 58, "Non-current Assets Held for Sale and Discontinued Operations".

The following presents the effects of the above mentioned restatements:

	2011			
	As previously reported	Reclassifications	Adjustments	After reclassifications and adjustments
Consolidated statement of financial position				
Non-current assets				
Other receivable - third parties	12,663,546	-	71,987	12,735,533
Long-term investments	132,315,027	-	3,827,373	136,142,400
Property, plant and equipment	116,347,753	(10,195,204)	-	106,152,549
Exploration and evaluation assets	-	84,303,410	6,498,791	90,802,201
Oil and gas properties	828,552,860	(67,605,706)	-	760,947,154
Other assets	38,858,785	(6,502,500)	-	32,356,285
Current liabilities				
Current maturities of long-term debts – bank loans	291,675,148	46,216	-	291,721,364
Accrued expenses and other provisions	67,734,171	(217,708)	-	67,516,463
Current portion of post-employment benefits obligations	-	217,708	-	217,708
Non-current liabilities				
Deferred tax liabilities	78,248,136	-	(1,994,308)	76,253,828
Bank loans	466,382,311	(46,216)	71,987	466,408,082
Consolidated statement of changes in equity				
Equity				
Retained earnings				
Unappropriated	634,672,441	-	12,320,472	646,992,913
Effect of divestment of subsidiaries	(24,606,825)	-	(3,021,708)	(27,628,533)
Consolidated statement of comprehensive income				
Income from lease of electric power plants and related services	96,469,336	(90,997,056)	(5,472,280)	-
Net sales of chemical and petroleum products	237,692,254	(229,108,255)	-	8,583,999
Cost of electric power plant leases and related services	(56,124,201)	56,124,201	-	-
Cost of sales of chemical and other petroleum products	(234,933,401)	226,202,877	-	(8,730,524)
Depreciation, depletion and amortization	(109,424,152)	609,029	8,072,655	(100,742,468)
Exploration expenses	(34,527,314)	-	10,281,442	(24,245,872)
Selling, general and administrative expenses	(150,899,254)	21,774,568	(1,428,770)	(130,553,456)
Finance costs	(89,499,052)	11,912,629	-	(77,586,423)
Finance income	9,479,235	(582,414)	-	8,896,821
Other expenses	(11,742,762)	994,678	-	(10,748,084)
Loss on impairment of assets-net	(16,996,544)	-	(4,765,788)	(21,762,332)
Gain on disposal of subsidiaries	78,416,575	-	(4,052,355)	74,364,220
Other operating income	13,827,059	(2,540,176)	2,392,715	13,679,598
Income tax expense	(125,058,051)	2,448,098	1,840,372	(120,769,581)
Translation adjustments	(2,097,858)	-	75,488	(2,022,370).
Profit after tax expense from discontinued operations	-	3,161,821	-	3,161,821
Profit attributable to equity holders of the parent company	85,073,777	-	5,864,995	90,938,772
Profit from continuing operations attributable to non-controlling interests	4,145,758	(2,516,259)	1,002,996	2,632,495
Profit from discontinued operations attributable to non-controlling interests	-	2,516,259	-	2,516,259
	89,219,535	-	6,867,991	96,087,526

(Expressed in United States Dollars, unless otherwise stated)

48. RECLASSIFICATIONS AND RESTATEMENTS OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

	2011			
	As previously reported	Reclassifications	Adjustments	After reclassifications and adjustments
Total comprehensive income attributable to				
Equity holders of the parent company	81,398,644	-	5,938,218	87,336,862
Non-controlling interests				
From continuing operations	5,723,033	(4,095,799)	1,005,261	2,632,495
From discontinued operations	-	4,095,799	-	4,095,799
	87,121,677	**-**	**6,943,479**	**94,065,156**
Consolidated statement of cash flows				
Cash paid to suppliers and employees	(793,513,708)	-	6,498,791	(787,014,917)*)
Additions to oil and gas properties	(127,139,984)	90,902,201	(44,262,772)	(80,500,555)
Additions to exploration				
and evaluation assets	-	(90,802,201)	37,663,981	(53,138,220)

*) this figure includes reclassifications and adjustments for both continuing and discontinued operations.

	2010			
	As previously reported	Reclassifications	Adjustments	After reclassifications and adjustments
Consolidated statement of financial position				
Current assets				
Finance lease receivables - net	-	-	16,845,899	16,845,899
Non-current assets				
Finance lease receivables - net	-	15,002,152	95,678,337	110,680,489
Property, plant and equipment	252,757,374	(27,251,778)	(102,051,529)	123,454,067
Exploration and evaluation assets	-	42,776,236	983,139	43,759,375
Oil and gas properties	839,660,802	(24,024,110)	-	815,636,692
Other assets	41,816,583	(6,502,500)	-	35,314,083
Non-current liabilities				
Deferred tax liabilities	68,060,310	-	3,057,145	71,117,455
Equity				
Translation adjustments	3,651,276	-	(73,223)	3,578,053
Retained earnings				
Unappropriated	571,596,977	-	6,455,477	578,052,454
Non-controlling interests	28,775,488	-	2,016,447	30,791,935

49. 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.

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

The issuance of the consolidated financial statements of the Group was approved and authorized by the Board of Directors on March 15, 2013.

(Expressed in United States Dollars, unless otherwise stated)

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., Netherland, Sewell & Associates, Inc. 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				December 31, 2012
Indonesia Assets							
1	Production	Rimau [1]	37,334	363	-	5,466	32,231
2	Production	Kampar/S.S. Extension [1]	33,447	30,713	-	10,597	53,563
3	Production	Lematang (Lapangan Singa) [1]	8,084	1,100	-	1,805	7,379
4	Production	Tarakan [1]	3,809	583	-	1,155	3,237
5	Production	Sembakung [1]	1,200	779	-	803	1,176
6	Production	Senoro Toili (Tiaka Field) [1]	303	869	-	134	1,038
7	Production	Bawean [1]	11,237	(5,367)	-	474	5,396
8	Development	Senoro Toili (Senoro Gas Field) [2]	67,248	-	-	-	67,248
9	Development	Block A [3]	7,818	-	-	-	7,818
10	Development	Simenggaris [4]	-	1,366	-	-	1,366
11	Development	Bangkanai [7]	-	3,333	-	-	3,333
	Sub-total		**170,480**	**33,739**	**-**	**20,434**	**183,785**
International Assets							
		United States [5]					
1	Production	East Cameron 316/317/318	1,992	-	-	102	1,890
2	Production	Main Pass 64/65	5,147	-	-	206	4,941
		Libya [6]					
3	Development	Libya 47	-	30,612	-	-	30,612
		Yemen[9]					
4	Production	Yemen 9	-	6,250	-	379	5,871
	Sub-total		**7,139**	**36,862**	**-**	**687**	**43,314**
	Total Proved Reserves		**177,619**	**70,601**	**-**	**21,121**	**227,099**

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

(Expressed in United States Dollars, unless otherwise stated)

RESERVES ESTIMATION (continued)

Proved and Probable (in MBOE*)

			Beginning balance	Addition or revision	Sale of assets	Production	Ending balance
			December 31, 2011				December 31, 2012
Indonesia Assets							
1	Production	Rimau [1]	46,721	(2,753)	-	5,466	38,502
2	Production	Kampar/S,S, Extension [1]	45,656	24,931	-	10,596	59,991
3	Production	Lematang (Singa Field) [1]	10,114	671	-	1,805	8,980
4	Production	Tarakan [1]	5,265	(208)	-	1,155	3,902
5	Production	Sembakung [1]	1,599	491	-	804	1,286
6	Production	Senoro Toili (Tiaka Field) [1]	1,516	1,163	-	134	2,545
7	Production	Bawean [1]	14,133	(6,389)	-	474	7,270
8	Development	Senoro Toili (Senoro Gas Field) [2]	71,346	(1)	-	-	71,345
9	Development	Block A [3]	22,067	-	-	-	22,067
10	Development	Simenggaris[4]	-	1,366	-	-	1,366
11	Development	Bangkanai[7]	-	3,333	-	-	3,333
	Sub-total		**218,417**	**22,604**	**-**	**20,434**	**220,587**
International Assets							
		United States [5]					
1	Production	East Cameron 316/317/318	3,303	-	-	101	3,202
2	Production	Main Pass 64/65	6,334	-	-	206	6,128
		Libya [6]					
3	Development	Libya 47	-	51,974	-	-	51,974
		Yemen[9]					
4	Production	Yemen 9	-	12,442	-	379	12,063
	Sub-total		**9,637**	**64,416**	**-**	**686**	**73,367**
	Total Proved and Probable Reserves		**228.054**	**87,020**	**-**	**21,120**	**293,954**
Contingent Resources							
1	Development	Senoro Toili (Senoro Gas Field) [2]	27,128	49,582	-	-	76,710
2	Exploration	Bangkanai [10]	3,638	(3,333)	-	-	305
3	Development	Simenggaris [8]	10,535	(1,366)	-	-	9,169
4	Exploration	Libya [6]	175,850	(96,413)	-	-	79,437
5	Exploration	Yemen 9	-	5,139	-	-	5,139

(1) The Group's reserve estimates per December 31, 2011 were certified in the Report of Netherland, Sewell & Associates, Inc. (NSAI) dated April 27, 2012, based on the Group's effective working interest.

(2) The Group's reserve estimates for Senoro Toili Block Gas field were certified in the Report of Gaffney, Cline & Associates (GCA) dated February 1, 2010 with effective working interest of 30%.

(3) The Company's reserves estimates for Block A were certified in the Report of Gaffney, Cline & Associates as of December 31, 2007, with effective working interest of 41.67%. In 2010, PSC extension up to 2031 was obtained.

(4) Proved reserves estimates for Simenggaris Block is based on Nunukan Gas Sales Agreement (GSA) with working interest of 41.5%.

(5) The Group's reserves estimates for the US assets were derived from the NSAI Report as of December 31, 2010.

(6) The Company had already been granted the commercial rights for A,D and F structure on December 14, 2011, therefore the Company decided to move the portion of contingent resources to Proved and Probable reserves with 25% participating interest (based on the Company's participating interest after the declaration of commerciality). The Company's contingent reserve estimates for Libya Block are based on DeGoyler MacNaughton's evaluation as of September 30, 2008 and in-house estimates, with effective working interest of 25%, which represents 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 as to what extent of the reserves will be commercially viable to produce. 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 that can be recovered will be greater or less than the Best Estimate.

(7) Reserve estimates for the Bangkanai Block were based on the Gas Sales Agreement with PLN Bangkanai with working interest of 15%.

(8) The remaining contingent reserve estimates for Simenggaris Block were based on reserves certification by LAPI ITB in the month of May 2008 with working interest of 41.5%.

(9) The Group's reserves estimates for Yemen 9 Block were certified in the Report of McDaniel & Associates Consultants Ltd signed on February 16, 2012 with effective working interest of 21.25%.

(10) Contingent reserves estimates for the Bangkanai Block were based on the 2005 study by LAPI ITB with working interest of 15%.