MEI EURO FINANCE LIMITED

(incorporated with limited liability under the laws of Mauritius)

U.S.$100,000,000

10.00% Guaranteed Notes due 2007

guaranteed by

MEDCO ENERGI

PT MEDCO ENERGI INTERNASIONAL TBK

(incorporated with limited liability under the laws of the Republic of Indonesia)

Issue Price: 98.093%

The U.S.$100,000,000 10.00% Guaranteed Notes due 2007 (the "**Notes**") to be issued by MEI Euro Finance Limited (the "**Issuer**") will bear interest from 19 March 2002 at the rate of 10.00% per annum payable semi-annually in arrear on 19 March and 19 September each year commencing on 19 September 2002. Payments on the Notes will be made in U.S. dollars without deduction for or on account of taxes imposed or levied by Mauritius or the Republic of Indonesia ("**Indonesia**") to the extent described under "*Terms and Conditions of the Notes — Taxation*". PT Medco Energi Internasional Tbk (the "**Guarantor**") will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 19 March 2002 (the "**Closing Date**") with a common depositary for Euroclear Bank, S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of U.S.$1,000 each and with interest coupons attached. The Notes will be traded in minimum board lot size of U.S.$200,000 as long as any of the Notes remain listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). See *"Summary of Provisions Relating to the Notes in Global Form"*.

The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in Mauritius or Indonesia. See *"Terms and Conditions of the Notes — Redemption"*. Except as set forth thereunder, the Notes will mature on 19 March 2007.

A copy of this document has been lodged with the Registrar of Companies and Businesses in Singapore as an information memorandum for the purposes of Section 106D of the Companies Act, Chapter 50 of Singapore. The Registrar of Companies and Businesses in Singapore takes no responsibility as to the contents of this document.

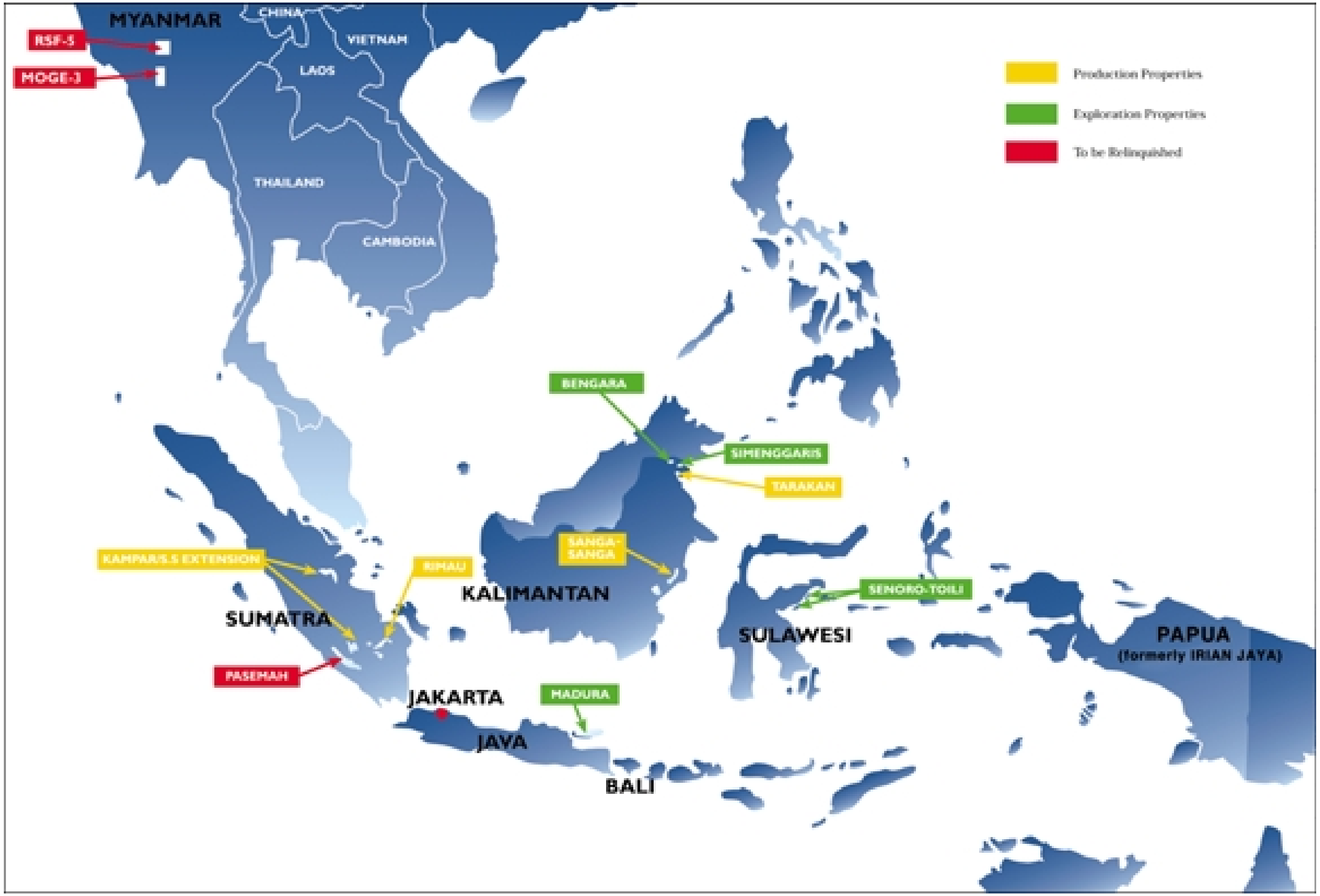
Approval in-principle has been obtained for the listing of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor or the Notes.

Investing in the Notes involves certain risks. See "Risk Factors" on page 18.

Credit Suisse First Boston

The date of this Offering Circular is 12 March 2002.

EXPLORATION AND PRODUCTION BLOCKS OF THE COMPANY



Each of the Issuer and the Guarantor has confirmed to Credit Suisse First Boston (Europe) Limited, the lead and sole manager (the "**Manager**"), that this Offering Circular contains all information regarding the Issuer, the Guarantor and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing. The Issuer and the Guarantor accept responsibility for the information contained in this Offering Circular.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Manager.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*".

This Offering Circular has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. Accordingly, the Notes may not be offered or sold, nor may this Offering Circular or any other offering document or material relating to the Notes be circulated or distributed, directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50 of Singapore (the "**Singapore Companies Act**"), (2) to a sophisticated investor, and in accordance with the conditions, specified in, Section 106D of the Singapore Companies Act or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Companies Act.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Manager (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

This Offering Circular may only be distributed or passed on outside Indonesia to persons who are neither citizens of Indonesia (wherever located) nor residents in Indonesia. The Notes may not be offered or sold, directly or indirectly, in Indonesia in a manner which constitutes a public offering under the laws and regulations of Indonesia.

In connection with the issue of the Notes, the Manager may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Manager to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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CONVENTIONS

In this Offering Circular, all references to (i) the "**Issuer**" are MEI Euro Finance Limited, (ii) the "**Guarantor**" are to PT Medco Energi Internasional Tbk, and (iii) the "**Company**" are to the Guarantor and its consolidated subsidiaries.

Certain terms used herein are defined in the "**Glossary**". All references herein to "**Indonesia**" are references to the Republic of Indonesia. References to the "**United States**" or "**U.S.**" are to the United States of America. References herein to "**U.S.$**", "**$**" or "**U.S. dollars**" are to United States dollars and references to "**Rupiah**" or "**Rp.**" are to Indonesian Rupiah. Certain amounts (including percentage amounts) have been rounded for convenience; as a result, certain figures may not sum to total amounts or equal quotients.

The government of Indonesia (the "**Government**") owns all of Indonesia's oil and gas resources. The Indonesian state owned oil and gas company, Perusahaan Pertambangan Minyak dan Gas Bumi Negara ("**Pertamina**"), currently manages all of Indonesia's oil and gas resources on behalf of the Government and, in certain cases, enters into production sharing arrangements with private energy companies entitling such private energy companies to a portion of the production from the fields in the applicable production sharing area. The Company reserve information presented in this Offering Circular is based on estimates of reserves underlying the properties in which the Company has an interest under production sharing arrangements with Pertamina. All oil and natural gas reserve and production volumes presented in this Offering Circular are, unless otherwise indicated, gross to the Company and reflect its working interest prior to deduction of applicable Government take payable to the Government as owner of the reserves under the applicable contractual arrangement. All Pertamina interests, other than working interests and income and revenue taxes, are considered to be Government take. Unless otherwise indicated, references to "**crude oil**" or "**oil**" include condensate. Natural gas equivalents and crude oil equivalents are determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

CURRENCY OF PRESENTATION AND EXCHANGE RATES

The Company publishes its financial statements in Indonesian Rupiah and in accordance with generally accepted accounting principles in Indonesia ("**Indonesian GAAP**"). Solely for the convenience of the reader, this Offering Circular contains translations from Rupiah amounts to U.S. dollars at specified rates. For convenience, certain Rupiah amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate of Rp.9,675 = U.S.$1.00, being the middle market spot rate of exchange for Rupiah against U.S. dollars quoted by Bank Indonesia on 28 September 2001 unless otherwise specified. Such translations should not be construed as representations that the Indonesian Rupiah or U.S. dollar amounts referred to could have been or could be, converted into Rupiah or U.S. dollars, as the case may be, at that or any other rate or at all. See below for further information regarding rates of exchange between Rupiah and U.S. dollars.

Prior to 14 August 1997, Bank Indonesia maintained the value of the Rupiah based on a basket of currencies of Indonesia's main trading partners. In July 1997, the exchange rate band was widened, and on 14 August 1997, Bank Indonesia announced that it would no longer intervene to maintain the exchange rate at any pre-determined level, if at all.

The following table shows the exchange rate of Rupiah for U.S. dollars based on the middle exchange rates for the periods indicated. The Rupiah middle exchange rate is calculated based on Bank Indonesia buying and selling rates. No representations are made that the Rupiah or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Rupiah, as the case may be, at any particular rate or at all.

	At period end	*Average*(1)	*High*(2)	*Low*(2)
		(Rp. per U.S.$1.00)		
1995	2,308	2,253	2,308	2,207
1996	2,383	2,347	2,383	2,311
1997	4,650	2,952	4,650	2,396
1998	8,025	9,875	14,900	7,300
1999	7,100	7,809	8,950	6,726
2000	9,625	8,505	9,750	6,850
2001				
First quarter	10,415	9,877	11,210	9,275
Second quarter	11,380	11,343	12,215	10,325
Third quarter	9,873	9,340	10,035	8,251
Fourth quarter	10,450	10,055	10,845	8,965
2002				
January	10,320	10,360	10,473	10,331
February	10,189	10,255	10,382	10,217

(1) The average of the middle exchange rate announced by Bank Indonesia on the last business day of each month during the period, other than for January 2002 which is a daily average.

(2) The high and low amounts are determined based upon the month end middle exchange rate announced by Bank Indonesia.

Source: Bank Indonesia

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Offering Circular. Certain oil and gas and other terms are defined under "Glossary". Investors should carefully consider the information set forth in "Risk Factors". Unless the context indicates otherwise, reference in this Offering Circular to the "Company" is to PT Medco Energi Internasional Tbk and its consolidated subsidiaries.

The Company

Founded in 1980, the Company is one of the largest private sector oil and gas companies in Indonesia, where it is engaged in oil and gas exploration and production, onshore and offshore contract drilling and methanol production. As of 1 January 2002, the Company's estimated gross proved reserves of 177.8 MMBOE consisted of 160.5 MMBbls of oil and condensate and 103.9 BCF of natural gas, and the Company's estimated gross proved plus probable reserves of 669.5 MMBOE consisted of 364.0 MMBbls of oil and condensate and 1,833.2 BCF of natural gas. Based on the average daily production during the nine months ended 30 September 2001, the Company had a proved and proved plus probable reserve life index of approximately 5.2 and 19.4 years, respectively. For the last twelve months ended 30 September 2001, the Company had revenues of approximately Rp.4,051.0 billion (U.S$418.7 million) and EBITDA of Rp.2,330.7 billion (U.S.$240.9 million).

Oil and gas exploration and production

The Company currently produces crude oil and natural gas from 590 wells in Sumatra and Kalimantan in Indonesia. For the nine months ended 30 September 2001, the Company produced 21 MMBbls of oil and condensate and 28 BCF of natural gas, which places the Company as the third largest crude oil producer (by volume) in Indonesia. The Company has the right to explore for and produce oil and gas over 26,542 km^2 in Indonesia under production sharing arrangements with Pertamina, Indonesia's national oil company. Under such production sharing arrangements, the Company is generally entitled to recover its costs and earn an after-tax profit share. See "*Industry — Production Sharing Arrangements*." All major contracts entered into by the Company have historically been denominated in U.S. dollars and substantially all of its revenues and a substantial portion of its costs are denominated in U.S. dollars. For the nine months ended 30 September 2001, 63.0% by volume of the Company's net crude entitlement (representing all of the Company's exports) was sold to Mitsui Oil (Asia) Hong Kong Ltd. ("**Mitsui**") (see *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Oil and Gas"*) and the remainder was supplied to Pertamina. The Company's natural gas production is supplied to fertiliser, power and methanol plants. Oil and gas production accounted for approximately 77.6% of the Company's revenues in the nine months ended 30 September 2001.

Contract Drilling

The Company owns a fleet of 12 onshore drilling rigs and three offshore drilling rigs to provide onshore and offshore contract drilling services to oil and gas companies operating mainly in Indonesia. The Company's drilling rigs are used for oil, gas and geothermal exploration and production. The Company's offshore rigs include two submersible rigs capable of operating in water depths of up to eight metres and a jack-up rig capable of operating in water depths of up to 100 metres. In June 2001, the Company and Mesa Drilling AS, a Norwegian company, established a 50:50 joint venture, Mesa Drilling, Inc. ("**Mesa**"), to expand the contract drilling business in the United States. Contract drilling accounted for approximately 14.8% of the Company's revenues in the nine months ended 30 September 2001.

Methanol production

As part of the Company's strategy of creating new markets for its natural gas reserves, the Company assumed the operation of the Bunyu methanol plant in East Kalimantan in April 1997, and currently delivers approximately 28 MMCFD of gas to the plant from its Tarakan field under a 10-year contract with Pertamina expiring in 2007. Methanol production accounted for approximately 7.6% of the Company's revenues in the nine months ended 30 September 2001.

Recent Developments

Acquisition of Indirect Equity Interest by PTT Exploration and Production of Thailand

On 12 December 2001, PTT Exploration and Production PCL of Thailand acting through its offshore subsidiary ("**PTTEP**") acquired a 34.18% indirect equity interest in the Company through the acquisition of 40% of New Links Energy Resources Limited ("**New Links**") (See "*Principal Shareholders*"). Following this acquisition, New Links was required by Indonesian regulations to make a tender offer for those Medco shares owned by public shareholders. Completion of the tender is expected to take place in May 2002. PTTEP has the right of first refusal to purchase 50% of the Company's entitlement to crude oil which the Company can sell by tender. (See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Oil and Gas")*.

Acquisition of Ensearch Far East Limited and EEX Asahan Limited

In January 2002, the Company successfully bid for Ensearch Far East Limited ("**Ensearch**"), which owns 25% interest in the Tuban block, onshore in East Java, and EEX Asahan Limited ("**EEX Asahan**"), which owns 15% interest in the Asahan block, offshore of North Sumatra. Ensearch and EEX Asahan are both subsidiaries of EEX International Inc., a wholly-owned subsidiary of EEX Corporation, a Houston-based independent oil and gas company. The Tuban block is a producing field with gross oil production of 11,000 Bbls/d. The Asahan block is still in the exploration stage. Due diligence has been completed and the completion of these acquisitions is subject to the execution of the respective sale and purchase agreements.

Recent rig blowout

On 1 March 2002, a gas blowout took place in Mahakam Delta in East Kalimantan. One of the Company's three offshore rigs, *Maera*, contracted to TotalFinaElf, was damaged due to fire caused by the blowout. See "*Business — Contract Drilling Operations*".

Business Strengths

The Company believes its key business strengths to be as follows:

Large proved reserves with significant exploitation opportunities

Based on the Company's oil and natural gas reserves as of 1 January 2002 and the Company's average daily production for the nine months ended 30 September 2001, the Company had a proved reserve-to-production ratio of 5.2 years, and a proved plus probable reserve-to-production ratio of 19.4 years. As of 1 January 2002, for oil and natural gas, respectively, 89.9% and 78.9% of the Company's gross proved reserves were classified as gross proved developed. The Company expects its production to grow significantly over the next three to five years as the probable reserve properties begin producing.

High quality assets that enable rapid commercialisation

The Company's high quality production blocks and contract drilling rigs have enabled the Company to rapidly commercialise exploration successes into producing blocks. These properties have increasingly longer reserve lives, mature and established production profiles, abundant natural gas reserves and contain further identified development opportunities. Many of the Company's crude oil and natural gas reserves are located in the Rimau and Extension/Kampar blocks in Sumatra. These blocks have a geographical advantage over other fields because they are concentrated in area and have a mature oil and gas transportation infrastructure that allows relatively easy access to domestic and export markets.

Competitive cost structure

Between 1997 and 2000, the most recent period for which industry data provided by Pertamina is available, the Company had on average the lowest exploration and development costs, and one of the lowest operation and production costs of any oil and gas operator in Indonesia. For the years 1999 to 2001, the Company's average total lifting costs and average finding and development costs were approximately U.S.$1.98 per BOE and U.S.$1.57 per BOE, respectively. Such low costs are achieved through the employment of local professionals, the existing infrastructure in place near the Company's producing blocks and the geographic concentration of its oil fields. The Company believes that its cost structure allows it to compete effectively even in a low crude oil price environment.

Historically successful acquisition strategy

Since 1995, when the Company acquired PT Stanvac Indonesia, a subsidiary of Exxon/Mobil, the Company has successfully grown its oil and gas production from approximately 12,500 Bbls/d and 56 MMCFD for oil and gas, respectively, in 1996 to approximately 77,700 Bbls/d and over 101.4 MMCFD for oil and gas, respectively, in the first nine months of 2001. With the acquisition of the Rimau block in 1995, the Company acquired large oil reserves from which production commenced within 18 months of the acquisition. The Company also acquired large probable oil and gas reserves (285 MMBOE as of 1 January 2002) as a result of acquiring the Senoro-Toili block, currently in the development/exploration stage, from Atlantic Richfield Company ("**Arco**") in 2000. Other recent major acquisitions include the Simenggaris and Madura blocks in 2000 and the Bengara block in December 2001, which are currently in the exploration stage. Recently, the Company has agreed to acquire a 25% interest in the Tuban block, onshore in East Java and a 15% interest in the Asahan block, offshore of North Sumatra. Due diligence has been completed and the completion of these acquisitions is subject to the execution of the respective sale and purchase agreements.

Local Indonesian operator with experienced management team

The Company's Indonesian management team directs the Company's operations using international management practices and has over 20 years' experience in oil and gas exploration, production and contract drilling. As an indigenous and entrepreneurial Indonesian operator with excellent relations with the Government and the oil and gas community, the Company believes that it has an advantage in competing for new blocks and bidding out drilling contracts over other oil and gas companies operating in Southeast Asia.

Business Strategy

The principal components of the Company's strategy are as follows:

Replace and add reserves through exploration and acquisition

The Company will seek to acquire and develop new fields and to increase its exploration activities, building on its successful acquisition and exploration strategies to date. The Company intends to opportunistically and more aggressively acquire oil and gas assets, both mature fields for which significant exploratory data is available, and frontier fields for which no exploratory data is available. The Company's acquisition of the Senoro-Toili block in 2000 significantly increased its total gross proved and probable reserves. The newly acquired blocks of Simenggaris and Madura in 2000 and Bengara in 2001 are being further explored. Due to the global trend of oil and gas industry consolidation and asset rationalisation, the Company believes that it will continue to have opportunities to acquire oil and natural gas properties at attractive rates of return. The Company has identified prospective exploitation projects, both onshore and offshore, and has a proven track record in executing onshore projects quickly and on a cost effective basis.

Establish strategic alliances in selected exploration ventures

The Company has entered into a number of strategic alliances in the past with international oil and gas companies and intends to continue to seek out strategic partners for new and existing projects. These alliances have assisted the Company in sharing its capital costs, developing new markets, enhancing the Company's technological expertise and capitalising on exploration opportunities. These alliances have also diversified the Company's risk profile, allowing the Company to achieve multiple project exposure while diversifying investment risk. As an Indonesian entity with a record as a cost efficient operator and its long-standing relationship with the Government, the Company's management believes that it is well positioned to secure new business with appropriate partners in the future.

Develop new markets for uncommitted natural gas

Asian governments, including the Government, expect a significant growth in natural gas demand, and are making efforts to promote the use of natural gas as a clean and more efficient fuel than coal or oil. The Company intends to capitalise on this growth by continuing to market its uncommitted natural gas reserves and prudently evaluating selective investments in both domestic and export gas projects. With the enactment of the new oil and gas law (see "— *Indonesian Oil and Gas Industry*" and "*Industry — the New Oil and Gas Law*"), the Company will seek to maximise utilisation of its natural gas reserves by entering into working alliances as gas suppliers in the liberalisation of the downstream sector. The aim of such working alliances is to obtain and secure long-term gas contracts with power plants and industrial users, among others, as the new users of natural gas.

Continue to ensure support from local community through implementation of development and social programs

With a view to strengthening relationships with both the regional authorities and local communities, the Company focuses on long-term community development and economic empowerment programs. The Company's community development activities are divided among its various operating areas, in proportion to their relative size. Such activities range from practical job training for local youths to providing public infrastructure such as community roads and public schools. The aim of such programs is to encourage support for the Company's operations from the local communities in light of the currently prevailing spirit of regional autonomy in Indonesia.

Indonesian Oil and Gas Industry

The Government owns all of Indonesia's oil and gas resources. The Indonesian state owned oil and gas company, Pertamina, currently manages all of Indonesia's oil and gas resources on behalf of the Government. Pertamina enters into production sharing arrangements with private energy companies which entitle such private energy companies to a portion of the production from the fields in the applicable production sharing area. A new oil and gas law was enacted in October 2001. Under this new law, the mining authority in Indonesia changes from Pertamina to the Government. Pertamina will become an operator as a limited liability company in 2003 so that Pertamina will be on a par with other oil and gas companies in Indonesia. The new law will also open up opportunities in both upstream and downstream sectors of the oil and gas industry in Indonesia.

Indonesia's oil and gas sector has historically been a key contributor to its economy, and today remains an important contributor of Government export revenues and an important source of foreign exchange for the country. In 2000, exports of oil and gas products accounted for 22.6% of export earnings.

The Company's registered and principal executive office is located at 16th Floor, Graha Niaga, Jl. Jend. Sudirman 58, Jakarta 12190, Indonesia, and its telephone number is (6221) 250 5459. The Company maintains a website at 'www.medcoenergi.com'. Information on the Company's website does not form a part of this Offering Circular. The Issuer's registered office is United Docks Building, Cathedral Square, Port Louis, Mauritius.

The Offering

Issuer	MEI Euro Finance Limited.
Guarantor	PT Medco Energi Internasional Tbk.
The Issue	U.S.$100,000,000 aggregate principal amount of 10.00% Notes due 2007.
Issue Price	98.093% of principal amount of the Notes.
Guarantee	Payment of principal, interest and any additional amounts on the Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Maturity Date	19 March 2007.
Interest Rate	At the rate of 10.00% per annum, payable semi-annually in arrear.
Interest Payment Dates	19 March and 19 September of each year, commencing 19 September 2002.
Withholding Taxes	All payments in respect of the Notes and the Guarantee shall be made free and clear of, and without withholding or deduction for Mauritius or Indonesian taxes. In the event that the Issuer or the Guarantor is required by law to deduct or withhold Mauritius or Indonesian taxes, the Issuer or the Guarantor, as the case may be, will pay additional amounts (subject to certain exceptions) in respect of such withholding tax on such payments.
Ranking	The Notes will be senior obligations of the Issuer and will rank *pari passu* in right of payment to all other existing and future senior indebtedness of the Issuer. The Guarantee will be senior obligations of the Guarantor and will rank *pari passu* in right of payment to all other existing and future senior indebtedness of the Guarantor. The Notes and the Guarantee will be effectively subordinated to any other secured obligations of the Issuer and the Guarantor to the extent of the assets serving as security therefor and to all indebtedness of subsidiaries of the Guarantor with respect to the assets of such subsidiaries.
Optional Redemption	Except as set forth under "*Tax Redemption*", the Notes are not redeemable prior to 19 March 2007.

Tax Redemption	Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, in whole but not in part, at the option of the Issuer, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date (plus additional amounts due thereon, if any) if, as a result of certain changes in the laws, treaties, regulations or rulings (or the application or interpretation thereof) affecting Mauritius or Indonesian taxes, the Issuer or the Guarantor would be required to pay certain additional amounts.
Covenants	The Issuer and the Guarantor have agreed in the Notes and the Conditions related thereto to observe certain covenants, including, among other things, covenants as to maintaining certain financial ratios, incurrence of additional debt, granting of security interests, payment of dividends, mergers, acquisitions and disposals and certain other covenants.
Events of Default	Certain events will permit acceleration of the principal of the Notes (together with all interest and additional amounts accrued and unpaid thereon). These events include default with respect to the payment of principal of, or interest or additional amounts on, the Notes.
Use of Proceeds	The Issuer will lend the Guarantor the proceeds from the sale of the Notes. After paying the expenses of the offering of the Notes, the Guarantor will use the net proceeds primarily to finance its acquisitions of oil and gas reserves, as well as its exploration, development and production activities in Indonesia, additional working capital and other general corporate purposes.
Form of the Notes	The Notes will be in bearer form and in the denomination of U.S.$1,000. The Notes will be traded in minimum board lot size of U.S.$200,000 as long as any of the Notes remain listed on the SGX-ST.
Listing and Trading	In-principle approval has been granted by the SGX-ST for the listing of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantor or the Notes. See "*General Information*".
Governing Law	The Conditions and the Notes will be governed by, and construed in accordance with, the laws of England.

Summary Historical Consolidated Financial Data

The following table sets forth certain historical consolidated financial data for the Company as of the dates and for each of the periods indicated. The historical financial data as of and for the years ended 31 December 1998, 1999 and 2000 and as of and for the nine month period ended 30 September, 2001 have been derived from the financial statements of the Company audited by Hans Tuanakotta & Mustofa (a member of Deloitte Touche Tohmatsu), independent auditors. The historical financial data as of and for the nine month period ended 30 September 2000 are derived from unaudited financial statements of the Company. The results of operation for the nine month periods ended 30 September 2000 and 2001 are not necessarily indicative of results for the full year. The Company's consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differ in certain respects from U.S. GAAP. See "*Summary of Significant Differences Between Accounting Principles Followed by the Company and its Subsidiaries and U.S. Generally Accepted Accounting Principles*". The following information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", the Consolidated Financial Statements of the Company and notes thereto included elsewhere in this Offering Circular.

	Year Ended 31 December			*Nine Months Ended 30 September*		
	1998	*1999*	*2000*	*2000*	*2001*	*2001*
	Rp.	*Rp.*	*Rp.*	*Rp.*	*Rp.*	*U.S.$*
	(In millions, except percentages)					*(In thousands, except percentages)*
Consolidated Statement of Income:						
Sales and Operating Revenues:						
Oil and gas	934,854	1,081,998	2,577,636	1,668,264	2,284,051	236,078
Contract drilling	688,394	335,835	361,387	237,173	435,779	45,042
Methanol	212,761	210,757	179,275	105,831	224,497	23,204
Total revenues	1,836,008	1,628,590	3,118,297	2,011,268	2,944,328	304,324
Direct cost	(784,429)	(794,177)	(1,351,826)	(834,092)	(1,125,547)	(116,336)
Gross profit	1,051,579	834,413	1,766,471	1,177,176	1,818,781	187,988
Operating expenses	(223,669)	(194,171)	(306,738)	(184,138)	(266,077)	(27,501)
Income from operations	827,910	640,242	1,459,733	993,038	1,552,704	160,487
Interest expenses	(141,727)	(109,166)	(70,644)	(30,816)	(29,709)	(3,071)
Gain/(Loss) on foreign exchange – net	(177,880)	(22,701)	82,828	87,396	(88,970)	(9,196)
Other income (expense)						
Interest income	103,972	55,351	40,511	31,847	35,774	3,698
Provision for doubtful account	–	(144,609)	(359,880)	(254,750)	(258,048)	(26,672)
Equity in net loss	–	–	(737)	(671)	(3,193)	(0.330)
Gain on sale of property and equipment	4,344	247	394	394	16,970	1,754
Others – net	(36,288)	18,226	12,125	9,286	25,403	2,626
Income before Income Tax	580,331	437,591	1,164,329	835,724	1,250,931	129,295
Tax income (expense)	(197,364)	(254,475)	(668,296)	(481,375)	(698,702)	(72,217)
Extraordinary item	–	–	84,588	84,588	1,436	148
Minority interest	(29,102)	(7,152)	(8,292)	(7,280)	(8,664)	(896)
Net Income	353,865	175,964	572,329	431,656	545,002	56,330
Other Finance Data:						
Gross profit margin	57%	51%	57%	59%	62%	62%
EBITDA[1]	996,325	812,635	1,674,757	1,149,922	1,805,888	186,655
EBITDA margin[1]	54%	50%	54%	57%	61%	61%
Depreciation and amortisation	168,415	172,393	215,024	156,884	253,184	26,169
Capital expenditure	457,937	279,997	385,132	132,874	420,121	43,423
Exploration expense	18,215	31,040	139,424	76,126	74,472	7,697

	As of 31 December			As of 30 September		
	1998	*1999*	*2000*	*2000*	*2001*	*2001*
	Rp.	*Rp.*	*Rp.*	*Rp.*	*Rp.*	*U.S.$*
			(In millions)			*(In thousands, except percentages)*
Consolidated Balance Sheet Data:						
Working capital	(1,235,870)	468,233	1,024,728	789,798	988,145	102,134
Property plant and equipment	2,068,784	1,827,783	2,382,162	2,164,064	3,198,713	330,616
Total assets	3,628,753	3,331,283	4,370,568	3,969,004	4,927,451	509,297
Debt:						
Short term	1,583,259	148,374	44,294	78,545	47,888	4,950
Long term	394,328	536,446	313,520	252,574	94,319	9,748
Total debt	1,977,587	684,820	357,814	331,119	142,207	14,698
Stockholders' equity	1,090,311	2,226,052	3,331,054	2,994,908	3,966,664	409,991

(1) EBITDA means earnings before interest, corporate taxes, depletion, depreciation, amortisation expense, gain or loss on foreign exchange and other non-cash charges. EBITDA is a widely accepted financial indicator of a company's ability to service and incur debt. EBITDA should not be considered as an alternative to earnings as an indicator of the Company's operating performance or to cash flows as a measure of liquidity. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as revenues and operating expenses and the amount by which EBITDA exceeds capital expenditures expenses and other charges. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" for a discussion of the effect of Indonesian taxes on the Company's results of operations.

Summary Operating and Reserve Data

The following table summarises certain operating data and estimates of the Company's historical gross proved natural gas and oil reserves as of the dates indicated. For additional information relating to the Company's natural gas and oil reserves, see "*Business — Reserves*" included elsewhere in this Offering Circular. Gaffney, Cline & Associate Pte. Ltd. ("**GCA**"), independent petroleum engineering consultants, have provided a report summarising their estimates of the Company's gross proved ("**1P**") and proved plus probable ("**2P**") reserves as of 1 January 2000, 2001 and 2002[1] (the "**GCA Report**") and from which reserve information in respect of such periods in this Offering Circular is summarised or extracted. See "*Business — Reserves*".

	Year ended 31 December			*For the nine months ended 30 September*	
	1998	*1999*	*2000*	*2000*	*2001*
Production:					
Oil and condensate (MMBbls)	11.8	15.7	24.4	19.9	21.2
Natural gas (BCF)	37.9	32.2	31.7	18.0	27.7
Total (MMBOE)	18.1	21.1	29.7	22.9	25.8
Average Prices:					
Oil and condensate (U.S.$per Bbl)	12.4	18.1	28.8	29.0	26.4
Natural gas (U.S.$per MMBTU)	1.4	1.4	1.4	1.4	1.4

	As of 1 January			
	1999	*2000*	*2001*	*2002*
Gross[2] proved (1P) reserves[3]:				
Oil and condensate (Bbls)	96.2	181.2	180.1	160.5
Natural gas (BCF)[3]	439.3	169.8	140.3	103.9
Total (MMBOE)	169.4	209.5	203.5	177.8
Gross[2] proved plus probable (2P)[4] reserves:				
Oil and condensate (Bbls)	144.2	214.4	226.5	364.0
Natural gas (BCF)	630.0	469.2	709.4	1,833.2
Total (MMBOE)	249.2	292.6	344.7	669.5
Percent proved (1P) oil developed	100%	100%	99%	90%
Percent proved (1P) gas developed	100%	83%	82%	79%
Reserve life index (1P) (in years)[5]	9.4	9.9	6.9	5.2[6]
Reserve life index (2P) (in years)[7]	13.8	13.9	11.6	19.4[8]

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(1) GCA certified the Company's reserves from 2000 onwards. The 1999 figure for the Company's natural gas gross proved reserves included uncommitted gas. The GCA figures for subsequent years cover only committed gas.

(2) "Gross" reserves are reserves attributable to the Company's working interest but prior to deduction of applicable Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.

(3) "Proved" (1P) reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given data forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.

(4) "Proved plus probable" (2P) reserves are proved reserves plus reserves that are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

(5) Reserve life index (1P) for 1 January 1999, 2000 and 2001 is calculated by dividing prior year-end proved reserves by average daily production for the prior year.

(6) Reserve life index (1P) for 1 January 2002 is calculated by dividing prior year-end proved reserves by average daily production for the nine months ended 30 September 2001.

(7) Reserve life index (2P) for 1 January 1999, 2000 and 2001 is calculated by dividing prior year-end proved plus probable reserves by average daily production for the prior year.

(8) Reserve life index (2P) for 1 January 2002 is calculated by dividing prior year-end proved plus probable reserves by average daily production for the nine months ended 30 September 2001.

RISK FACTORS

Prospective purchasers of the Notes should carefully consider the risk factors set forth below, as well as the other information contained in this Offering Circular, before purchasing the Notes offered hereby.

Risks Relating to Indonesia

Political

Substantially all of the Company's assets and operations are located in Indonesia. The Company may be adversely affected by changes in Government policies or social instability or other political, economic or diplomatic developments in or affecting Indonesia which are not within the control of the Company. This includes, without limitation, a change in crude oil or natural gas pricing policy, the risks of war, renegotiation or nullification of existing concessions and contracts, taxation policies and foreign exchange restrictions, changing political conditions, international monetary fluctuations and currency controls. Indonesia has from time to time experienced incidents of labour, political and ethnic disturbances. A number of political and ethnic disturbances have occurred during the past three years in both large urban areas as well as more remote areas demanding regional autonomy. These disturbances have not directly affected the Company, but there can be no assurance that further tensions will not surface or that future disturbances will not adversely affect the Company.

Economic

The Company's performance is necessarily dependent on the health of the overall Indonesian economy. While Indonesia experienced rapid economic growth during most of the early to mid-1990s, a severe economic crisis in 1997 resulted in a significant decline in real GDP in 1998. As with most other major countries in the Asia Pacific region, Indonesia has since been in a recessionary phase with relatively low levels of growth in 1999, 2000 and 2001. The significant adverse economic developments over the last three years include significant depreciations in currency values against the U.S. dollar, reduced economic growth rates, high interest rates, cancellations or postponements of infrastructure projects (including energy projects), and declines in the market values of shares listed on stock exchanges. There can be no assurance that these adverse economic developments in Indonesia and the rest of the Asia Pacific region will not continue or worsen in the future. These developments could adversely affect the Company's business and results of operations.

Risks Relating to the Oil and Gas Industry

The Company's oil and gas exploration, development and production operations involve risks normally associated with such activities, including blowouts, oil spills and fires (each of which could result in damage to or destruction of wells, production facilities or other property, or injury to persons), geological uncertainties and unusual or unexpected formations and pressures which may result in dry holes, failure to produce oil or gas in commercial quantities or inability to fully produce discovered reserves. Further, the Company must continually acquire, explore for and develop new hydrocarbon reserves to replace those produced and sold. Although the Company believes that certain of the properties subject to its PSCs have potential for significant reserve additions from presently contemplated exploration and development activities, the success of such activities cannot be assured. Oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or the recovery of drilling, completion or operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the Company's production from successful wells. These conditions include delays in obtaining Government approvals or consents, shut-in of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximising production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Although the Company maintains insurance coverage that it believes is in accordance with customary industry practice, it is not fully insured against certain of these risks, either because such insurance is not available or because of high premium costs. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

Volatility of Oil Prices

The revenues expected to be generated by the Company's future operations will be highly dependent upon the prices of, and demand for, oil and natural gas. The Company's current oil production is sold to Pertamina and other parties at a reference price currently based on the ICP-SLC (as defined in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*"). Currently, gas is sold by the Company under long-term fixed-price contracts and revenue from gas sales is therefore not subject to gas prices volatility the same way as with oil. The price received by the Company for its oil and gas production and the level of production will depend on numerous factors beyond the Company's control, including the condition of the world economy, political and regulatory conditions in Indonesia and other oil and gas producing countries, and the actions of the Organisation of Petroleum Exporting Countries ("**OPEC**"). In addition, there is no assurance that the Government will not adopt an oil or natural gas pricing policy that would adversely affect the Company's future results of operations or prospects. Decreases in the prices of oil and gas could have an adverse effect on the carrying value of the Company's reserves and the Company's revenues, profitability, cash flow and the availability of financing.

Environment

The Company's business is subject to certain Indonesian laws and regulations relating to the exploration for, and development and production of, oil and natural gas, as well as environmental and safety matters. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities which may require the Company to incur costs to remedy such discharge. No assurance can be given that Indonesian environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities, or otherwise adversely affect the Company's financial condition, results of operations or prospects. See "*Business — Environmental Matters*".

Quota Restrictions on Production of Oil in Indonesia

Indonesia is a member of OPEC and has agreed with other members of OPEC to certain quota limitations on the volume of crude oil which can be exported from Indonesia. In the event that the relevant quota limitation for exports of crude oil from Indonesia is reached (due to an increase in production of crude oil or a reduction in Indonesia's export quota), the Government may restrict increases in exports of crude oil from Indonesia. In such event, crude oil production may be greater than the aggregate of that which can be exported and the demand in Indonesia. There can be no assurance that in these circumstances, the Government will not seek to limit production of crude oil in Indonesia.

Competition for Oil and Gas Reserves and Production Sharing Arrangements

The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties in Indonesia and Southeast Asia, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company. Certain of the Company's customers and potential customers are themselves exploring for oil and natural gas in Indonesia. The Company's ability to successfully bid on and enter into new production sharing arrangements or otherwise acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will depend upon its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. See "*Business — Competition*."

Risks Relating to Contract Drilling

The contract drilling industry is, and historically has been, highly volatile, competitive and cyclical, with periods of high demand and rig utilisation with resulting high rig dayrates followed by periods of low demand, excess rig supply and subsequently depressed rig dayrates. The contract drilling business is influenced by many factors beyond the control of the Company, such as the worldwide demand for, and the prices of, oil and natural gas, the ability of OPEC to influence production levels and pricing and the level of production of non-OPEC countries. The drilling rig day rates and utilisation have been volatile over the past twenty years.

Oil and gas drilling operations are subject to many risks, such as blowouts and oil and gas well fires, which could result in substantial human or property losses to the Company. For example, a gas blowout occurred on 1 March 2002 in East Kalimantan. There were no human casualties but one of the Company's three offshore rigs was damaged by fire. Almost all of the Company's drilling rig equipment is insured. However, loss of or serious damage to certain of the Company's equipment, even if adequately covered by insurance, might materially reduce the Company's revenues and operating profit for an extended period of time. While the Company maintains broad insurance coverage, such insurance generally does not cover all types of losses (e.g., war, internal disturbances or business interruption) and not all risks are fully insurable (e.g. pollution). Losses and liabilities arising from uninsured or underinsured events would reduce revenues and increase costs to the Company.

In the contract drilling industry, contracts are generally awarded on a competitive bid basis and price is often the primary determining factor in the selection of a drilling contractor. The Company believes that competition for drilling contracts will continue to be strong for the foreseeable future. The Company's drilling contracts extend over a stated term. There can be no assurance that similar or acceptable terms could be obtained in extension or replacement contracts, in which case the Company's results of operations could be materially and adversely affected. The Company's contracts with its customers are often cancellable upon specified notice at the option of the customer, or can be automatically terminated in the event of total loss of the drilling rig, or if drilling operations are suspended for extended periods of time by reason of force majeure or excessive rig downtime for repairs. Early termination of a contract may result in a rig being idle for an extended period of time, thus reducing the Company's revenues.

Risks Relating to the Company

Risks Relating to the Production Sharing Arrangements with Pertamina

The Company's oil and gas business is a regulated industry in Indonesia. Under Indonesian law, Pertamina, the Indonesian state owned oil and gas company, is currently the sole entity authorised to manage Indonesia's oil and gas resources on behalf of the Government. Pertamina enters into production sharing arrangements with private energy companies whereby such companies explore and develop oil and gas in specified areas in exchange for a percentage interest in the production from the fields in the applicable production sharing area. Most of the Company's reserves are attributable to such production sharing arrangements. Production sharing arrangements contain requirements regarding quality of service, capital expenditures, legal status of the contractors, restrictions on transfer and encumbrance of assets and other restrictions. Failure to comply with these arrangements could result, under certain circumstances, in the revocation of a production sharing arrangement. Such an action could have a material adverse effect on the Company's financial condition, results of operations or prospects. In addition, the Company must obtain approval from Pertamina for substantially all material activities undertaken with respect to the production sharing arrangements, including exploration, development, production, drilling and other operations, sale of oil or natural gas and the hiring or termination of personnel. Furthermore, all facilities and equipment purchased by the Company and used in a contract area become the property of Pertamina, although the Company may recover such costs through the cost recovery provisions of the applicable production sharing arrangements.

In 2003, Pertamina will become an operator as a limited liability company under the new oil and gas law (see "*Industry — New Oil and Gas Law*").

Uncertainty of Reserve Estimates

This Offering Circular includes estimates made by the Company and GCA, independent petroleum consultants, of the Company's gross proved and probable oil and gas reserves. There are numerous uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Company. The reserve data set forth in this Offering Circular represent estimates only. In general, estimates of economically recoverable oil and natural gas reserves are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by Government agencies and future operating costs, all of which may vary considerably from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from such estimates and such variances could be material. The reserve estimates included in this Offering Circular could be materially different from the quantities ultimately realised.

Substantial Capital Requirements for Oil and Gas Activities

The Company makes, and will continue to make, substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves. The Company expects certain oil and gas projects currently under development to significantly increase its cash flow from oil and gas production. If such oil and gas projects do not increase production as quickly as expected or, if, following such increases, revenues subsequently decline, the Company may have a limited ability to expend the capital necessary to undertake or to complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or, if debt or equity financing is available, it will be on terms acceptable to the Company. Moreover, future activities and expansion may require the Company to alter its capitalisation significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources*".

Concentration of Assets and Operations

As of 1 January 2002, approximately 74.8% of the Company's total proved crude oil reserves were located in the Rimau PSC contract area. For the first nine months of 2001, approximately 81.8% of the Company's total production of oil came from the Rimau PSC contract area. The concentration of the Company's crude oil reserves in the Rimau PSC contract area increases the Company's exposure to an event that could adversely affect the development or production of crude oil in a limited geographic area, such as catastrophic damage to pipelines or reservoir structures or events that could result in the loss, or material modification, of the Rimau PSC. In addition, 7.7% of crude oil production and 43.8% of natural gas production for the first nine months of 2001 were attributable to fields in the Extension/Kampar PSC contract area. Adverse developments with respect to one or more of these contract areas could also have a material adverse effect on the Company's financial condition, results of operations or prospects.

Risks Relating to the Notes

Risk of Effective Subordination of the Notes and Guarantee to Secured Indebtedness

The Notes will be senior obligations of the Issuer and will rank *pari passu* in right of payment with all other existing and future senior indebtedness of the Issuer and senior in right of payment to all subordinated indebtedness of the Issuer, if any. The Guarantee will be senior obligations of the Company and will rank *pari passu* in right of payment to all other existing and future senior indebtedness of the Company and senior in right of payment to all subordinated indebtedness of the Company, if any. However, the Notes and the Guarantee will be effectively subordinated to any secured obligations of the Issuer and of the Company, as the case may be, to the extent of the assets serving as security therefor. In bankruptcy, the holder of a security interest with respect to any assets of the Issuer or of the Company would be entitled to have the proceeds of such assets applied to the payment of such holder's claim before the remaining proceeds, if any, are applied to the claims of the Noteholders. As of 30 September 2001, the Company had approximately Rp.117.4 billion (U.S.$12.1 million) of secured obligations. As of the date of this Offering Circular, the Issuer has no obligations.

Uncertain Ability to Enforce Claims

Because substantially all of the assets of the Company and its commissioners, directors and officers are located in Indonesia, Noteholders will effectively be required to pursue in Indonesia any claims that Noteholders may have against the Company or any of its commissioners, directors and executive officers. The Company has been advised by its Indonesian legal counsel, Ery Yunasri & Partners, that judgements of English courts are not enforceable in Indonesia. As a result, the Trustee and/or Noteholders with claims against the Company, its commissioners, directors or executive officers, will generally be able to pursue such claims only through original acts in Indonesian courts. No assurance can be given that the Indonesian courts will protect the interests of investors in the same manner or to the same extent as would English courts. See "*Enforcement of the Guarantee in Indonesia*". The Trustee may also have difficulty pursuing claims under the Guarantee, as the rights of creditors under Indonesian law are not as clearly established as the rights of creditors under the applicable laws of England.

Indonesia's legal system is a civil law system based on written statutes; decided legal cases do not constitute binding precedent. Many of Indonesia's commercial laws and rules on judicial process are based on pre-independence Netherlands law and their application to the complexities of modern financial transactions and instruments may be uncertain. The application of many of these laws may depend upon subjective criteria such as the good faith of the parties and principles of public policy. As a result, the administration of laws and regulations by courts and Government agencies may be subject to considerable discretion. In addition, because relatively few disputes of a legal nature are brought before Indonesia's courts, such courts do not necessarily have the experience of courts in other countries. Moreover, proceedings in Indonesian courts can take longer to conclude than similar proceedings in some other jurisdictions. Accordingly, the outcome of proceedings in Indonesian courts may be more uncertain than that of similar proceedings in other jurisdictions and it may not be possible for investors to obtain swift and equitable enforcement of their legal rights.

In addition, purchasers of the Notes may have more difficulty in protecting their interests against actions by the commissioners, directors or principal shareholders of the Company than they might have as investors in debt obligations issued by a corporation established under the laws of England or the United States.

The Notes and the Conditions provide that they are governed by English law. The Company's Indonesian legal counsel, Ery Yunasri & Partners, has advised that the choice of English law to govern the Notes and the Conditions should be a valid choice of law and that the Indonesian courts generally would respect such choice of law, subject to proof of the substance of such law and Indonesian public policy considerations. However, Indonesian courts have from time to time applied the laws of Indonesia in cases where the relevant agreement provided that the laws of another jurisdiction would govern such agreement, and there can be no assurance that an Indonesian court would apply English law in any proceeding relating to the enforcement of the Notes or the Conditions.

Lack of Public Market for the Notes

There is no existing market for the Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, the Company's operating results and the market for similar securities. The Manager has advised the Issuer that they presently intend to make a market in the Notes as permitted by applicable laws and regulations. The Manager is not, however, obliged to make a market in the Notes and any such market making may be discontinued at any time. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Notes. In-principle approval has been granted by the SGX-ST for the listing of the Notes on the SGX-ST. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of such securities. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruption may have an adverse effect on holders of the Notes.

Recent terrorist attacks on the United States and responses of the United States and its allies may have a material adverse affect on the value of the Notes

Terrorist attacks on the United States on 11 September 2001 have resulted in substantial and continuing volatility in international capital markets. The United States and its allies have responded with military force to these attacks, and military action is likely to continue. Any significant military or other response by the United States and/or its allies or any further terrorist activities could have significant negative effects on worldwide financial markets and the Indonesian economy. Any material change in the financial markets or the Indonesian economy as a result of these attacks or the responses thereto could negatively impact performance of and return on the Notes and the price of the Notes in the secondary market and could result in losses to Noteholders.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The U.S.$100,000,000 10.00% Guaranteed Notes due 2007 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of MEI Euro Finance Limited (the "**Issuer**") are subject to, and have the benefit of, a trust deed to be dated 19 March 2002 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, PT Medco Energi Internasional Tbk (the "**Guarantor**") and JPMorgan Chase Bank, London Branch as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement to be dated 19 March 2002 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, JPMorgan Chase Bank, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agent named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Office for the time being of the Trustee, being at the date hereof Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are in bearer form in the denomination of U.S.$1,000 with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. Status and Guarantee

(a) *Status of the Notes*: The Notes constitute (subject to Condition 3 (*Restrictive Covenants*)) direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* and without any preference among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) *Guarantee of the Notes*: The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* and without any preference with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. Restrictive Covenants

(a) *Defined Terms*: In these Conditions:

"**Consolidated Borrowings**" means at any time the aggregate amount of all obligations of the Group for or in respect of Indebtedness but excluding any such obligations to the Guarantor and/or any Group Subsidiary (and so that no amount shall be included or excluded more than once);

"**Consolidated Finance Charges**" means, in respect of any Relevant Period, the aggregate amount of the interest (including the interest element of leasing and hire purchase payments and capitalised interest), commissions, fees, discounts and other finance payments payable by the Guarantor and/or any Group Subsidiary;

"**Consolidated Tangible Net Worth**" means at any time the aggregate of the amounts paid up or credited as paid up on the issued Share Capital of the Guarantor (other than any redeemable shares) and the aggregate amount of the reserves of the Group including:

(i) any amount credited to the share premium account;

(ii) any capital redemption reserve fund; and

(iii) any balance standing to the credit of the consolidated profit and loss account of the Group,

but deducting:

(iv) any debit balance on the consolidated profit and loss account of the Group;

(v) (to the extent included) any amount shown in respect of goodwill (including goodwill arising only on consolidation) or other intangible assets of the Group and interests of any Person (other than the Guarantor and/or any Group Subsidiary) in any Group Subsidiary;

(vi) (to the extent included) any amount set aside for taxation, deferred taxation or bad debts; and

(vii) (to the extent included) any amounts arising from an upward revaluation of assets made at any time after 12 March 2002,

and so that no amount shall be included or excluded more than once.

"**Current Assets**" means the aggregate of all inventory, trade and other receivables of the Group including sundry debtors maturing within twelve months from the date of computation, as determined by reference to the audited annual or (as the case may be) unaudited quarterly consolidated financial statements of the Guarantor for the Relevant Period;

"**Current Liabilities**" means the aggregate of all liabilities (including trade creditors, accruals and provisions and prepayments) of the Group falling due within twelve months from the date of computation, as determined by reference to the audited annual or (as the case may be) unaudited quarterly consolidated financial statements of the Guarantor for the Relevant Period;

"**Debt Service**" means, in respect of any Relevant Period, the aggregate of:

(i) Consolidated Finance Charges; and

(ii) the aggregate of all scheduled and mandatory payments of any Indebtedness of the Group falling due;

"**EBIT**" means, in respect of any Relevant Period, the consolidated net income of the Group before:

(i) any provision on account of taxation;

(ii) any interest, commission, discounts or other fees incurred or payable, received or receivable by the Group in respect of Indebtedness;

(iii) any gain or loss on foreign exchange; and

(iv) any items treated as exceptional or extraordinary items,

but including any non-cash items increasing consolidated net income for such Relevant Period, to the extent deducted for the purpose of determining consolidated net income for such Relevant Period;

"**EBITDA**" means, for any Relevant Period, EBIT before any amount attributable to the amortisation of intangible assets and depreciation of tangible assets;

"**Fair Market Value**" means, with respect to any asset, the price that could be negotiated in an arm's length free market transaction, for cash, between a willing buyer and a willing seller, neither of which is under pressure or compulsion to complete the transaction, as determined:

(i) if such asset has a Fair Market value equal to or less than U.S.$1,000,000, by any officer of the Guarantor;

(ii) if such asset has a Fair Market Value of more than U.S.$1,000,000 but less than U.S.$5,000,000, by a majority of the Board of Directors and evidenced by a Board Resolution dated within 30 days of the relevant transaction, delivered to the Trustee; and

(iii) if such asset has a Fair Market Value equal to or more than U.S.$5,000,000, by an independent expert valuer and evidenced by a certificate dated within 30 days of the relevant transaction, delivered to the Trustee;

"**Fixed Assets**" means tangible property used in the operation of a business (and for further clarity excludes inventory and accounts receivable);

"**Group**" means the Guarantor and its Subsidiaries;

"**Group Subsidiary**" means any Subsidiary of the Guarantor including, without limitation, the Issuer, and "Group Subsidiaries" means all of such Subsidiaries;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Non-Recourse**" in respect of a Person, means that the creditor of the relevant Indebtedness has no recourse to the assets of such Person;

"**Permitted Loan/Guarantee**" means:

(i) any loan made, credit granted or Guarantee of the Indebtedness or any Person given by the Guarantor or any Group Subsidiary in the ordinary course of business;

(ii) any loan, credit or Guarantee of the Indebtedness of any Person by the Guarantor or any Group Subsidiary in existence as of 12 March 2002;

(iii) *provided that* the same is permitted under Condition 3(j) (*Additional Group Subsidiary Indebtedness*), any loan or credit (A) by the Guarantor to or for the benefit of any Group Subsidiary or (B) by any Group Subsidiary to or for the benefit of the Guarantor and/or any other Group Subsidiary;

(iv) *provided that* the same is permitted under Condition 3(j) (*Additional Group Subsidiary Indebtedness*), any Guarantee of the Indebtedness of any Person (A) by the Guarantor to or for the benefit of any Group Subsidiary or (B) by any Group Subsidiary to or for the benefit of the Guarantor and/or any other Group Subsidiary; and

(v) any loan, credit or Guarantee of the Indebtedness of any Person by the Guarantor and/or any Group Subsidiary that does not fall within sub-paragraphs (i) to (iv) above which, when aggregated with all other loans, credit or Guarantees permitted under this sub-paragraph, does not exceed U.S.$15,000,000 (or its equivalent in another currency);

"**Permitted Security Interest**" means:

(i) any Security Interest in existence on 12 March 2002 to the extent that it secures Indebtedness outstanding on such date;

(ii) any Security Interest arising by operation of law and in the ordinary course of business of the Guarantor or any Group Subsidiary which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches;

(iii) any Security Interest over any asset acquired after 12 March 2002 and securing the payment of all or part of the purchase price of such asset (and/or Indebtedness incurred in respect of such purchase price), provided that:

(A) the aggregate principal amount of the Indebtedness secured by Security Interests incurred pursuant to this paragraph (iii) shall not exceed, in the case of assets so acquired, 85% of the purchase price of such assets;

(B) the Indebtedness secured by such Security Interest, in addition to being permitted to be maintained, issued or incurred under this paragraph (iii), shall have also been permitted to be maintained, issued or incurred under the remainder of these Conditions;

(C) such Security Interest shall not encumber any other assets of the Guarantor or any other Group Subsidiary; and

(D) such Indebtedness is Non-Recourse to the Guarantor and the other Group Subsidiaries,

provided however that no more than U.S.$50,000,000 from the net proceeds of the sale of the Notes shall be used to make a Restricted Investment in the Group Subsidiary(ies) that own(s) the assets subject to such Security Interest, it being understood that this proviso shall apply only in relation to a Security Interest permitted pursuant to this paragraph (iii) and shall not apply to any Restricted Investment in relation to any Security Interest permitted pursuant to paragraphs (i), (ii), (iv), (v) or (vi) hereof;

(iv) any Security Interest over any inventory or accounts receivable of the Group to the extent it secures Indebtedness permitted to be incurred pursuant to these Conditions or to the extent granted in connection with any Securitisation;

(v) any Security Interest on assets securing Indebtedness which is issued to refinance Indebtedness which has been secured by any Security Interest and is permitted by these Conditions to be refinanced by these Conditions, provided that such Security Interest does not extend to or cover any assets of the Group not securing the Indebtedness so refinanced;

(vi) any Security Interest that does not fall within sub-paragraphs (i) to (v) above and that secures Indebtedness which, when aggregated with Indebtedness secured by all other Security Interests permitted under this sub-paragraph, does not exceed U.S.$15,000,000 (or its equivalent in another currency);

"**Permitted Subsidiary Indebtedness**" means:

(i) any Indebtedness of any Group Subsidiary which Indebtedness is in existence as of 12 March 2002;

(ii) any Indebtedness of any Group Subsidiary due to the Guarantor and/or any other Group Subsidiary;

(iii) any Indebtedness of any Group Subsidiary secured by any Security Interest otherwise permitted under paragraph (iii) of the definition of "Permitted Security Interest" in Condition 3(a) *(Defined Terms)*; and

(iv) any Indebtedness of any Group Subsidiary that does not fall within sub-paragraphs (i) to (iii) above which, when aggregated with all other Indebtedness permitted under this sub-paragraph, does not exceed U.S.$15,000,000 (or its equivalent in another currency);

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Relevant Period**" means each period of twelve months ending on the last day of the Guarantor's financial year or each period of twelve months ending on the last day of each quarter of the Guarantor's financial year;

"**Restricted Investment**" means, with respect to any Person, (i) any payment on account of the purchase, redemption or acquisition of (A) any shares of such Person's Share Capital or (B) any option, warrant or other right to acquire shares of such Person's Share Capital or (ii) any advance, loan or investment, or any purchase of Share Capital, Indebtedness or other similar instruments issued by any Person;

"**Securitisation**" means any transaction providing for the issuance of securities whose payments are made from the cash flows generated by specified assets that are not themselves securities;

"**Security Interest**" means any mortgage, charge, pledge, lien, hypotec or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Share Capital**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person's share capital; whether now outstanding or issued after 12 March 2002, including, without limitation, all common shares and all preferred shares of such Person; and

"**Subsidiary**" of a Person means any company or other business entity of which such Person owns or controls (either directly or indirectly through one or more Subsidiaries) more than 50% or more of the issued Share Capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity.

All accounting expressions which are not otherwise defined herein shall be construed in accordance with generally accepted accounting principles in Indonesia.

(b) *Negative Pledge*: So long as any Note remains outstanding (as defined in the Trust Deed):

(i) the Guarantor shall not and shall procure that no Group Subsidiary shall create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness;

(ii) the Guarantor shall not and shall procure that no Group Subsidiary shall give any Guarantee of any Indebtedness of any Person (other than a Permitted Loan/Guarantee); and

(iii) the Guarantor shall not permit any Person which is not the Guarantor or a Group Subsidiary to give any Guarantee of any Indebtedness of any Group Subsidiary and/or the Guarantor (as the case may be),

without (in the case of paragraph (i) above) at the same time or prior thereto (A) securing the Notes equally and rateably therewith to the satisfaction of the Trustee or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (B) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution of Noteholders.

(c) *Financial Condition*: So long as any Note remains outstanding, the Guarantor shall ensure that the financial condition of the Group shall be such that:

(i) the ratio of Consolidated Borrowings to Consolidated Tangible Net Worth shall not at any time exceed 1.75:1.

(ii) the ratio of EBITDA to Debt Service in respect of any Relevant Period shall be or shall exceed 1:1; and

(iii) the ratio of Current Assets to Current Liabilities shall not be less than 1.5:1.

The financial covenants set out in these Conditions shall be tested by reference to each of the audited annual or (as the case may be) unaudited quarterly consolidated financial statements of the Guarantor for the Relevant Period.

(d) *Fixed Assets Disposals*: So long as any Note remains outstanding, the Guarantor shall not and shall ensure that no Group Subsidiary shall sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the Fair Market Value of which is 5% or more of the Consolidated Tangible Net Worth of the Group) of its Fixed Assets other than:

(i) a sale, lease, transfer or other disposition of obsolete or non-productive Fixed Assets which does not (either alone or together with any one or more such sales, leases, transfers or dispositions) materially impair the operation of its business;

(ii) a sale, lease, transfer or other disposition to the Guarantor and/or any Group Subsidiary which is engaged in a business that is the same as or is related to the Guarantor's oil and gas business and which does not (either alone or together with any one or more such sales, leases, transfers or dispositions) materially impair the operation of the seller, lessor or transferor's business;

(iii) a sale, lease, transfer or other disposition made in connection with the sale of any Group Subsidiary and which does not (either alone or together with any one or more such sales, leases, transfers or dispositions) materially impair the operation of the Group's oil and gas business;

(iv) a sale, lease, transfer or other disposition where the sale price, lease payments, transfer price or other consideration is reinvested in the oil and gas business of the Guarantor or is applied to the repayment of outstanding unsubordinated Indebtedness of the Guarantor and/or any Group Subsidiary, in each case, within 365 days from the sale, lease, transfer or other disposition; and

(v) a sale, lease, transfer or other disposition made in connection with any Securitisation where the Guarantor has not given any Guarantee in respect of the securities underlying such Securitisation or in respect of the obligations of the vendor of the Fixed Assets underlying the Securitisation.

(e) *Consolidation, Mergers and Sale of Assets*: So long as any Note remains outstanding, the Guarantor shall not and shall ensure that no Group Subsidiary shall consolidate with, merge or amalgamate into or transfer all or substantially all of its assets to any Person unless:

(i) in the case of the Issuer, such Person is a corporation organised and existing under the laws of Mauritius or any political subdivision thereof and resident for tax purposes therein; or

(ii) in the case of the Guarantor, such Person is a corporation organised and existing under the laws of Indonesia or any political subdivision thereof and resident for tax purposes therein, *provided that* in the case of (i) above, such successor corporation assumes the Issuer's obligations under the Notes and under the Trust Deed and, in the case of (ii) above, such successor corporation assumes the Guarantor's obligations under the Trust Deed, in each case, under applicable law,

and *provided further that*:

(iii) immediately after giving effect to such consolidation, merger, amalgamation or transfers of assets, no event of default described in Condition 8 (*Events of Default*) (or event that, with the passage of time or giving of notice or both, would be such an event of default) shall have occurred or be continuing or would result therefrom;

(iv) in the case of the Guarantor or any Group Subsidiary other than the Issuer, such consolidation, merger, amalgamation or transfer of assets is with, into or to a Person whose business is the same as or similar to that of the Group's oil and gas business; and

(v) in the case of (i) to (iv) above, such consolidation, merger, amalgamation or transfer is made in compliance with rules and regulations of Badan Pengawas Pasar Modal, the Indonesian Capital Markets Supervisory Agency ("**BAPEPAM**").

(f) *Acquisition*: So long as any Note remains outstanding, the Guarantor shall not and shall ensure that no Group Subsidiary shall acquire any shares or assets of another Person, other than a Person whose business is the same as or similar to or related to that of the Group's oil and gas business or in respect of assets which are to be used in or related to the Group's oil and gas business, and *provided that* such acquisition is made in compliance with the rules and regulations of BAPEPAM.

(g) *Dividends by Guarantor*: So long as any Note remains outstanding, the Guarantor shall not pay, make or declare any dividend or other distribution in respect of any financial year of the Guarantor until the aggregate amount available for distribution to its shareholders in respect of such financial year has been determined and then only in an amount not exceeding 50% of the consolidated net income for the immediately preceding financial year of the Guarantor (the "**Distributable Amount**"), *provided that* if in any financial year less than the Distributable Amount for such financial year is so distributed, the Guarantor shall be entitled to so distribute the undistributed portion of such Distributable Amount in subsequent financial years.

(h) *Limitation on Restrictions on Dividends by Group Subsidiaries*: So long as any Note remains outstanding, the Guarantor shall not, and shall ensure that no Group Subsidiary shall create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Group Subsidiary to (i) pay dividends to or make any other distributions on its Share Capital, or pay any Indebtedness or other obligations owed to the Guarantor or any Group Subsidiary; (ii) make any loans or advances to the Guarantor or any Group Subsidiary; or (iii) transfer any of its property or assets to the Guarantor to any Group Subsidiary; *provided that* the foregoing shall not apply to:

(A) any encumbrance or restriction existing pursuant to these Conditions or any other agreement or instrument as in effect or entered into on 12 March 2002;

(B) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness referred to in clause (A) above or contained in any amendment or modification with respect to such Indebtedness; *provided, however, that* the encumbrances and restrictions contained in any agreement, amendment or modification are no less favourable in any material respect with respect to the matters referred to in clauses (i), (ii) and (iii) above than the encumbrances and restrictions with respect to the Indebtedness being refinanced, amended or modified;

(C) in the case of clause (iii) above, customary non-assignment provisions of (1) any leases governing a leasehold interest or (2) any supply, license or other agreement entered into in the ordinary course of business of the Guarantor or any Group Subsidiary;

(D) any encumbrances or restrictions imposed pursuant to the terms of a Permitted Security Interest incurred pursuant to Condition 3(j) (*Additional Group Subsidiary Indebtedness*) and paragraph (iii) of the definition of "Permitted Security Interest" in Condition 3(a) (*Defined Terms*); *provided that* such encumbrances or restrictions in the written opinion of the President Director and/or Director of the Guarantor addressed to the Trustee, (1) are required in order to obtain such financing, (2) are not materially more restrictive, taken as a whole, than encumbrances and restrictions customarily accepted (or, in the absence of any industry custom, reasonably acceptable), in substantially non-recourse project financings and (3) apply only to the assets of the Group Subsidiary that are pledged to secure such non-recourse Indebtedness, the Share Capital of such Person (or any other Person that, directly or indirectly owns such Share Capital as its sole assets) and the income and proceeds therefrom; and

(E) any encumbrance or restriction existing by reason of applicable law.

(i) *Issue of new securities*: So long as any Note remains outstanding, the Guarantor shall not and shall ensure that no Group Subsidiary shall issue any notes, debentures, bonds or other similar instruments which are senior to the Notes.

(j) *Additional Group Subsidiary Indebtedness*: So long as any Note remains outstanding, the Guarantor shall ensure that no Group Subsidiary shall incur any Indebtedness other than Permitted Subsidiary Indebtedness.

(k) *Limitation on Issuer's Conduct of Business*: So long as any Note remains outstanding, the Guarantor shall cause the Issuer not to conduct any business, own any asset or incur any liabilities, except in connection with financing the operations of the Guarantor.

The Trustee shall not be responsible for monitoring the covenants in this Condition 3 (Restrictive Covenants). The Issuer and the Guarantor have, in the Trust Deed, covenanted with and undertaken to deliver to the Trustee certificates stating whether or not such covenants have been complied with (and whether an Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred) and giving details of any non-compliance. The Trustee shall be entitled to rely on such certificates absolutely and shall not be obliged to enquire further as regards the circumstances then existing.

4. Interest

The Notes bear interest from 19 March 2002 (the "**Issue Date**") at the rate of 10.00% per annum, (the "Rate of Interest") payable semi-annually in arrear on 19 March and 19 September in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgement) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be calculated in respect of each Note of U.S.$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where "Day Count Fraction" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 19 March 2007, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption.

The right of the Issuer to redeem the Notes is only exercisable if the Issuer determines and satisfies the Trustee in the manner prescribed below immediately prior to the giving of such notice that as a result of any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of Mauritius or the Republic of Indonesia (or any political subdivision or taxing authority thereof or therein) affecting taxation, or any change in official position regarding the application or interpretation of such laws, treaties, regulations or rulings (including a holding judgement or order by a court of competent jurisdiction), which change, amendment, application or interpretation becomes effective on or after 12 March 2002:

(i) with respect to any payment due or to become due under the Notes, the Issuer is, or on the next Interest Payment Date would be, required to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) on or in respect thereof; or

(ii) the Guarantor is, or on the next Interest Payment Date would be, unable for reasons outside of its control to procure payment by the Issuer and, with respect to any payment due or to become due under the Guarantee of the Notes, the Guarantor is, or on the next Interest Payment Date would be, required to deduct or withhold any tax of the Republic of Indonesia (or any political subdivision or taxing authority thereof or therein) at a rate in excess of 20% (calculated without giving effect to any reduction of the rate of withholding tax available under any tax treaty to which the Republic of Indonesia is a party); or

(iii) with respect to any payment by the Guarantor to the Issuer to enable the Issuer to make any payment of principal of, or interest on, the Notes or the additional amounts (if any), the Guarantor is, or on the next Interest Payment Date would be, required to deduct or withhold any tax of the Republic of Indonesia (or any political subdivision or taxing authority thereof or therein) at a rate in excess of 10% (calculated after giving effect to any reduction of the rate of withholding tax available under any tax treaty between Mauritius and the Republic of Indonesia),

and such obligation cannot be avoided by the Issuer (or the Guarantor as the case may be) taking reasonable measures available to it; *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

(1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(2) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts or (as the case may be) the Guarantor has or will become obliged to make such withholding or deduction as a result of such change or amendment.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) to (iii) above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b) *(Redemption for tax reasons)*, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b)*(Redemption for tax reasons)*.

(c) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled Redemption*) and (b) (*Redemption for tax reasons*) above.

(d) *Purchase*: The Issuer, the Guarantor or any Group Subsidiary may at any time purchase Notes in the open market or otherwise and at any price and such Notes may be held, resold or, at the option of the holder, surrendered to any Paying Agent for cancellation (provided that, if the Notes are to be cancelled, they are purchased together with all unmatured Coupons relating to them).

(e) *Cancellation*: All Notes redeemed and any unmatured Coupons attached to or surrendered with them shall be cancelled and all Notes so cancelled and any Notes cancelled pursuant to Condition 5(d) (*Purchase*) above (together with all unmatured Coupons cancelled with them) may not be reissued or resold.

6. Payments

(a) *Principal*: Save as provided in paragraph (c) (*Payments in New York City*) below, payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

(b) *Interest*: Save as provided in paragraph (c) (*Payment in New York City*) below, payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

(c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the principal and interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such principal and interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that,* if the gross amount available for payment is less than the principal amount of such Note, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the principal amount of such Note. Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons.

(f) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a U.S. dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such place of presentation.

(g) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) (*Payments in New York City*) above).

(h) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

7. Taxation

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or government charges of whatsoever nature imposed, levied, collected, withheld or assessed by Mauritius or Indonesia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or government charges in respect of such Note or Coupon by reason of its having some connection with Mauritius or (as the case may be) Indonesia other than the mere holding of such Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

(d) more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 *(Taxation)* or any undertaking given in addition to or in substitution of this Condition 7 *(Taxation)* pursuant to the Trust Deed.

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Mauritius or Indonesia respectively, references in these Conditions to Mauritius or Indonesia shall be construed as references to Mauritius or (as the case may be) Indonesia and/or such other jurisdiction.

8. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within five days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof to the Issuer and the Guarantor; or

(c) *Cross-default of Guarantor or Group Subsidiary*:

(i) any Indebtedness of the Guarantor or any Group Subsidiary is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Guarantor or (as the case may be) such Group Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Guarantor or any Group Subsidiary fails to pay when due or (as the case may be) within any originally applicable grace period any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds U.S.$10,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgement*: one or more judgement(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of any amount in excess of U.S.$5,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Guarantor or any Group Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the undertaking, assets or revenues of the Guarantor or any Material Group Subsidiary and is not discharged or stayed within 30 days; or

(f) *Security enforced*: any Security Interest created or assumed by the Guarantor or any Material Group Subsidiary in respect of the whole or any part of the undertaking, assets and revenues of the Guarantor or such Material Group Subsidiary becomes enforceable or a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Guarantor or any Material Group Subsidiary; or

(g) *Insolvency, etc*: (i) the Guarantor or any Group Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Guarantor or any Material Group Subsidiary or the whole or a substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Guarantor or such Material Group Subsidiary is appointed (or application for any such appointment is made), (iii) the Guarantor or any Material Group Subsidiary takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Guarantor or any Material Group Subsidiary ceases or threatens to cease to carry on all or any substantial part of its business; or

(h) *Winding up, etc*: a petition in bankruptcy, reorganisation, winding-up or liquidation is filed against the Guarantor or any Material Group Subsidiary and remains undischarged for more than 30 days or the Guarantor or any Material Group Subsidiary initiates or consents to proceedings relating to itself under any applicable bankruptcy, insolvency or reorganisation laws or an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Guarantor or any Material Group Subsidiary; or

(i) *Analogous event*: any event occurs which under the laws of Mauritius or Indonesia has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgement*) to (h) (*Winding up, etc.*) above; or

(j) *Cessation of ownership*: the entire issued share capital of the Issuer ceases to be wholly owned, direct or indirectly, by the Guarantor; or

(k) *Audited Accounts*: the Guarantor fails to file its annual audited accounts for any of its financial years 2002, 2003, 2004, 2005 or 2006 with BAPEPAM by the date 30 days after the last day on which such annual audited accounts are required by BAPEPAM to be filed with it or the audited accounts of the Guarantor for any of those financial years are qualified by the independent certified accountants for the time being of the Guarantor in respect of any matter which has, or would have, a material effect (in the Trustee's sole discretion) on the earnings or financial condition of the Guarantor; or

(l) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force or effect; or

(m) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or

(n) *Moratorium or Expropriation*: a moratorium is agreed or declared in respect of any Indebtedness of the Guarantor or any Group Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Guarantor or any Group Subsidiary.

For the purposes of this Condition 8 (*Events of Default*), "**Material Group Subsidiary**" means (i) the Issuer and/or (ii) any other Group Subsidiary, and in the case of (ii), such Group Subsidiary from time to time whose gross revenue, pre-tax profits or gross assets (as shown in the then latest audited or unaudited accounts of such Group Subsidiary) represent not less than 5% of the gross revenue, pre-tax profits or gross assets of the Group, as shown in the latest consolidated audited or unaudited accounts of the Group, *provided that* with respect to any subsequent unaudited quarterly or semi-annual accounts of the relevant Group Subsidiary or the consolidated accounts of the Group, the Guarantor shall, on the request of the Trustee, and in any case, at the same time as providing the

Trustee with the financial statements of the Guarantor, request a certificate from its auditors addressed to the Trustee listing those companies or other business entities which as at the last day of the Relevant Period were Material Group Subsidiaries for the purposes of this Condition 8 (*Events of Default*) and, in the absence of manifest error, such certificate from the auditors of the Guarantor shall be conclusive and binding upon each of the Guarantor and the Trustee.

9. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent and the Paying Agent having its Specified Office in Singapore, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. Trustee and Paying Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

The Trust Deed provides that the Trustee shall rely on certificates or reports from Auditors whether or not any such certificate or report or engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any limit on the liability of the Auditors.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer, the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a principal paying agent, (b) a paying agent in Singapore and (c), if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing such conclusions or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders or Couponholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders or Couponholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Substitution*: The Trust Deed contains provisions under which (i) the Guarantor or any Group Subsidiary may, without the consent of the Noteholders or Couponholders assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes and (ii) any Group Subsidiary may, without the consent of the Noteholders or Couponholders assume the obligations of the Guarantor as guarantor under the Trust Deed and the Notes, *provided that*, in each case, certain conditions specified in the Trust Deed are fulfilled, including (A) in the case of a substitution of the Issuer by a company other than the Guarantor, a requirement that the Guarantee of the Notes is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes and (B) in the case of a substitution of the Guarantor as guarantor under the Trust Deed, a requirement that the Guarantee of the Notes by the new guarantor is fully effective in relation to the obligations of the new guarantor under the Trust Deed and the Notes.

No Noteholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder or (as the case may be) Couponholder except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one-quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

15. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper having general circulation in Asia (which is expected to be *The Asian Wall Street Journal*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia provided however that so long as the Notes are listed on the official list of the Singapore Exchange Securities Trading Limited and its rules so require, notices will also be published in a leading English language newspaper having general circulation in Singapore (which is expected to be *The Business Times, Singapore Edition*). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

16. Governing Law and Jurisdiction

(a) *Governing law*: The Trust Deed and the Notes and all matters arising from or connected with them are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*: Each of the Issuer and the Guarantor has in the Trust Deed (i) agreed that the courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Trust Deed or the Notes; (ii) agreed that such courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, it will not argue to the contrary; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgement.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of U.S.$1,000 each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, an "**Exchange Event**") occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs. The Notes will be traded in minimum board lot size of U.S.$200,000 as long as any of the Notes remain listed on the SGX-ST.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the relevant Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Notices: Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however, that,* so long as the Notes are listed on the SGX-ST and its rules so require, notices will also be published in a leading English language newspaper having general circulation in Singapore (which is expected to be *The Business Times, Singapore Edition*).

USE OF PROCEEDS

The Issuer will lend to the Company the proceeds from the sale of the Notes. The Company will use the net proceeds of the issue of the Notes, expected to amount to approximately U.S.$95,593,000 after deduction of fees and commissions but prior to deduction of expenses incurred in connection with the issue of the Notes, primarily to finance its acquisitions of oil and gas reserves, as well as its exploration, development and production activities in Indonesia, additional working capital and other general corporate purposes.

Pending application of the net proceeds from the sale of the Notes, the Company intends to invest the net proceeds in U.S. dollar denominated money market instruments, certificates of deposit, time deposits or other short-term investments.

CAPITALISATION

The following table sets forth (i) the audited consolidated short term debt and capitalisation of the Company as of 30 September 2001 and (ii) the consolidated short term debt and capitalisation of the Company as adjusted to give effect to (a) the issue of the 10.00% Guaranteed Notes due 2007 and (b) the loan of the net proceeds therefrom to the Company. This table should be read in conjunction with "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources*" and the Consolidated Financial Statements and the related notes thereto included elsewhere in this Offering Circular.

	As of 30 September 2001[(1)]			
	Actual		*As adjusted*	
	(Rp. in billions and U.S.$ in millions)			
	Rp.	*U.S.$*	*Rp.*	*U.S.$*
Cash and cash equivalents:	497.4	51.4	1,422.2	147.0
Short-term debt[(2)]**:**				
Current maturities of long-term liabilities	47.9	5.0	47.9	5.0
Total short-term debt	47.9	5.0	47.9	5.0
Long-term liabilities — net of current maturities[(2)]**:**				
Long-term bank loans	69.5	7.2	69.5	7.2
Notes payable	24.8	2.6	24.8	2.6
10.00% Guaranteed Notes due 2007	—	—	967.5	100.0
Total long-term liabilities	94.3	9.8	1,061.8	109.8
Stockholders' equity:				
Common stock — par value Rp.100 Authorised capital (4,000,000,000 shares) Issued and fully paid (3,201,254,950 shares — net of 131,196,500 treasury stock)	320.1	33.1	320.1	33.1
Additional paid-in capital	889.9	92.0	889.9	92.0
Revaluation of property and equipment	498.1	51.5	498.1	51.5
Foreign exchange translation adjustment	856.4	88.5	856.4	88.5
Retained earnings	1,402.1	144.9	1,402.1	144.9
Total stockholders' equity	3,966.6	410.0	3,966.6	410.0
Total capitalisation	4,108.8	424.8	5,076.3	524.8

(1) Except for the repayment of Rp.37.6 billion (U.S.$3.7 million) of bank loans and notes payable since 30 September 2001, there have been no material changes in the Company's total capitalisation since 30 September 2001.

(2) Short-term debt includes current maturities of long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion below should be read together with the Consolidated Financial Statements contained elsewhere in this Offering Circular.

Overview

The Company derives substantially all of its revenues in U.S. dollars from sales of crude oil and natural gas, services provided under drilling contracts and sales of methanol. The total sales revenue for these three areas of operations for the years ended 31 December 1998, 1999 and 2000 were Rp.1,836.0 billion, Rp.1,628.6 billion and Rp.3,118.3 billion, respectively, and that for the nine months ended 30 September 2001 was Rp.2,944.3 billion.

For the nine months ended 30 September 2001, revenues from oil and gas sales, contract drilling and methanol sales were Rp.2,284.1 billion, Rp.435.8 billion and Rp.224.5 billion, representing 77.6%, 14.8% and 7.6% of the total revenues, respectively. 43.2% of the Company's total revenue was generated from oil production from the Rimau PSC.

Oil and Gas

The Company's revenues from sales of crude oil and natural gas are affected primarily by the net entitlement volume of oil and gas and the prices at which they are sold. All of the Company's crude oil production is currently sold to Mitsui and Pertamina at prices based on the Indonesian Crude Price-Sumatra Light Crude/Minas (the "**ICP-SLC**"), with adjustment depending on the quality of the crude oil. Crude oil has been sold to Mitsui under a one year contract, currently at 20,000 Bbls/d (with adjustment), under which Mitsui has a right of first refusal to purchase crude oil available for export exceeding the contractual volume. This contract will expire on 31 March 2002. International bidding for a replacement one-year contract, starting 1 April 2002, has been completed, with Itochu being the preferred bidder offering the highest tender price. Pursuant to a shareholders' agreement signed in December 2001 following the acquisition by PTTEP of an indirect equity interest in the Company, the initial 50% of the Company's net crude entitlement which could be sold to a third party has to be through a competitive tender process. The contract which Itochu won was through this competitive tender process. Pursuant to the shareholders' agreement, PTTEP has the right of first refusal to purchase the remaining 50% of the Company's net crude entitlement at a price equal to the highest tender price, being the price offered by Itochu, for the initial 50%. Net crude entitlement consists of the Company's (i) cost recovery and (ii) profit share, net of domestic market obligations (see "*Industry — Production Sharing Arrangments*"). Following the winning of the tender by Itochu, PTTEP has decided to exercise its right of first refusal starting July 2002. Terms of the contracts between the Company and Itochu and PTTEP, respectively, are being finalised. The contracts are expected to be executed at the end of March 2002. It is expected that such contracts, which will contain higher price terms, will not have a material impact on the financial condition of the Company.

The ICP-SLC is the monthly average of the mean of three publications: (i) twice a week by APPI, a panel of international producers, traders and refinery, (ii) daily by RIM, oil industry publishers which focus on the market in the Asia-Pacific region, and (iii) Platts, oil industry publishers which focus on the Japanese market, in the following proportions: 20% APPI, 40% RIM and 40% Platts. The ICP-SLC is published by Pertamina every month. The Company's average realised price for oil per Bbl for the years ended 31 December 1998, 1999 and 2000 were U.S.$12.37, U.S.$18.11 and U.S.$28.84 respectively, and that for the nine months ended 30 September 2001 was U.S.$26.4.

The Company has the following gas sales contracts with Pertamina: (i) a contract which expires in 2004 to supply 45.0 MMCFD of gas (85% take or pay) from the Extension/Kampar PSC to the Palembang fertiliser plant; (ii) a contract which expires in 2018 to supply 9.1 MMCFD of gas from the Sanga-Sanga TAC to the PLN Tanjung Batu power plant in East Kalimantan; and (iii) a contract which expires in 2007 to supply up to 30 MMCFD of gas (with 70% take or pay) from the Tarakan PSC to the Company's Bunyu methanol plant in East Kalimantan. Gas sales contracts are typically long term fixed price contracts. The Company's average realised gas prices per MMBTU for the years ended 31

December 1998, 1999 and 2000 were U.S.$1.36, U.S.$1.42 and U.S.$1.44 respectively, and that for the nine months ended 30 September 2001 was U.S. $1.35. As most of the natural gas produced by the Company is from gas fields that were discovered whilst developing oil fields, the costs of developing and operating the gas fields are low.

Under the terms of the PSCs (see "*Industry — Production Sharing Arrangements*"), the Company's net entitlement consists of (i) cost recovery and (ii) profit share, net of domestic market obligations. The cost recovery portion of the net entitlement varies with the level of cost incurred, including capital investment for exploration, development and production, operating expenses and the level of oil price. For example, if oil prices decrease, the Company's cost recovery portion rises and thus its net entitlement also rises in terms of Bbls of oil. The Company's share of profit oil and gas, after allowing for corporate and dividend taxes, is fixed between 15% to 35% for oil and between 30% to 40% for gas, depending on the PSC. After a period of five years starting the month of the first delivery of crude oil produced from each new field in a contract area, the contractor will typically have a domestic market obligation to account for a portion of approximately 6% to 7% of the crude oil produced from the contract area, at a subsidised price which varies from PSC to PSC. The Company's domestic market obligation reflected an average of approximately 6.9% of the Company's gross crude oil production for the past three years. The Company's domestic market obligation reduced after tax earnings on average by approximately U.S.$5.8 million per annum for the past three years. The domestic market obligation does not currently apply to natural gas production but this may change with the new oil and gas law.

Indonesian income tax rates (including dividends tax) on the Company's PSC operations vary from 44% to 56% depending on the contract area where the revenue is generated. A change in the mix of production percentage from the areas operated by the Company will change the effective tax rate of the Company. Reported income tax expense is significantly influenced by the fact that PSCs cannot be consolidated for Indonesian income tax purposes. Each PSC is taxed individually and no cross deduction is allowed. Income tax expense is more fully described in Note 34 to the Company's Consolidated Financial Statements.

Exploration and production ("**E&P**") direct costs mainly comprise of lifting expenses, exploration expenses, depreciation and amortisation expenses. Lifting expenses are affected by the level of production, salaries and wages, employee benefits, materials and supplies, contract charges, business travel expenses and pipeline fees. Exploration expenses vary with the level of exploration activities and the success rate of such activities. Depreciation and amortisation are caused by the depletion of capitalised oil and gas development costs under the unit of production depletion method. Between 1997 and 2000, the most recent period for which industry data provided by Pertamina is available, the Company had on average the lowest exploration and development costs, and one of the lowest operation and production costs of any oil and gas operator in Indonesia. For the years 1999 to 2001, the Company's average total lifting cost and average finding and development costs were approximately U.S.$1.98 per BOE and U.S.$1.57 per BOE, respectively. Such low costs are achieved through employment of local professionals, the existing infrastructure in place near the Company's producing blocks and the geographic concentration of its oil fields. The Company believes that its cost structure allows it to compete effectively even in a low crude oil price environment.

Contract Drilling

The Company's contract drilling revenues vary based upon demand, which affects the number of days that the rig fleet is utilised and the dayrates received. Demand for drilling rigs is affected by a number of factors including the level of oil and natural gas exploration and production activities.

Revenues from drilling contracts are recognised as work is performed. When mobilisation or rig enhancement is required for a contract, the Company may receive a lump-sum payment to offset all or a portion of the cost. When an offshore rig is moved from one market to another under contract, mobilisation revenues and costs incurred are recognised over the term of the related drilling contract. If a rig is moved without a contract, all costs incurred are immediately charged against income. Payments received for rig enhancements are recognised as revenues over the term of the related drilling contract. In addition to the impact of dayrates, which increase and decrease with demand, revenues from contract drilling may fluctuate from quarter to quarter due to the timing of contract completions, mobilisations, scheduled maintenance and the weather.

In respect of onshore rigs, the average rental rates per day for the years ended 31 December 1998, 1999 and 2000 were U.S.$15,436, U.S.$14,939 and U.S.$12,730, respectively, and that for the nine months ended 30 September 2001 was U.S.$15,468. In respect of offshore rigs, the average rental rates per day for the years ended 31 December 1998, 1999 and 2000 were U.S.$34,419, U.S.$28,983 and U.S.$24,063, respectively, and that for the nine months ended 30 September 2001 was U.S.$25,950.

Operating costs are not affected by changes in dayrates, nor are they necessarily significantly affected by fluctuations in utilisation. For instance, if a rig is idle for a short period of time, the Company realises few decreases in operating expenses since the rig typically is maintained in a ready-to-operate state with a full crew. However, if a rig were expected to be idle for more than a brief period of time, the Company could reduce the size of the rig's crew and take steps to maintain the rig in an idle "stacked" mode, which lowers expenses and partially offsets the negative impact on operating income associated with loss of revenues. Operating costs may also be impacted by the Company's ability to successfully hire and train sufficient numbers of employees to operate the Company's drilling equipment. The Company recognises repair and maintenance expenditures that maintain rather than upgrade rigs as operating costs.

In February 2002, the Company won the bidding for a seven and a half year drilling contract (with a six month extension) with a leading gas producer in Indonesia. Execution of the final contract is subject to approval by Pertamina.

Methanol

Since April 1997, the Company has derived revenues from the operation of the Bunyu methanol plant and sales of methanol. Revenues from sales of methanol are affected by production volume and the prices at which the Company can sell its methanol. Methanol prices are volatile and over the last five years have reached a high of U.S.$220 per MT in January and February 1997 for domestic sales and U.S.$210 per MT (f.o.b.) in February and March 1997 for export sales, and a low of U.S.$70 per MT in August 1999 for domestic sales and U.S.$74 per MT (f.o.b.) in August 1998 for export sales. The average realised price per MT for the years 1998, 1999 and 2000 were U.S.$100.31, U.S.$89.43 and U.S.$145.55, respectively, and that for the first nine months ended 30 September 2001 was U.S.$134.9.

Exchange Rate

All major contracts entered into by the Company have historically been denominated in U.S. dollars, and it is anticipated that this will continue to be the case. Such contracts include PSCs, TACs, JOBs, contract drilling agreements, agreements with joint venture partners, major construction contracts, drilling leases, service contracts, oil and gas sales contracts and transportation agreements. Consequently, substantially all of the Company's revenues are denominated in U.S. dollars, and a significant portion of the Company's expenses are denominated in U.S. dollars. Certain expenses comprising of the salaries of Indonesian employees, local vendors and local rentals, are normally paid in Rupiah. Rupiah expenses represent approximately 13.6% of total expenses for the first nine months ended 30 September 2001. Therefore, the Company's exposure to the currency risk of the Rupiah is limited.

Accounting Standard

The Consolidated Financial Statements contained elsewhere in this Offering Circular have been prepared in accordance with Indonesian GAAP, which differ in certain material respects from U.S. GAAP. For a summary of the significant differences between Indonesian GAAP and U.S. GAAP that are relevant to the Company, see "*Summary of Significant Differences Between Accounting Principles Followed by the Company and Its Subsidiaries and U.S. Generally Accepted Accounting Principles*".

The Company uses the successful efforts method of accounting for oil and gas exploration and development costs. The initial acquisition costs of oil and gas properties, the costs of drilling and equipping successful exploratory wells, all development costs, and renewals and betterments, which extend the economic life of the assets, are capitalised. The costs of unsuccessful exploration wells, all other exploration costs, and maintenance and repair costs are charged to earnings as incurred.

Capitalised costs of proved oil and gas properties are depreciated and amortised using the unit-of-production method based on estimated proved net oil and gas reserves. As changes in circumstances warrant, the net carrying values of proved properties, plant and equipment are assessed to ensure that they do not exceed future cash flows from use. Capitalised costs of unproved properties are also assessed regularly to determine whether an impairment in value has occurred.

The Company has changed its reporting currency from Rupiah into U.S. dollars from 1 January 2002. This change in reporting currency was approved by the Minister of Finance of the Republic of Indonesia in his Decree No. MEI-641/PJ.42/2001 dated 19 October 2001. As the Company derives substantially all of its revenues in U.S. dollars, this change will result in a more accurate presentation of the Company's foreign exchange position and results of operations year over year.

Results of Operations

The following table sets out the Company's consolidated operating revenues by operation for the years ended 31 December 1998, 1999 and 2000 and for the nine month periods ended 30 September 2000 and 2001:

Consolidated Operating Revenue

	Consolidated Operating Revenues									
	Year ended 31 December						*Nine months ended 30 September*			
	1998		*1999*		*2000*		*2000*		*2001*	
	(Rp. Bn)	*(%)*	*(Rp. Bn)*	*(%)*	*(Rp. Bn)*	*(%)*	*(Rp. Bn)*	*(%)*	*(Rp. Bn)*	*(%)*
Oil and Gas	934.9	50.9	1,082.0	66.4	2,577.6	82.7	1,668.3	82.9	2,284.1	77.6
Drilling	688.4	37.5	335.8	20.6	361.4	11.6	237.2	11.8	435.8	14.8
Methanol	212.8	11.6	210.8	12.9	179.3	5.7	105.8	5.3	224.5	7.6
Total Consolidated	1,836.0	100.0	1,628.6	100.0	3,118.3	100.0	2,011.3	100.0	2,944.3	100.0

Comparison of Nine Months ended 30 September 2001 and 2000

Revenues

Total revenues increased by 46.4% from Rp.2,011.3 billion in the first nine months of 2000 to Rp.2,944.3 billion in the same period in 2001. Such increase was attributable to an increase in revenue from all three areas of business — E&P, drilling activities and methanol.

Exploration and production — Revenues from oil and gas increased by 36.9% from Rp.1,668.3 billion in the first nine months of 2000 to Rp.2,284.1 billion in the same period in 2001. The increase in oil and gas revenue was the result of an increase in the net entitlement of crude oil by 17.9% from 6.4 MMBbls in the first nine months of 2000 to 7.5 MMBbls in the same period in 2001. The increase in net crude oil entitlement was the result of higher gross production and lower crude oil prices for the nine months ended 30 September 2001. The weakening in the Rupiah also contributed to the revenue increase in Rupiah terms. The increase in revenue was partially offset by a 7.6% decline in average realised crude oil price from U.S.$28.6 per Bbl in the first nine months of 2000 to U.S.$26.4 per Bbl for the same period in 2001.

Drilling — Revenue from drilling services increased by 83.7% from Rp.237.2 billion in the first nine months of 2000 to Rp.435.8 billion in the same period in 2001. The increase in revenue from drilling services was the result of an increase in the utilisation rate of offshore drilling rigs from a utilisation rate of 70% in the first nine months of 2000 to an average utilisation rate of 92% in the same period in 2001. The stacking of *Maera* and *Raisis* for repair and upgrade for approximately two months contributed to the lower offshore utilisation rate in the first nine months of 2000. The average daily rental rate for the offshore rigs also increased by 17.4% from U.S.$22,097 in the first nine months of 2000 to U.S.$25,950 in the same period in 2001. The onshore rig utilisation rate decreased slightly from 35% in the first nine months of 2000 to 33% in the same period in 2001. The average daily rental rate for onshore rigs, on the other hand, increased by 33.3% from U.S.$11,600 in the first nine months of 2000 to U.S.$15,468 in the same period in 2001.

Methanol — Revenue from methanol sales increased by 112.1% from Rp.105.8 billion in the first nine months of 2000 to Rp.224.5 billion in the same period in 2001. Such increase was due to an increase in both methanol sales volume and prices. Methanol sales volume increased by 56.7% from 100,860 MT in the first nine months of 2000 to 158,095 MT in the same period in 2001. The lower sales volume in the first nine month of 2000 was the result of plant closure for approximately four months. The average methanol price increased by 5.6% from U.S.$127.7 per MT in the first nine months of 2000 to U.S.$134.9 per MT in the same period in 2001.

Direct cost

Direct cost increased by 34.9% from Rp.834.1 billion in the first nine months in 2000 to Rp.1,125.5 billion in the same period in 2001. Such increase was due to an increase in direct cost in all three areas of business — E&P, drilling services and methanol sales.

Exploration and production — E&P direct cost increased by 13.0% from Rp.509.3 billion in the first nine months of 2000 to Rp.575.3 billion in the same period of 2001. Such increase was due to an increase in lifting expense, depreciation and amortisation. Lifting expense increased by 5.7% from Rp.343.1 billion in the first nine months of 2000 to Rp.362.6 billion in the same period in 2001 as a result of an increase in lifting volumes from 20.8 MMBOE for the first nine months of 2000 to 24.0 MMBOE for the first nine months of 2001. However, lifting expense per BOE decreased from U.S.$2.01 per Bbl in the first nine months of 2000 to U.S.$1.48 per Bbl in the same period in 2001 as a result of the Company's ability to control fixed costs and the more efficient use of chemicals in enhancing the production rate. Depreciation and amortisation expense increased by 53.6% from Rp.90.0 billion in the first nine months of 2000 to Rp.138.3 billion in the same period in 2001 as a result of higher production and an increase in capitalised development costs in the Rimau block. Exploration expense decreased by 2.2% from Rp.76.1 billion in the first nine months of 2000 to Rp.74.5 billion in the same period in 2001.

Drilling — Drilling services direct cost increased by 70.4% from Rp.218.2 billion in the first nine months of 2000 to Rp.371.9 billion in the same period in 2001 mainly due to an increase in depreciation and amortisation, repairs and maintenance, rental, drilling equipment cost, direct labour cost and catering cost. The increase in depreciation was mainly due to the revaluation of rigs in 2001. The increase in repairs and maintenance cost and drilling equipment costs were mainly due to a higher average utilisation rate of offshore rigs and the maintenance cost of onshore rigs. The increase in direct labour cost was the result of a higher utilisation rate and higher labour cost incurred in the operation of the jackup rig, *Raniworo*, in the Middle East.

Methanol — Direct cost for methanol operations increased by 67.3% from Rp.106.6 billion in the first nine months of 2000 to Rp.178.3 billion in the same period in 2001. Such increase in direct cost was mainly due to an increase in the amount of feed gas required which was associated with the increase in production.

Gross profit

Gross profit increased by 54.5% from Rp.1,177.2 billion in the first nine months of 2000 to Rp.1,818.8 billion in the same period in 2001. Such increase in gross profit was due to an increase in gross profit for all three core businesses. E&P gross profit increased by 47.4% from Rp.1,159.0 billion in the first nine months of 2000 to Rp.1,708.8 billion in the same period in 2001. Drilling services gross profit increased by 237% from Rp.19.0 billion in the first nine months of 2000 to Rp.63.9 billion in the same period in 2001. Methanol sales gross profit increased from a gross loss of Rp.0.8 billion in the first nine months of 2000 to a gross profit of Rp.46.2 billion in the same period in 2001. This was due to major turn-around and repairs conducted in 2000.

Gross profit margin increased from 58.5% in the first nine months of 2000 to 61.8% in the same period in 2001. The gross profit margin for E&P increased from 69.5% in the first nine months of 2000 to 74.8% in the same period in 2001. The increase in the gross profit for E&P was mainly attributable to a decrease in lifting expense per BOE which resulted from the Company's ability to control fixed costs and the more efficient use of chemicals in enhancing the production rate. The gross profit margin for drilling services increased from 8.0% in the first nine months of 2000 to 14.7% in the same period in 2001 as a result of an increase in utilisation and rental rates of offshore rigs. The gross profit margin for methanol increased from — 0.7% in the first nine months of 2000 to 20.6% in the same period in 2001 as a result of an increase in sales volume and higher average methanol prices.

Operating Expenses

Operating expenses increased by 44.5% from Rp.184.1 billion in the first nine months of 2000 to Rp.266.1 billion in the same period in 2001. The increase in operating expense was mainly attributable to general expenses. The major general expense items, which contributed to this increase, were salaries and wages, employee benefits, contract charges, professional fees and office supplies. The increase in salaries and wages was due to higher performance based compensation for management and a general increase in salaries. The increase in employee benefits was the result of a new compulsory employee benefit scheme initiated in 2001.

Interest Expense

Interest expense decreased by 3.6% from Rp.30.8 billion in the first nine months of 2000 to Rp.29.7 billion in the same period in 2001. Such reduction was due to lower debt outstanding throughout the first nine months of 2001 compared to the corresponding period in 2000. However, the weaker Rupiah in the first nine months of 2001 partially offset the decrease in interest expense.

Foreign Exchange Gains/Losses

Net foreign exchange decreased from a gain of Rp.87.4 billion in the first nine months of 2000 to a loss of Rp.89.0 billion in the same period in 2001. The Company had a net monetary liability position of U.S.$15.0 million and U.S.$36.8 million as at 30 September 2000 and 2001, respectively. The unrealised loss on foreign exchange decreased from Rp.25.2 billion in first nine months of 2000 to Rp.2.9 billion in the same period in 2001 due to a larger depreciation of the Rupiah during the first nine months of 2000. The realised gain on foreign exchange decrease from a gain of Rp.112.5 billion in first nine months of 2000 to a loss of Rp.86.0 billion in the same period in 2001.

Tax Expense

Tax expense increased by 45.1% from Rp.481.4 billion for the first nine months of 2000 to Rp.698.7 billion in the same period in 2001. Such increase was due to higher taxable income from all three businesses.

Net Income

Net income increased by 26.3% from Rp.431.7 billion for the first nine months of 2000 to Rp.545 billion in the same period in 2001. Net income was affected in the first nine months of 2000 and 2001 by provisioning for doubtful accounts receivable from related parties by Rp.254.8 billion and Rp.258.0 billion, respectively.

Comparison of Years ended 31 December 2000 and 1999

Total revenues increased by 91.5% from Rp.1,628.6 billion in 1999 to Rp.3,118.3 billion in 2000. Such increase was mainly due to an increase in oil and gas, and drilling activities, partially offset by a slight decrease in methanol sales revenue.

Revenue

Exploration and production — Revenue from oil and gas increased by 138.2% from Rp.1,082.0 billion in 1999 to Rp.2,577.6 billion in 2000. Such increase in sales revenue was due to a 47.3% increase in net oil entitlement from 6.1 MMBbls in 1999 to 9.0 MMBbls in 2000, mainly due to an increase in crude oil production from the Kaji-Semoga fields in the Rimau PSC, and a 59.2% increase in the realised price of crude oil from U.S.$18.1 per Bbl in 1999 to U.S.$28.8 per Bbl in 2000.

Drilling — Revenue from contract drilling increased by 7.6% from Rp.335.8 billion in 1999 to Rp.361.4 billion in 2000 as a result of a 42.5% increase in onshore drilling revenue, which was partially offset by a 10.2% decrease in offshore drilling revenue. The increase in the onshore drilling revenue was mainly due to an increase in the average onshore utilisation rate from 25% in 1999 to 37% in 2000, which was partially offset by a decrease in onshore day rental rates from U.S.$14,939 in 1999 to U.S.$12,730 in 2000. The decrease in offshore drilling revenue was mainly due to a decrease in the average offshore utilisation rate from 86% in 1999 to 76% in 2000, and a decrease in the average offshore day rental rate from U.S.$28,983 to U.S.$24,063.

Methanol — Revenue from methanol decreased by 14.9% from Rp.210.8 billion in 1999 to Rp.179.3 billion in 2000. The reduction in the sales of methanol was due to a scheduled turnaround and extraordinary repairs which caused the plant to shut down for approximately four months in 2000.

Direct Cost

Total direct cost increased by 70.2% from Rp.794.2 billion in 1999 to Rp.1,351.8 billion in 2000. Such increase was due to an increase in direct cost of E&P and drilling operations, which was partially offset by the decrease in methanol direct cost.

Exploration and Production — E&P direct cost increased by 161.1% from Rp.322.3 billion in 1999 to Rp.841.8 billion in 2000. Such increase was due to an increase in lifting expenses, exploration expenses, depreciation and amortisation and cost of goods sold (“**COGS**”) for crude oil. Lifting expense increased from Rp.202.8 billion in 1999 to Rp.438.7 billion in 2000 due to an increase in lifting volume from 19.4 MMBOE in 1999 to 28.4 MMBOE in 2000 and additional export costs involved in the sale of oil to Mitsui in 2000. Exploration expense increased from Rp.31.0 billion in 1999 to Rp.139.4 billion in 2000 as a result of an increase in the number and costs of dry holes written off and an increase in geological and geophysical (“**G&G**”) and seismic costs for the three new blocks acquired. The increase in depreciation and amortisation expenses from Rp.88.5 billion in 1999 to Rp.124.1 billion in 2000 was due to an increase in crude oil production and an increase in capitalised development costs in the Rimau block. The COGS of Rp.139.5 billion in 2000 was attributable to crude oil sales to Mitsui from Pertamina’s crude entitlement.

Drilling — Drilling direct costs also increased by 47.2% from Rp.240.1 billion in 1999 to Rp.353.4 billion in 2000 mainly due to an increase in direct labour costs, repairs and maintenance, drilling equipment and rental. The increase in labour cost was due to higher onshore utilisation rates and the commencement of operations in the Middle East. The increase in repairs and maintenance, and drilling equipment costs were due to the concentration of scheduled repairs for onshore rigs and the upgrade for *Maera* and *Raisis* in 2000. The increase in rental cost was due to the rental cost of directional drilling equipment as PT Antareja Jasatama started up its operations in 2000.

Methanol — Direct cost of methanol sold decreased by 32.4% from Rp.231.7 billion in 1999 to Rp.156.7 billion in 2000. The decrease in the cost of methanol sold was attributable to major turnaround and repairs of the Bunyu methanol plant which resulted in a lower amount of gas being supplied to the plant.

Gross Profit

Gross profit increased by 111.7% from Rp.834.4 billion in 1999 to Rp.1,766.5 billion in 2000. Such increase was mainly attributable to E&P operations, where gross profit increased by 128.5% from Rp.759.7 billion in 1999 to Rp.1,735.9 billion in 2000. Total gross profit margin increased from 51.2% in 1999 to 56.6% in 2000. The gross profit margin increased mainly because of an increase in gross profit margin for E&P operations, which was in turn due to an increase in realised oil price.

However, the increase in E&P margin from the increase in realised oil price was partially offset by an increase in lifting expense per BOE mainly due to additional export costs associated with the sale of oil to Mitsui. The gross profit margin for drilling business decreased from 28.5% in 1999 to 2.2% in 2000 mainly due to lower average rental and utilisation rates in respect of offshore rigs. The gross profit margin for methanol increased from -10.0% in 1999 to 12.6% in 2000, mainly due to a sharp increase in methanol prices by 62.8% form U.S.$89.4 per MT to U.S.$145.6 per MT.

Operating Expenses

Operating expenses increased by 58.0% from Rp.194.2 billion in 1999 to Rp.306.7 billion in 2000. The increase in operating expenses was mainly attributable to an increase in general expenses. The major general expense items, which contributed to this increase, were contract charges, salaries and wages, repairs and maintenance and rental costs. Selling expenses also increased by 150.1% from Rp.6.2 billion in 1999 to Rp.15.4 billion in 2000, mainly due to an increase in business travel as a result of an increase in the Company's international marketing activities.

Interest Expenses

Interest expenses decreased by 35.3% from Rp.109.2 billion in 1999 to Rp.70.6 billion in 2000. Such reduction was mainly attributable to a lower level of debt outstanding in 2000 due to approximately Rp.350 billion of debt having been paid down during the year, most of which was issued as part of the Company's restructuring.

Foreign Exchange Gain/Loss

Net foreign exchange increased from a loss of Rp.22.7 billion in 1999 to a gain of Rp.82.8 billion in 2000. The unrealised loss on foreign exchange increased from Rp.91.6 billion in 1999 to Rp.105.9 billion in 2000. The unrealised loss on foreign exchange in 1999 was due to a net monetary asset position as at 31 December 1999 while the Rupiah strengthened in 1999. The unrealised loss on foreign exchange in 2000 was due to a net monetary liability position as at 31 December 2000 while the Rupiah weakened in 2000. The realised gain on foreign exchange increased from Rp.68.9 billion in 1999 to Rp.188.7 billion in 2000.

Tax Expense

Tax expense increased by 163% from Rp.254.5 billion in 1999 to Rp.668.3 billion in 2000. Such increase was mainly attributable to an increase in taxable income in the E&P business in 2000 compared to 1999.

Net Income

Net income increased by 225% from Rp.176.0 billion in 1999 to Rp.572.3 billion in 2000. Such increase was mainly due to an increase in operating profit as a result of higher revenue from E&P operations. Net income was affected in 1999 and 2000 by provisioning for doubtful accounts receivable from related parties by Rp.144.6 billion and Rp.359.9 billion, respectively.

Comparison of Years ended 31 December 1999 and 1998

Total revenues decreased by 11.3% from Rp.1,836.0 billion in 1998 to Rp.1,628.6 billion in 1999. Such decrease in sales revenue was mainly attributable to a decrease in revenue from drilling operations, which was partially offset by an increase in revenue from E&P operations.

Exploration and Production — Revenue from E&P operations increased by 15.7% from Rp.934.9 billion in 1998 to Rp.1,082.0 billion in 1999. This was due to (i) a 17.1% increase in net gas entitlement from 16.9 BCF in 1998 to 19.8 BCF in 1999, together with an increase in average gas price with the commencement of the PLN Tanjung Batu gas sales contract with gas prices higher than the other existing gas sales contracts, (ii) a 5.8% increase in net oil entitlement from 5.8 MMBbls in 1998 to 6.1 MMBbls in 1999 and (iii) a 46.4% increase in realised crude oil price from U.S.$12.4 per Bbl to U.S.$18.1 per Bbl. The increase in revenue was also partially offset by the appreciation of the Rupiah in 1999.

Drilling — Revenue from drilling services decreased by 51.2% from Rp.688.4 billion in 1998 to Rp.335.8 billion in 1999. Such decrease was due to a reduction in utilisation and rental rates. The average onshore utilisation rate decreased from 53% in 1998 to 25% in 1999 and the average offshore utilisation rate from 100% in 1998 to 86% in 1999. The average onshore rental rate decreased from U.S.$15,436 per day to U.S.$14,939 per day, whilst the average offshore rental rate decreased from U.S.$34,419 per day to U.S.$28,983 per day. The decrease in utilisation and rental rates was mainly due to the postponement of scheduled drillings as a result of a low oil price environment and the downturn in the Indonesian drilling industry as a whole in 1999. The decrease in revenue was also the result of appreciation in the Rupiah in 1999.

Methanol — Revenue from methanol remained relatively constant with a mere decrease of 0.9% from Rp.212.8 billion in 1998 to Rp.210.8 billion in 1999. This was due to an increase in sales volume offset by a decrease in sales price. Sales volume increased by 32.8% from 228,973 MT in 1998 to 304,134 MT in 1999 due to local demand for methanol for glue production. However, the average sales price decreased by 10.8% from U.S.$100.3 per MT in 1998 to U.S.$89.4 per MT in 1999 due to a lower global demand for methanol.

Direct Costs

Direct costs were relatively flat moving from 1998 to 1999, increasing only by 1.2% from Rp.784.4 billion in 1998 to Rp.794.2 billion in 1999. The flatness in the direct cost was the effect of an increase in E&P direct costs being largely offset by a decrease in direct costs from drilling operations.

Exploration and Development — E&P direct costs increased by 22.9% from Rp.262.4 billion in 1998 to Rp.322.3 billion in 1999 . The increase in E&P costs was due to an increase in the lifting expenses, exploration expenses and depreciation and amortisation. The increase in lifting expenses was due to an increase in lifting volume from 15.9 MMBOE in 1998 to 19.4 MMBOE in 1999 and the deferment of the cost of gas supplied from Kalimantan to PLN Tanjung Batu power plant in 1998 to 1999. The increase in exploration expense was due to an increase in the number of dry holes written off and an increase in G&G and seismic costs. The increase in depreciation was due to an increase in production and an increase in capitalised development cost in the Rimau block.

Drilling — Drilling direct costs decreased by 16.3% from Rp.287.0 billion in 1998 to Rp.240.1 billion in 1999. The decrease in direct drilling costs was mainly attributable to a decrease in direct labour costs, repair and maintenance, catering expenses and transportation costs, as a result of lower utilisation rates in 1999. However, the increase in other drilling direct costs items such as depreciation, drilling equipment, rental, rig movements and insurance partially offset the decrease.

Methanol — Methanol direct costs remained relatively constant from Rp.235.1 billion in 1998 to Rp.231.7 billion in 1999. Although there was a 32.8% increase in sales volume, the cost in Rupiah remained constant by the purchase of larger volumes of gas at fixed prices in U.S. dollars during a strengthening of the Rupiah.

Gross Profit

Gross profit decreased by 20.7% from Rp.1,051.6 billion in 1998 to Rp.834.4 billion in 1999. Such decrease was mainly attributable to drilling operations, where gross profit decreased from Rp.401.4 billion in 1998 to Rp.95.7 billion in 1999 as a result of a significant decrease in revenue from lower utilisation rates and rental rates, together with a smaller reduction in direct drilling costs.

Total gross profit margin decreased from 57.3% in 1998 to 51.2% in 1999. The gross profit margin decrease was mainly due to a decrease in gross profit margin for drilling business, from 58.3% in 1998 to 28.5% in 1999. Such decrease was due to lower utilisation rates and rental day rates for both onshore and offshore rigs. Further, direct cost did not decrease in proportion to revenue decrease. The gross profit margin for E&P decreased from 71.9% in 1998 to 70.2% in 1999 mainly due to higher exploration expenses which more than offset the effect of increase in oil price.

Operating Expense

Operating expense decreased by 13.2% from Rp.223.7 billion in 1998 to Rp.194.2 billion in 1999. The decrease in operating expenses was due to a decrease in both general expenses and selling expenses. General expenses decreased by 10.3% from Rp.209.5 billion in 1998 to Rp.188.0 billion in 1999. The decrease in general expenses was mainly attributable to reductions in doubtful receivables provisioning, salaries and wages, and amortisation. However, an increase in contract charges, office supplies and professional fees partially offset the decrease. Selling expenses decreased from Rp.14.2 billion in 1998 to Rp.6.2 billion in 1999. This decrease was mainly due to a decrease in representation cost and business travel.

Interest Expense

The reduction in interest expense by 23.0% from Rp.141.7 billion in 1998 to Rp.109.2 billion in 1999 was mainly attributable to a stronger Rupiah in 1999 compared to 1998, and to a lesser extent, the reduction in debt outstanding towards the end of 1999 as a result of the Company's debt restructuring.

Foreign Exchange Gain/Loss

Net foreign exchange loss decreased from Rp.177.9 billion in 1998 to Rp.22.7 billion in 1999. The unrealised loss on foreign exchange decreased from Rp.368.1 billion in 1998 to Rp.91.6 billion in 1999. The unrealised loss on foreign exchange in 1998 was due to a net monetary liability position as at 31 December 1998 while the Rupiah depreciated in 1998. The unrealised loss on foreign exchange in 1999 was due to a net monetary asset position as at 31 December 1999 while the Rupiah appreciated in 1999. The realised gains on foreign exchange decreased from Rp.190.3 billion in 1998 to Rp.68.9 billion in 1999.

Tax Expense

Tax expense increased by 28.9% from Rp.197.4 billion in 1998 to Rp.254.5 billion in 1999. Notwithstanding a decrease in earnings before tax on a consolidated basis, tax expense increased due to an increase in taxable income from the oil and gas operations in each of the PSCs due to higher gross profit and realised oil prices.

Net Income

Net income decreased by 50.3% from Rp.353.9 billion in 1998 to Rp.176.0 billion in 1999. Such decrease was mainly due to a decrease in operating profit as a result of lower revenue from drilling operations and provisioning for doubtful accounts from related parties of Rp.144.6 billion. There was no provisioning in 1998.

Liquidity and Capital Resources

Historically, the Company's operations, capital expenditures and working capital requirements have been funded from borrowings, both short-term and long-term, and cash generated from operations. The Company generated an aggregate of Rp.3,317.5 billion of cash from operations in the three years 1998, 1999 and 2000 and had aggregate cash capital expenditures of Rp.1,123.1 billion in the same period. During 2000 and the nine months ended 30 September 2001, the Company's cash generated from operations increased by 184.4% and 30.9%, respectively, as compared to the corresponding prior periods. The increase in cash generated from operations in 2000 from 1999 was due mainly to an increase in income from operations of 128% as a result of substantially higher oil prices realised and higher net entitlement from Rimau in 2000. The increase in cash generated from operations in the first nine months of 2001 compared with the same corresponding period in 2000 was due to a 56.4% increase in income from operations for all three business units.

The Company's Rp.385.1 billion capital expenditure in 2000 was met by cash generated from operations. Capital expenditure in 2000 was primarily related to development expenditure in relation to the Rimau block.

Capital expenditure in the nine months ended 30 September 2001 was Rp.420.1 billion. Such expenditure primarily related to development expenditure within the production blocks, particularly in relation to the Rimau block. Capital expenditures in the nine months to 30 September 2001 were funded from cash from operations. Full year 2001 capital expenditures are estimated to be approximately Rp.586.0 billion.

The Company's budgeted capital expenditures for business units are as follows:

- *Exploration and development activities:* approximately Rp.1,000.0 billion, Rp.1,300.0 billion and Rp.1,500.0 billion for the years 2002, 2003 and 2004, respectively;

- *Drilling:* approximately Rp.120.0 billion, Rp.600.0 billion and Rp.20.0 billion for the years 2002, 2003 and 2004, respectively, including a new rig acquisition in 2003 for approximately Rp.500.0 billion; and

- *Methanol:* approximately Rp.50.0 billion, Rp.5.0 billion and Rp.40.0 billion for the years 2002, 2003 and 2004, respectively.

In addition to the budgeted development and exploration expenditures relating to the Company's oil and gas properties described above, the Company may make additional capital expenditures and investments in these periods consistent with its business strategy. For example, the above budgeted amounts do not include any investments the Company may make in downstream businesses or acquisitions of oil and gas properties.

The Company's ability to maintain and grow its revenues, net income and cash flows depends upon continued capital spending. The Company adjusts its capital expenditure and investment budget periodically, based on market conditions. Its capital expenditure plans are subject to a number of risks, contingencies and other factors, some of which are beyond the Company's control. Therefore the Company's actual future capital expenditures and investments are likely to be different from its current planned amounts, and such differences may be significant.

The Company underwent a voluntary restructuring (the "**Restructuring**") in November 1999 due to its inability to meet debt repayments caused by (i) a collapse in the crude oil price in 1998, (ii) its inability to raise offshore funds as a result of the Asian crisis, and (iii) its delayed payment for domestic crude oil sales. As part of the restructuring exercise, the Company converted U.S.$150 million worth of debt to equity and issued new indebtedness in an aggregate amount of U.S.$66 million. Debt which was restructured comprised of promissory notes, medium term notes and swaps payable amounting to U.S.$216 million. As of 31 December 2001, all of the debt issued in the Restructuring had been repaid.

In September 1996, the Company entered into a revolving loan facility of up to U.S.$15 million with a syndicate of banks and financial institutions, which was arranged by DKB Merchant Bank (Singapore) ("**DKB**"), to finance the Company's working capital requirements. The loan facility is secured by an assignment of four of the Company's onshore drilling rigs (drilling rigs nos. 2, 5, 6 and 9) and their supporting equipment and related accounts receivables. The interest rate payable by the Company under the loan is DKB's cost of funds plus 2.5 to 3.5% per annum. The rescheduled loan will mature in August 2002. The outstanding balance as of 30 September 2001 was U.S.$7,047,090 and as of 31 December 2001, it was U.S.$6,288,840.

In August 1996, the Company entered into a one year U.S.$6.25 million short-term loan agreement with BDN Bank AG Germany. The loan has been renewed a number of times and has been taken over by Bank Mandiri. The loan will mature in October 2003. As of 31 December 2001, the amount outstanding under this loan was U.S.$4,666,667. Interest payable on the loan is LIBOR plus 3 to 4% per annum.

The Company believes that its future cash flows from operations, borrowing capacity and the net proceeds of the issuance of the Notes will be sufficient to fund its planned capital expenditures and investments, debt maturities and working capital requirements through at least 2003. The Company's ability to obtain adequate financing to satisfy its capital expenditure and debt service requirements may be limited by its financial condition, results of operations and the liquidity of international and domestic financial markets.

INDUSTRY

Brief History

Indonesia's oil and gas industry is recognised as the third oldest in the world after the United States and Russia. The first discovery of oil in commercial quantities was in 1885 at Telaga Said in North Sumatra, Indonesia.

Following its independence in 1945, Indonesia recognised the potential which oil possessed for providing the funds necessary for the development of the country and its infrastructure. The historical oil and gas production in Indonesia is shown in the following table:

	Oil	*Gas*
	(MMBbls)	*(BCF)*
1965	176	112
1970	312	109
1975	477	222
1980	577	1,046
1985	490	1,580
1990	534	1,558
1995	585	2,999
2000	516	2,908

Source: Directorate General of Oil and Gas, Indonesia

In late 1971, a major gas discovery was made in the Arun field in northern Sumatra by Mobil Oil Indonesia Inc., followed by Huffco Indonesia in the Badak field in East Kalimantan in early 1972. These two independent discoveries established Indonesia as a major LNG exporter with the shipment of its first cargo in August 1977 to Japan. World LNG trade has grown at a rate in excess of 17% per year since the early 1970's, resulting in Indonesia being the largest supplier of LNG in the world, producing approximately 27 million tonnes (approximately 1,650 BCF) in 2000. Indonesia today produces about 1.5 MMBbls of oil and condensate per day and exports about 700,000 Bbls/d. It is the 14th largest oil producing country in the world. Oil and gas are the largest contributors to state revenue by industry sector.

Indonesia is a member of OPEC, a group of 12 oil producing countries representing approximately 41% of world oil production.

Indonesian Oil and Gas Industry

Indonesia's oil and gas sector has historically been a key contributor to its economy, and today remains an important contributor of Government export revenues and an important source of foreign exchange for the country. In 2000, exports of oil and gas products accounted for 22.6% of all export earnings.

Annual Indonesian Oil and Gas Production

	1997	*1998*	*1999*	*2000*
Crude Oil Production (1,000 Bbls/d)	1,418	1,401	1,351	1,414
Condensate Production (1,000 Bbls/d)	163	155	149	141
Natural Gas Production (BCF)	3,166	2,979	3,068	2,908
Crude Oil Exports (1,000 Bbls)	261,992	247,246	250,904	223,530
Condensate Exports (1,000 Bbls)	25,940	33,118	34,496	32,715
LNG Exports (MMBTU)	1,387,549	1,395,940	1,501,934	1,416,051
LPG Exports (1,000 MT)	2,133	1,761	1,745	1,310

Source: Pertamina and Ministry of Mines and Natural Resources, Republic of Indonesia.

Annual Foreign Currency Earnings from the Indonesian Oil and Gas Industry (U.S.$ in millions)

	1997	*1998*	*1999*	*2000*
Oil Exports (f.o.b.)	4,951	3,000	4,314	6,288
Oil Imports (f.o.b.) and Services	1,292	977	1,501	2,046
Net Oil Exports	3,659	2,023	2,813	4,242
LNG Exports (f.o.b.)	4,740	3,397	4,489	6,115
Net LPG Exports	516	257	381	295

Source: Department of Finance, Republic of Indonesia and various industry publications.

Outlook of Indonesia on Oil and Gas Industry

The outlook of the Indonesian oil and gas industry will be influenced by the Indonesian and regional economics and world prices for crude oil. Although crude oil is traded globally, the supply/demand equation varies within each region. In the Asia Pacific region, over 40% of oil demand has to be imported, with consumption outstripping production by approximately 170%. The expected continued growth of the Indonesian and the South-East Asian economics will lead to further growth in energy demand from oil, gas and other energy sources. Accordingly energy producers have a strategic importance in this region.

The continually increasing domestic oil consumption has raised concerns that Indonesia will no longer be a net exporter of oil within the first decade of the 21st century. To offset this potential loss of foreign currency earnings and to remain a net oil exporter, the Government has taken five steps:

- In 1993, it increased the price of fuel by reducing its fuel subsidies and therefore reducing fuel demand growth to a planned 5% per year growth rate.
- It has issued incentive packages at regular intervals to stimulate further exploration for oil and gas in so called "frontier" and "deep water" areas particularly in the eastern part of Indonesia.
- The electricity generation industry has been deregulated to allow private investors to generate electricity for public consumption. Fuel usage efficiency is expected to improve as a result.

- It has promoted the use of natural gas as a domestic fuel in substitution for liquid fuels which can be exported.

- It has encouraged the use of geothermal electrical generation capacity to reduce dependence on oil as a fuel.

The Government's exploration incentives should stimulate exploration drilling in eastern Indonesia while the emphasis on oil exports and gas substitution for liquid fuel should also encourage drilling of both oil and gas wells.

Exploration geoscientists believe that opportunities for further oil and gas discoveries exist in Indonesia, with some 38 tertiary sedimentary basins being explored to date and a further 22 basins, so called "frontier" areas, mainly in eastern Indonesia, yet to be explored. The demand for electrical power also provides opportunities for the provision of gas-fuelled power plants and has resulted in an increase in demand for gas.

Production Sharing Arrangements

Indonesian oil and gas activities are currently governed by Pertamina, the Indonesian state owned oil and gas company which was founded in 1968. It is empowered to enter into agreements with foreign and domestic corporations to help Indonesia develop its oil and gas resources. Under Indonesian law, Pertamina is currently the sole entity authorised to manage Indonesia's oil and gas resources on behalf of the Government until Pertamina becomes a limited liability company in 2003 under the new oil and gas law (see "— *New Oil and Gas Law*"). Pertamina enters into production sharing arrangements with private energy companies whereby such companies explore and develop oil and gas in specified areas in exchange for a percentage interest in the production from the fields in the applicable production sharing area. The working relationship and sharing of production between the state and the operator engaging in the Indonesian oil and gas industry is governed by such production sharing arrangements, mainly the PSC, with other arrangements (e.g. TAC and JOB) being variations of the original PSC as described below. On entering into a production sharing arrangement, the operator has to commit to spending a specified sum of capital to implement an agreed work programme.

Production sharing arrangements are based on five main principles which were innovative at the time and which remain the governing principles today:

- contractors responsible for all investments (exploration, development and production);

- contractors' investment and production costs recovered against production;

- profit split between the Government and contractors based on production after the cost recovery portion;

- ownership of tangible assets remaining with the Government; and

- overall management control lying with Pertamina on behalf of the Government.

PSCs

An original PSC is awarded to explore for and to establish commercial hydrocarbon reserves in a specified area prior to commercial production. The PSC is awarded for a number of years depending on the contract terms, subject to discovery of commercial quantities of oil and gas within a certain period, although this exploration period can generally be extended by agreement between the contractor and Pertamina. 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.

Pertamina is typically responsible for managing all PSC operations, assuming and discharging the contractor from all taxes, other than Indonesian corporate taxes and the tax on interest, dividend and royalty and others set forth in the PSC, obtaining approvals and permits needed by the project and approving the contractor's work program and budget. The responsibilities of a contractor under a PSC generally include advancing necessary funds, furnishing technical aid and preparing and executing the work program and budget. In return, the contractor may freely lift, dispose of and export its share of crude oil and retain abroad its proceeds obtained from its share.

The contractor generally has the right to recover all finding and developing costs, as well as operating costs, in each PSC against available revenues generated by the PSC after deduction of first tranche oil and gas ("**FTP**"). Under FTP terms, the parties are entitled to take and receive oil and gas of a certain percentage each year, depending on contract terms, of the total production from each production zone or formation in each such year, before any deduction for recovery of operating costs, investment credits and handling of production. FTP for each year is generally shared between the Government and the contractor in accordance with the standard sharing splits. The balance is available for cost recovery. Post-cost recovery, the Government is entitled to a specified profit share of natural gas production and of crude oil production. Under each production sharing arrangement, the contractor is obligated to pay Indonesian corporate taxes on its specified profit share at the Indonesian corporate tax rate in effect at the time the PSC is executed. See *"Business — Production Sharing Arrangements"*.

After the first five years of a field's production, all PSCs in Indonesia are subject to a domestic market obligation ("**DMO**") under which the contractor is required to supply, at a reduced price, the domestic market with the lesser of (i) 25% of the contractor's before-tax share of total crude oil production or (ii) the contractor's share of profit oil. This reduced price varies from PSC to PSC, in each case calculated at the point of export. Under the current law, DMO does not apply to natural gas production. Under the new oil and gas law, DMO may apply to natural gas production (see "— *New Oil and Gas Law*").

TACs

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 is retained by Pertamina. The shareable portion represents the additional production resulting from the operator's investment in the field and is split in the same way as for an original PSC as described above.

JOBs

A JOB is similar to a TAC in that oil and gas production is divided into non-shareable and shareable portions. In a JOB, 50% of the production is retained by Pertamina, and the balance is the shareable portion which is split in the same way as for an original PSC as described above.

New Oil and Gas Law

In October 2001, the Indonesian House of the Representatives enacted the new oil and gas bill into law (the "**New Law**"). The New Law was approved by the President of Indonesia and promulgated in November 2001.

The New Law replaces the old Law No. 8 of 1971 (regarding Pertamina) and Law No. 44 of 1960 (regarding the oil and gas mining law) which had functioned as references in the national oil business for the past 30 years. The main reasons for replacing the two old laws with a new one is that they are no longer considered to conform to current developments nor the future challenges facing the Indonesian oil and gas industry. Under the New Law, the mining authority in Indonesia changes from Pertamina to the Government. Pertamina will become another oil and gas operator as a limited liability company in 2003 so that Pertamina will be on a par with other oil and gas companies in Indonesia. The New Law will also open up opportunities to both domestic and foreign companies to enter into both upstream and downstream sectors of the oil and gas industry in Indonesia.

In order to implement the New Law which is currently only a framework, the Government is preparing Government ordinances for the upstream and downstream sectors. Under the New Law, there will be a new PSC structure called a "Co-operation Contract". The main principles governing the Co-operation Contracts will be similar to the ones governing the current production sharing arrangements. The Company does not expect that the New Law will have any impact on existing production sharing arrangements.

The New Law may have the following implications in the upstream sector:

(i) under the existing PSC structure, contractors are only required to supply 25% of oil produced domestically at a subsidised price. The Co-operation Contract may require DMO for gas as well; and

(ii) under the existing PSC structure, contractors are required to pay only corporation and dividend taxes. Co-operation Contracts will allow contractors to opt for a tax regime consistent with the applicable tax law at the time that the contract is signed or the general corporate tax law.

Another key item in the New Law is the establishment of state-owned executing regulating boards in 2002. By 2006, it is expected that the Government subsidy on oil-based fuel will be abolished and free competition in the downstream sector will begin.

BUSINESS

All production and reserve data reflects the Company's gross share before Government take except as otherwise noted.

Overview of the Company

Founded in 1980, the Company is one of the largest private sector oil and gas companies in Indonesia, where it is engaged in oil and gas exploration and production, onshore and offshore contract drilling and methanol production. As of 1 January 2002, the Company's estimated gross proved reserves of 177.8 MMBOE consisted of 160.5 MMBbls of oil and condensate and 103.9 BCF of natural gas, and the Company's estimated gross proved plus probable reserves of 669.5 MMBOE consisted of 364.0 MMBbls of oil and condensate and 1,833.2 BCF of natural gas. Based on the average daily production during the nine months ended 30 September 2001, the Company had a proved and proved plus probable reserve life index of approximately 5.2 and 19.4 years, respectively. For the last twelve months ended 30 September 2001, the Company had revenues of approximately Rp.4,051.0 billion (U.S.$418.7 million) and EBITDA of Rp.2,330.7 billion (U.S.$240.9 million).

Oil and gas exploration and production

The Company currently produces crude oil and natural gas from 590 wells in Sumatra and Kalimantan in Indonesia. For the nine months ended 30 September 2001, the Company produced 21 MMBbls of oil and condensate and 28 BCF of natural gas, which places the Company as the third largest crude oil producer (by volume) in Indonesia. The Company has the right to explore for and produce oil and gas over 26,542 km^2 in Indonesia under production sharing arrangements with Pertamina, Indonesia's national oil company. Under such production sharing arrangements, the Company is generally entitled to recover its costs and earn an after-tax profit share. See "*Industry — Production Sharing Arrangements*". All major contracts entered into by the Company have historically been denominated in U.S. dollars and substantially all of its revenues and a substantial portion of its costs are denominated in U.S. dollars. For the nine months ended 30 September 2001, 63.0% by volume of the Company's net crude entitlement (representing all of the Company's exports) was sold to Mitsui Oil (Asia) Hong Kong Ltd. ("**Mitsui**") (see *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Oil and Gas"*) and the remainder was supplied to Pertamina. The Company's natural gas production is supplied to fertiliser, power and methanol plants. Oil and gas production accounted for approximately 77.6% of the Company's revenues in the nine months ended 30 September 2001.

Contract drilling

The Company owns a fleet of 12 onshore drilling rigs and three offshore drilling rigs to provide onshore and offshore contract drilling services to oil and gas companies operating mainly in Indonesia. The Company's drilling rigs are used for oil, gas and geothermal exploration and production. The Company's offshore rigs include two submersible rigs capable of operating in water depths of up to eight metres and a jack-up rig capable of operating in water depths of up to 100 metres. In June 2001, the Company and Mesa Drilling AS, a Norwegian company, established a 50:50 joint venture, Mesa Drilling, Inc. ("**Mesa**"), to expand the contract drilling business in the United States. Contract drilling accounted for approximately 14.8% of the Company's revenues in the nine months ended 30 September 2001.

Methanol production

As part of the Company's strategy of creating new markets for its natural gas reserves, the Company assumed the operation of the Bunyu methanol plant in East Kalimantan in April 1997, and currently delivers approximately 28 MMCFD of gas to the plant from its Tarakan field under a 10-year contract with Pertamina expiring in 2007. Methanol production accounted for approximately 7.6% of the Company's revenues in the nine months ended 30 September 2001.

Brief History

The Company was established in 1980 as an Indonesian drilling contractor under the name of PT Meta Epsi Pribumi Drilling Company. It began oil and gas production in Kalimantan and acquired exploratory and production licenses from Tesoro Petroleum Company in Kalimantan in 1992. In late 1995, it expanded its exploration and production activities to Sumatra by acquiring PT Exspan Sumatera (previously named PT Stanvac Indonesia) from affiliates of Exxon and Mobil. In 1996, the Company significantly increased its exploratory drilling activities, which resulted in the discovery of substantial reserves of oil and natural gas in the Kaji/Semoga fields of the Rimau block, Southern Sumatra. In 1997, the Company assumed the operation of the Bunyu methanol plant in East Kalimantan and began delivering gas to the plant from its Tarakan field under a gas sales agreement. In 1998, the Company delivered its first gas supply to PLN's power plant in Tanjung Batu, covering 60% of East Kalimantan's electricity market. In 1999, the Company underwent a successful debt restructuring following the Asian crisis. In 2000, three new blocks, Simmenggaris, Madura and Senoro-Toili were acquired, followed by the discovery of the Soka oil field in South Sumatra. In October 2001, PTTEP of Thailand acquired a 34.18% indirect equity interest in the Company.

Business Strengths

The Company believes its key business strengths to be as follows:

Large proved reserves with significant exploitation opportunities

Based on the Company's oil and natural gas reserves as of 1 January 2002 and the Company's average daily production for the nine months ended 30 September 2001, the Company had a proved reserve-to-production ratio of 5.2 years, and a proved plus probable reserve-to-production ratio of 19.4 years. As of 1 January 2002, for oil and natural gas, respectively, 89.9% and 78.9% of the Company's gross proved reserves were classified as gross proved undeveloped. The Company expects its production to grow significantly over the next three to five years as the probable reserve properties begin producing.

High quality assets that enable rapid commercialisation

The Company's high quality production blocks and contract drilling rigs have enabled the Company to rapidly commercialise exploration successes into producing blocks. These properties have increasingly longer reserve lives, mature and established production profiles, abundant natural gas reserves and contain further identified development opportunities. Many of the Company's crude oil and natural gas reserves are located in the Rimau and Extension/Kampar blocks in Sumatra. These blocks have a geographical advantage over other fields because they are concentrated in area and have a mature oil and gas transportation infrastructure that allows relatively easy access to domestic and export markets.

Competitive cost structure

Between 1997 and 2000, the most recent period for which industry data provided by Pertamina is available, the Company had on average the lowest exploration and development costs, and one of the lowest operation and production costs of any oil and gas operator in Indonesia. For the years 1999 to 2001, the Company's average total lifting costs and average finding and development costs were approximately U.S.$1.98 per BOE and U.S.$1.57 per BOE, respectively, the Company's average total lifting costs. Such low costs are achieved through employment of local professionals, the existing infrastructure in place near the Company's producing blocks and the geographic concentration of its oil fields. The Company believes that its cost structure allows it to compete effectively even in a low crude oil price environment.

Historically successful acquisition strategy

Since 1995, when the Company acquired PT Stanvac Indonesia, a subsidiary of Exxon/Mobil, the Company has successfully grown its oil and gas production from approximately 12,500 Bbls/d and 56 MMCFD for oil and gas, respectively, in 1996 to approximately 77,700 Bbls/d and over 101.4 MMCFD for oil and gas, respectively, in the first nine months of 2001. With the acquisition of the Rimau block in 1995, the Company acquired large oil reserves from which production commenced within 18 months of the acquisition. The Company also acquired large probable oil and gas reserves (285 MMBOE as of 1 January 2002) as a result of acquiring the Senoro-Toili block, currently in the development/exploration stage, from Arco in 2000. Other recent major acquisitions include the Simenggaris and Madura blocks in 2000 and the Bengara block in December 2001, which are currently in the exploration stage. Recently, the Company has agreed to acquire a 25% interest in the Tuban block, onshore in East Java and a 15% interest in the Asahan block, offshore of Sumatra. Due diligence has been completed and the completion of these acquisitions is subject to the execution of the respective sale and purchase agreements.

Local Indonesian operator with experienced management team

The Company's Indonesian management team directs the Company's operations using international management practices and has over 20 years' experience in oil and gas exploration, production and contract drilling. As an indigenous and entrepreneurial Indonesian operator with excellent relations with the Government and the oil and gas community, the Company believes it has an advantage in competing for new blocks and bidding out drilling contracts over other oil and gas companies operating in Southeast Asia.

Business Strategy

The principal components of the Company's strategy are as follows:

Replace and add reserves through exploration and acquisition

The Company will seek to acquire and develop new fields and to increase its exploration activities, building on its successful acquisition and exploration strategies to date. The Company intends to opportunistically and more aggressively acquire oil and gas assets, both mature fields for which significant exploratory data is available, and frontier fields for which no exploratory data is available. The Company's acquisition of the Senoro-Toili block in 2000 significantly increased its total gross proved and probable reserves. The newly acquired blocks of Simenggaris and Madura in 2000 and Bengara in 2001 are being further explored. Due to the global trend of oil and gas industry consolidation and asset rationalisation, the Company believes that it will continue to have opportunities to acquire oil and natural gas properties at attractive rates of return. The Company has identified prospective exploitation projects, both onshore and offshore, and has a proven track record in executing onshore projects quickly and on a cost effective basis.

Establish strategic alliances in selected exploration ventures

The Company has entered into a number of strategic alliances in the past with international oil and gas companies and intends to continue to seek out strategic partners for new and existing projects. These alliances have assisted the Company in sharing its capital costs, developing new markets, enhancing the Company's technological expertise and capitalising on exploration opportunities. These alliances have also diversified the Company's risk profile, allowing the Company to achieve multiple project exposure while diversifying investment risk. As an Indonesian entity with a record as a cost efficient operator and its long-standing relationship with the Government, the Company's management believes that it is well positioned to secure new business with appropriate partners in the future.

Develop new markets for uncommitted natural gas

Asian governments, including the Government, expect a significant growth in natural gas demand, and are making efforts to promote the use of natural gas as a clean and more efficient fuel than coal or oil. The Company intends to capitalise on this growth by continuing to market its uncommitted natural gas reserves and prudently evaluating selective investments in both domestic and export gas projects. With the enactment of the new oil and gas law (see "*Industry — The New Oil and Gas Law*"), the Company will seek to maximise utilisation of its natural gas reserves by entering into working alliances as gas suppliers in the liberalisation of the downstream sector. The aim of such working alliances is to obtain and secure long-term gas contracts with power plants and industrial users, among others, as the new users of natural gas.

Continue to ensure support from local community through implementation of development and social programs

With a view to strengthening relationships with both the regional authorities and local communities, the Company focuses on long-term community development and economic empowerment programs. The Company's community development activities are divided among its various operating areas, in proportion to their relative size. Such activities range from practical job training for local youths to providing public infrastructure such as community roads and public schools. The aim of such programs is to encourage support for the Company's operations from the local communities in light of the currently prevailing spirit of regional autonomy in Indonesia.

Reserves

The following table summarises the estimates of the Company's historical gross proved natural gas and oil reserves as of the dates indicated.

The table below sets forth information about the Company's gross[(1)] proved (1P)[(2)] reserves as of 1999, 2000 and 2001.

	1999	*2000*	*2001*
Crude oil (MMBbls):			
Gross proved reserves			
Beginning of year	96.2	181.2	180.1
Revisions of previous estimates	100.7	23.3	10.4
Production for the year..	(15.7)	(24.4)	(30.0)
End of year..	181.2	180.1	160.5
Natural gas (BCF):			
Gross proved reserves			
Beginning of year	439.3	169.8	140.3
Revisions of previous estimates	(237.3)	2.2	(7.9)
Production for the year..	(32.2)	(31.7)	(28.5)
End of year..	169.8	140.3	103.9

(1) "Gross" reserves are reserves attributable to the Company's working interest but prior to deduction of applicable Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.

(2) "Proved (1P)" reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations.

The table below sets forth information about the Company's gross[1] proved plus probable (2P) [2] reserves as of 1999, 2000 and 2001.

	1999	*2000*	*2001*
Crude oil (MMBbls):			
Gross proved plus probable reserves			
Beginning of year	144.2	214.4	226.5
Revisions of previous estimates	85.9	36.5	167.5
Production for the year	(15.7)	(24.4)	(30.0)
End of year	214.4	226.5	364.0
Natural gas (BCF):			
Gross proved plus probable reserves			
Beginning of year	630.0	469.2	709.4
Revisions of previous estimates	(128.6)	271.9	1,152.3
Production for the year	(32.2)	(31.7)	(28.5)
End of year	469.2	709.4	1,833.2

(1) "Gross" reserves are reserves attributable to the Company's working interest but prior to deduction of applicable Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.

(2) "Proved plus probable (2P)" reserves are "proved" reserves (see definition in the table above) plus those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Estimates of the Company's reserves are made using sales prices estimated by the Company to be in effect as of the date of such reserve estimates and are held constant throughout the life of the properties (except to the extent a contract specifically provides for escalation). There are numerous uncertainties inherent in estimating natural gas and oil reserves and their estimated values, including many factors beyond the control of the producer. See "*Risk Factors — Risks Relating to the Company — Uncertainty of Reserve Estimates*". The reserve data set forth in this Offering Circular represents only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of natural gas and oil that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgement. As a result, estimates of different engineers, including those used by the Company, may vary. In addition, estimates of reserves are subject to revision based upon actual production, results of future development and exploration activities, prevailing natural gas and oil prices, operating costs and other factors, which revisions may be material. Accordingly, reserve estimates are often different from the quantities of natural gas and oil that are ultimately recovered and are highly dependent upon the accuracy of the assumptions upon which they are based.

Information used in the preparation of the GCA Report, from which the above information for the years from 2000 onwards is summarised or extracted, was obtained from the Company. GCA were provided with geological and engineering information and data from the fields evaluated and have consulted with officers and employees of the Company. GCA relied, without independent verification, upon information furnished by the Company with respect to property interests owned by the Company, production from such properties, current prices for production, agreements relating to current and future operations and sale of production and various other information and data that were accepted as represented. It was not considered necessary for GCA to make a field examination of the physical condition and operation of the properties in which the Company owns interests.

Oil and Gas Properties

The Company's oil and gas activities are primarily carried out through contractual arrangements with Pertamina in the form of production sharing arrangements (PSCs, TACs and JOBs) pursuant to which the Company provides financing and technical expertise to conduct exploration, development and production operations in a specified geographic area (each, a "**contract area**"). Four of these contract areas are currently producing crude oil and natural gas: the Rimau PSC, the Extension/Kampar PSC, the Sanga-Sanga TAC and the Tarakan PSC. Upon commercial production, the production revenue out of the shareable portion from each contract area is divided between the Government and the Company according to percentages that vary with each production sharing arrangement, subject to cost recovery provisions. See "*Industry — Production Sharing Arrangements*" for a discussion of the terms and conditions of the production sharing arrangements and also "*Business — Production Sharing Arrangements*".

The Company's oil and gas exploration and production activities are carried out by PT Exspan Nusantara (previously PT Exspan Sumatera) and PT Exspan Kalimantan, both wholly-owned subsidiaries of the Company.

The Company currently has four producing contract areas and seven non-producing contract areas.

The following table lists, as of 1 January 2002, the Company's contract area and proved reserves for each of its production sharing arrangements. See table under "*Industry — Production Sharing Arrangements*" for the description of each arrangement.

Location (Type of Agreement)	*Working interest*	*Company's Gross(1) Proved Certified Reserves as of 1 January 2002*			*Gross km²*
		Oil	*Gas*	*Total*	
	%	*(MMBbls)*	*(BCF)*	*(MMBOE)*	
South and Central Sumatra					
Rimau (PSC)	100	120.0	–	120.0	1,539
Extension/Kampar (PSC)	100	24.7	49.3	32.9	6,493
Pasemah (PSC)(2)	50	–	–	–	5,130
East Kalimantan					
Sanga-Sanga (TAC)	100	14.3	22.7	18.1	138
Tarakan (PSC)	100	1.5	31.9	6.8	180
Simenggaris (JOB)(3)	31.9	–	–	–	2,734
Bengara (PSC)(3)	100	–	–	–	4,614
Java					
Madura (JOB)(3)	24.8	–	–	–	2,729
Sulawesi					
Senoro-Toili (JOB)(4)	50	–	–	–	475
Myanmar (2 PSCs)(5)	100	–	–	–	2,510
Total		160.5	103.9	177.8	26,542

(1) "Gross" reserves reflect the Company's working interest prior to deduction of applicable Government take payable to the Government under the applicable contractual arrangement.

(2) To be relinquished in 2002

(3) Under exploration stage.

(4) Large gas reserves classified as "probable" at Senoro-Toili will be transferred to "proved" if gas sales contracts exist.

(5) The two PSCs in this area are to be relinquished in 2002.

Description of the Properties

Production Properties

Rimau Block, South Sumatra

In 1973, Exspan Sumatera, which the Company acquired in 1995, and Pertamina entered into a 30-year production sharing contract for the exploration of the Rimau block (the "**Rimau PSC**") located onshore in South Sumatra. The Company is currently the operator of the block with a 100% working interest. This contract has recently been extended and now will expire in 2023. The Rimau PSC currently covers 1,539 km^2.

Operations and Reserves. Production of oil from the Rimau contract area began in 1986 when the area was operated by Exspan Sumatera, then operating under the name PT Stanvac Indonesia, prior to its acquisition by the Company. Prior to November 1995, 14 exploratory wells and seven delineation wells had been drilled in the Rimau contract area and over 10.6 MMBbls of oil had been produced.

Since acquiring the Rimau PSC, the Company has drilled a further three exploratory wells, resulting in the discovery of two significant commercial oil fields and has worked over four production wells. The Company has 3,122 km^2 of 2D seismic data covering the Rimau contract area. In September 1996, the Company announced the discovery of significant oil reserves in the Kaji field and Semoga field in the Rimau contract area amounting to 24 MMBbls and 47 MMBbls of proved reserves, respectively. The Company also discovered gas reserves amounting to 38 BCF and 27 BCF of proved reserves at the Kaji field and Semoga field, respectively. Thirty wells were drilled at Kaji/Semoga in 2000. As of 1 January 2002, estimated proved reserves for the Rimau contract area were 120.0 MMBbls of oil.

Production. Crude oil operations in the Rimau PSC contract area consist of approximately 81 commercially producing wells in five fields that are currently producing approximately 83,000 Bbls/d of oil in aggregate. Oil production is transferred to Pertamina's Musi refinery in South Sumatra through two pipelines owned by Pertamina and operated and maintained by the Company. Crude oil export sales from the South Sumatera operations commenced in December 1999. The Company has entered into a crude oil sale and purchase agreement with Mitsui to export Kaji-Semoga crude, currently at 20,000 Bbls/d on a monthly basis (with adjustment), with a right of first refusal for Mitsui to purchase oil available for export exceeding the contractual volume. This agreement, which is an extension of a previous one-year contract, will expire on 31 March 2002. International bidding for a replacement one-year contract, starting 1 April 2002, has been completed, with Itochu being the preferred bidder offering the highest tender price. Pursuant to a shareholders' agreement signed in December 2001 following the acquisition by PTTEP of an indirect equity interest in the Company, the initial 50% of the Company's net crude entitlement which could be sold to a third party has to be through a competitive tender process. The contract which Itochu won was through this competitive tender process. Pursuant to the shareholders' agreement, PTTEP has the right of first refusal to purchase the remaining 50% of the Company's net crude entitlement at a price equal to the highest tender price, being the price offered by Itochu, for the initial 50%. Net crude entitlement consists of the Company's (i) cost recovery and (ii) profit share, net of domestic market obligations (see "*Industry – Production Sharing Arrangments*"). Following the winning of the tender by Itochu, PTTEP has decided to exercise its right of first refusal starting July 2002. Terms of the contracts between the Company and Itochu and PTTEP, respectively, are being finalised. The contracts are expected to be executed at the end of March 2002.

From the first quarter of 2001, crude oil exports utilised a pipeline from the Kaji field to the Tengguleng river terminal, and from there transportation is by barge to a marine terminal, the FSO Arjuna facility, moored at Muntok, Bangka Island.

Extension/Kampar Block, South Sumatra

In 1989, Exspan Sumatera, which the Company acquired in 1995, and Pertamina entered into a 20-year production sharing contract which became effective from 1993. This contract is for the exploration of the Extension/Kampar contract area (the "**Extension/Kampar PSC**") located onshore in South and Central Sumatra. The Company is the operator of the blocks with a 100% working interest. The Extension/Kampar PSC currently covers 6,493 km^2.

Operations and Reserves. Production of oil from the Kampar block and the Extension block began in 1971 and 1972, respectively, when the areas were operated by Exspan Sumatera, then operating under the name PT Stanvac Indonesia, prior to its acquisition by the Company. Prior to November 1995, 108 exploratory wells, six delineation wells and 429 production wells had been drilled in the Extension/Kampar contract area and over 143.9 MMBbls of oil had been produced.

Since acquiring the Extension/Kampar PSC, the Company has drilled a further 17 exploratory wells and four delineation wells resulting in the discovery of two commercial oil fields and has worked over 34 production wells. The Company has 27,607 km^2 of 2D seismic data and 116 km^2 of 3D seismic data covering the Extension/Kampar contract area.

In the Extension block, three exploration wells and three appraisal wells were drilled in 2000. This resulted in one exploration success and three appraisal successes. Of the three exploration wells, one hydrocarbon discovery, Matra-1, encountered oil. Presence of oil was also confirmed in Soka in 2001. Based on internal technical estimates, the Company's estimated reserves for Soka on a proved plus probable basis are 87 BCF of gas and 6.4 MMBbls of oil. As of 1 January 2002, estimated gross proved reserves for the Extension/Kampar contract area were 24.7 MMBbls of oil and 49.3 BCF of gas.

In February 2002, presence of oil was confirmed in the Kembar field in the Extension block following the drilling of the Kembar-1 exploration well. Preliminary results indicate oil flow at the rate of 240 Bbls/d of 43° API crude oil and 4 MMCFD of gas. Further testing is being conducted. There are other prospective areas nearby with similar features as Kembar.

Production. Crude oil operations in the Extension/Kampar contract area consist of approximately 188 commercially producing wells in 19 fields that are currently producing approximately 5,600 Bbls/d of crude oil in aggregate for the entire PSC. Oil production from the Extension block is transferred to Pertamina's Musi refinery in Plaju, South Sumatra by a 180 kilometre pipeline which has a capacity to transfer 24,000 Bbls/d of oil and is owned and operated by Pertamina. Oil production from Kampar used to be transferred to the Company's marine terminal at Buatan on the Siak River in Central Sumatra by a 180 kilometre pipeline with a capacity of 10,000 Bbls/d of oil. However, due to plugging in the Pertamina pipeline, transportation to Buatan is currently by trucks and transportation from Buatan to the Pertamina refinery is by shuttle tankers. The Company also has an agreement with Pertamina to supply 16.4 BCF of gas per year to a fertiliser plant in Palembang under an 85% take or pay contract ending in 2004.

Sanga-Sanga, East Kalimantan

In 1992, the Company acquired a technical assistance contract for the exploration of the Sanga-Sanga and Samboja blocks located onshore in East Kalimantan and a portion of the Tarakan block located on the island of Tarakan on the northern part of East Kalimantan (the "**Sanga-Sanga TAC**") from Tesoro Indonesie Petroleum Company ("**Tesoro**"). The Sanga-Sanga TAC had been extended in 1988 by agreement between Pertamina and Tesoro for a 20-year term expiring in 2008. The Company is operator of the block with a 100% working interest. The Sanga-Sanga TAC currently covers 138 km^2.

Operations and Reserves. Production of oil from the Sanga-Sanga and Samboja blocks began in 1898 and production from the portion of the Tarakan block within the Sanga-Sanga contract area began in 1907. Between 1972 and 1992, during which time the TAC was operated by Tesoro, 135 production wells were drilled in the Sanga-Sanga and Samboja blocks and 244 production wells were drilled in the portion of the Tarakan block within the Sanga-Sanga contract area. Up to 30 September 2001, over 550 MMBbls of oil had been produced.

Since acquiring the Sanga-Sanga TAC, the Company has capitalised on its low cost structure to reactivate wells which had been plugged and abandoned either because the well was thought to be substantially depleted or because it had been destroyed during World War II. Production of oil from the Sanga-Sanga and Samboja blocks has been reactivated since their acquisition from Tesoro. Declining daily oil production has been reversed and recoverable reserves upgraded through renewed investment. Since acquiring the Sanga-Sanga TAC, the Company has reactivated 57 wells which had been plugged and abandoned, drilled a further 26 production wells in the Sanga-Sanga and Samboja blocks, reactivated 72 wells and drilled a further five production wells in the portion of the Tarakan block within the Sanga-Sanga contract area. The Company has compiled 53.5 km^2 of 3D seismic data in relation to prospective gas zones in the Sanga-Sanga field and intends to conduct studies to collect seismic data in relation to 43 km^2 of land north of the Sanga-Sanga field, particularly to identify possible gas reserves.

As of 1 January 2002, the estimated gross proved reserves for the Sanga-Sanga TAC contract area were 14.3 MMBbls of oil and 22.7 BCF of gas.

Production. Crude oil operations in the Sanga-Sanga and Samboja blocks consist of approximately 150 commercially producing wells which are currently producing crude oil at approximately 5,000 Bbls/d. Crude oil operations in the Tarakan block within the Sanga-Sanga contract area consist of 12 commercially producing wells in four fields which currently produce crude oil at approximately 1,100 MMBbls/d. Oil production from the Sanga-Sanga and Samboja fields is transferred to Pertamina's refinery in Balikpapan by a 100 kilometre pipeline, with capacity for 5,000 Bbls/d of oil, owned by Pertamina and operated and maintained by the Company. Oil production from the Tarakan fields is stored at the site and transferred to Pertamina's refinery in Balikpapan by shuttle tankers owned by Pertamina.

During 1997, the Company developed gas reserves in the Sanga-Sanga field. The Company has agreed with Pertamina to supply 9.1 MMCFD of gas to a 60 MW electricity generating plant in Tanjung Batu, East Kalimantan under a five year interim gas sales contract commencing January 2001, with price revision at the end of the third year. It is intended that such supply of gas will continue until 2018. The plant is owned and operated by the Indonesian state electrical utility ("**PLN**") and previously used diesel fuel. The Company completed construction of a 30 kilometre pipeline from the Sanga-Sanga field to the plant and began actual delivery of gas in February 1998.

Tarakan, East Kalimantan

In 1992, the Company acquired the production sharing contract for the exploration of the Tarakan block (the "**Tarakan PSC**") located on the island of Tarakan, off the northern part of East Kalimantan, from Tesoro Tarakan Petroleum Company. The Tarakan PSC had been extended in 1982 by agreement between Pertamina and Tesoro Tarakan Petroleum Company for a 20-year term expiring in 2002. This has recently been further extended by another 20-year term expiring in 2022. The Company is the operator of the block with a 100% working interest. The Tarakan PSC currently covers 180 km^2.

Operations and Reserves. Between 1982 and 1992, during which time the Tarakan PSC was operated by Tesoro Tarakan Petroleum Company, six exploratory wells were drilled in the Tarakan PSC contract area, of which four encountered gas and two, both in the Mamburungan field, encountered oil. In February 1989, Tesoro Tarakan Petroleum Company received approval from Pertamina to produce oil from the Mamburungan field under special terms as to the sharing of post-cost recovery oil. As of 30 September 2001, 2.2 MMBbls of crude oil had been produced from the Mamburungan field. When acquired by the Company in 1992, the gas reserves in the Tarakan PSC contract area were undeveloped, although six exploratory gas wells had already been drilled. Since acquiring the Tarakan PSC, the Company has drilled five exploratory wells. The Company has 503 km^2 of 2D seismic data covering the Tarakan PSC contract area.

As of 1 January 2002, estimated proved reserves for the Tarakan PSC contract area were 1.5 MMBbls of oil and 31.9 BCF of gas.

Production. Crude oil operations in the Mamburungan field in the Tarakan PSC contract area consist of two commercially producing wells that are currently producing approximately 1,000 Bbls/d of crude oil. The crude oil is stored at the same storage site as for the Tarakan block within the Sanga-Sanga PSC and Pertamina arranges for its delivery to the Balikpapan refinery by shuttle tankers.

Four natural gas fields have been developed involving seven commercially producing wells, with five fields yet to be developed. Approval to proceed with field development was given by Pertamina in April 1996 and construction of natural gas processing facilities and a pipeline to the methanol plant on Bunyu Island, East Kalimantan, was completed by the end of 1996. In April 1997, the Company commenced commercial production of natural gas under the Tarakan PSC. Under a ten year contract with Pertamina which expires in 2007, the Company will supply up to 30 MMCFD (take or pay at 21 MMCFD) of natural gas to the Bunyu methanol plant, which is operated by the Company (see "*— Gas Related Downstream Projects*" below). The Company currently supplies approximately 28 MMCFD of natural gas to the Bunyu methanol plant through a 25 km pipeline with capacity to carry 40 MMCFD of gas. The pipeline is owned and operated by the Company. In November 2001, the Company and PLN entered into discussions to supply 5 MMCFD of gas for 10 years to a 10 MW electricity generating plant in Tarakan city, East Kalimantan.

Exploration Properties

Senoro-Toili, Sulawesi

In March 2000, the Company took over Arco's 50% participating interest in the Senoro-Toili block, and together with Pertamina, operates the block under a JOB production sharing arrangement. The block consists of two areas within Benggai, Senoro (onshore) covering 198 km^2 and Toili (offshore) covering 277 km^2. The Senoro area has significant gas reserves, with 1.5 Tcf of probable, and another 2.2 Tcf possible reserves, reflecting the Company's working interest. It is expected that joint marketing will take place with Pertamina's own gas reserves in the Donggi block within the Banggai basin for feedstock of petrochemical/fertiliser plant, DME or LNG plants.

In the offshore Toili block, the Company is in the process of developing the Tiaka oil field by reclaiming a reef, drilling six multilateral wells and installing production facilities on the man-made island. Produced crude oil will be stored in a floating storage and offloading vessel (an "**FSO**") berthed at a jetty of the island. Based on internal technical estimates, the Company's expected recoverable reserves are estimated at 5.3 MMBOE.

The Government has given its approval for the development of the Toili oil field, but its development is currently subject to the results of an environmental aspect analysis which is yet to be completed.

Madura, East Java

In early 2000, the Company entered into two contracts with Pertamina to replace Western Madura Pty. Ltd. and Western Simenggaris Pty. Ltd. as contractor in two JOBs. The Company has a 24.8% participating interest in Madura.

In Madura, the Company is currently drilling an exploration well in Sebaya and will follow with several other wells, including Karasan, Telaga, Lumbung and Tambuku. Based on internal technical estimates, the Company's expected recoverable reserves are estimated at 19.8 MMBOE. If the exploration effort is successful, it plans to develop such reserves by drilling 30 wells from two clusters.

Simenggaris, East Kalimantan

In January 2000, the Company acquired Genindo Western Petroleum Pty. Ltd.'s interest in the Simenggaris JOB, onshore East Kalimantan, which is adjacent to the Company's existing operations on Tarakan Island. The Company has a 31.9% participating interest in Simenggaris. The Simenggaris block has an area of 2,734 km^2. The Company drilled the first exploration well in Pidawan in February 2002, to be followed by other wells. Based on internal technical estimates, the Company's expected recoverable reserves to be discovered are estimated to be 81.7 MMBOE, of which 11.8 MMBOE will be from Pidawan.

Bengara, East Kalimantan

In December 2001, the Company acquired PT Petroner Bengara Energi's interest in the Bengara PSC located onshore near the Company's existing operations on Tarakan island. The Company has a 100% participating interest in Bengara. Previous Pertamina studies of more than 1,300 km seismic lines resulted in the conclusion that the area is promising in that all of the hydrocarbon play elements support significant hydrocarbon accumulations. The Bengara block covers 4,614 km^2.

Properties to be relinquished

Pasemah, South Sumatra

In 1993, Exspan Sumatera and Pertamina entered into a 30-year PSC for the exploration of the Pasemah block (the "**Pasemah PSC**") located onshore in South Sumatra. The Company was the operator of the block with a 100% working interest at the commencement of the PSC. In June 2000, Exspan Pasemah Inc. farmed out a 50% working interest in the Pasemah PSC to Petronas, the Malaysian national oil and gas company, in exchange for partially funding the cost of a three well exploration program. This joint venture was established to reduce the Company's financial exposure in a relatively high risk frontier exploration. The Pasemah PSC currently covers 5,130 km^2.

Two exploration wells were drilled in 2000. The first well encountered gas but with a high CO_2 content, as indicated from wireline testing. Hence, the well was suspended without conducting a flow test. The second well, drilled in October 2000, was a dry hole and has been plugged and abandoned. The Company plans to relinquish the Pasemah PSC in 2002.

Myanmar

In July 1997, the Company entered into three PSCs with Myanmar Oil and Gas Enterprise, the Myanmar government owned oil and gas company, to conduct exploration studies of oil and gas fields in Myanmar which were operated prior to World War II, covering a total area of approximately 3,664 km^2. At the end of 1998, one block covering a total area of 1,154 km^2 was relinquished due to a lack of prospects. In 2000, the Company drilled two exploration wells in each of the two remaining blocks which resulted in dry wells. As a result, the Company has since ceased investment in these two blocks and plans to relinquish them in 2002.

Production Sharing Arrangements

All of the Company's oil and gas exploration and production operations in Indonesia are conducted through production sharing arrangements with Pertamina, the Indonesian state-owned oil company. Pertamina was established in 1969 through the merger of two Indonesian state-owned oil and gas administration and distribution authorities, and is one of the largest state-owned companies in Indonesia. Apart from managing its own operations, Pertamina is responsible for all gas and oil activities in Indonesia, including exploration, production, refining, domestic supply, transportation and marketing.

Of the eleven production sharing arrangements in which the Company has an interest, seven are production sharing contracts (PSCs), one is a technical assistance contract (TAC) and three are joint operating bodies (JOBs) (see "*Industry — Production Sharing Arrangements*").

The following table sets forth certain terms of the Company's production sharing arrangements.

Location/Type of Production Sharing Arrangement	*Effective Date*	*Expiration of Term*	*Effective Post-Tax and Post-Cost Recovery Share to Contractor*[1] *Profit Crude Oil*	*Profit Natural Gas*
			%	%
South and Central Sumatra				
Rimau (PSC)	1973	2023	15	35
Extension/Kampar (PSC)	1993	2013	15	30
Pasemah (PSC)	1993	1999[2] (for exploration)	35	40
East Kalimantan				
Sanga-Sanga (TAC)	1988	2008	35	35
Simenggaris (JOB)	1997	2004 (for exploration)		
		2027 (for development)	15	35
Tarakan (PSC)[3]	1982	2022	15	30
Bengara (PSC)	1999	2009 (for exploration)	15	35
		2029 (for development)		
Java				
Madura (JOB)	1997	2003 (for exploration)	15	35
		2027 (for development)		
Sulawesi				
Senoro-Toili (JOB)	1997	2027 (for development)	35	40

(1) These percentages reflect approximate post-tax and post-cost recovery share for typical fields but are prior to the effects of any domestic market obligations on crude oil production. The effective post-tax and post-cost recovery rate is based on the revenue sharing rate stated in the PSC and the Indonesian tax rate applicable to the specific PSC.

(2) The Company plans to relinquish this PSC in 2002.

(3) Special terms have been agreed in relation to the Mamburungan field within the Tarakan PSC contract area under which the Company's effective post tax and post cost recovery share of profit crude oil is 44%.

Exploration and Production

The Company is involved in both exploration (the search for oil and gas) and development (the drilling and bringing into production of wells in addition to the discovery well in a field). The Company's exploration operations include aerial surveys, geological and geophysical studies (such as seismic surveys), core testing and drilling of test or "wildcat" wells (wells drilled in an unproved area at some distance from any producing well). Seismic surveys involve recording and measuring the rate of transmission of shock waves through the earth with a seismograph. The waves are produced by exploding charges of dynamite in shallow holes drilled for this purpose. Upon striking rock formations, the waves are reflected back to the seismograph. The time lapse is a measure of the depth of the formation. The rate at which waves are transmitted varies with the medium through which they pass. Seismic surveys may be either reflection (3D) or refraction (2D) surveys, the former type generally giving a better detail picture and the latter a better overall picture.

Analysis of the data produced allows the Company to formulate a picture of the underground strata to enable it to form a view as to whether there are any "prospects" (geological structures conducive to the production of oil and gas). The actual existence of such oil and gas must be confirmed, usually by the drilling of a wildcat well. If the wildcat well confirms the prospect, the Company may also drill exploratory wells to establish the outer limits of a producing field. Once the presence of hydrocarbons in commercial quantities is drilled in areas proved to be productive, a particular development well may turn out to be "dry" (not capable of producing oil or gas in paying quantities). An area is considered to be developed when it has a well on it capable of producing oil or gas in paying quantities. The Company may also work over producing wells (wells that produce oil or gas) to restore or increase production and rework producing wells and abandoned wells (wells which are no longer in use) in an effort to begin, restore or increase production from those wells.

The following table lists the Company's production sharing arrangements that are currently in commercial production, and production data relating to such arrangements, for the years ended 31 December 1998, 1999 and 2000 and the nine months ended 30 September 2001.

Gross Production of Oil and Gas

	For the Year Ended 31 December						*For the Nine Months Ended 30 September*	
	1998		*1999*		*2000*		*2001*	
	Oil	*Gas*	*Oil*	*Gas*	*Oil*	*Gas*	*Oil*	*Gas*
	(oil in MMBbls and gas in BCF)							
Sumatra								
Rimau PSC	6.766	6.766	12.382	3.327	20.104	5.586	17.362	6.052
Extension/Kampar PSC ..	2.709	20.102	1.166	17.727	2.029	16.653	1.638	12.135
Sub-total	9.475	26.868	13.548	21.054	22.133	22.239	19.000	18.187
Kalimantan								
Sanga-Sanga TAC	2.090	4.899	1.973	4.121	1.959	4.595	1.924	3.570
Tarakan PSC	0.239	6.192	0.186	7.074	0.349	4.905	0.300	5.918
Sub-total	2.329	11.091	2.159	11.195	2.308	9.500	2.224	9.488
Total	11.804	37.959	15.707	32.249	24.441	31.739	21.224	27.675

The Company produced an average of approximately 77,700 Bbls/d during the nine months ended 30 September 2001, of which an average of 6,000 Bbls/d and 63,600 Bbls/d were produced from the Extension/Kampar PSC and the Rimau PSC, respectively. Since the discovery of significant crude oil reserves in the Rimau block in September 1996 and the construction of infrastructure to extract these reserves, production of crude oil from the Rimau block has significantly increased from an average of 12,500 Bbls/d of crude oil in 1996 to an average of 63,600 Bbls/d of crude oil for the nine-month period ended September 2001.

Through current production sharing arrangements with Pertamina, a majority of the Company's net crude entitlement is exported to Mitsui and the remainder is supplied to Pertamina's domestic refinery. The contract with Mitsui is an extendable one-year contract which will expire on 31 March 2002. International bidding for a replacement one-year contract, starting 1 April 2002, has been completed, with Itochu being the preferred bidder offering the highest tender price. Pursuant to a shareholders' agreement signed in December 2001 following the acquisition by PTTEP of an indirect equity interest in the Company, the initial 50% of the Company's net crude entitlement which could be sold to a third party has to be through a competitive tender process. The contract which Itochu won was through this competitive tender process. Pursuant to the shareholders' agreement, PTTEP has the right of first refusal to purchase the remaining 50% of the Company's net crude entitlement at a price equal to the highest tender price, being the price offered by Itochu, for the initial 50%. Net crude entitlement consists of the Company's (i) cost recovery and (ii) profit share, net of domestic market obligations (see "*Industry — Production Sharing Arrangments*"). Following the winning of the tender by Itochu, PTTEP has decided to exercise its right of first refusal starting July 2002. Terms of the contracts between the Company and Itochu and PTTEP, respectively, are being finalised. The contracts are expected to be executed at the end of March 2002. The Company currently sells its oil to Mitsui and Pertamina at prices based on the ICP-SLC, with adjustment depending on the quality of the crude oil. The ICP-SLC is published monthly, and is based on publications of independent oil traders and marketers in the Asia-Pacific region (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Oil and Gas*").

Under gas supply agreements with Pertamina, gas production is delivered to fertiliser, power and methanol plants. Under such agreements, production from the Extension/Kampar PSC is delivered to the Palembang fertiliser plant. Natural gas production from the Sanga-Sanga TAC is sold to PLN under an agreement with Pertamina to supply 9.1 MMCFD of gas to PLN's electricity generating plant in Tanjung Batu, East Kalimantan under a five year interim gas sales contract commencing January 2001, with price revision at the end of the third year. It is intended that such supply of gas will continue until 2018. Natural gas production from the Tarakan PSC is sold to Pertamina under a 10 year fixed price contract expiring in 2007 and is supplied to the Bunyu methanol plant which is operated by the Company. Additional gas supply is expected to be sold to PLN's 10MW power plant in Tarakan city, East Kalimantan under a 10-year contract. The Company and PLN are currently finalising the terms and conditions of this gas contract.

Drilling Wells

The following table sets forth the number of wells completed by the Company on its properties for the years ended 31 December 1998, 1999 and 2000 and for the nine months ended 30 September 2001.

	Year Ended 31 December			*Nine Months Ended 30 September*
	1998	*1999*	*2000*	*2001*
Exploratory:				
Productive	1	4	8	9
Non-productive	–	–	–	5
Total	1	4	8	14
Development:				
Productive	51	22	38	31
Total	51	22	38	31

The following table sets forth the number of productive wells the Company owned and operated as of 30 September 2001.

	As of 30 September 2001
Oil Wells	554
Gas Wells	36
Total	590

Productive wells consist of producing wells capable of production, including wells awaiting connections. Wells that are completed in more than one producing horizon are counted as one well.

Drilling Program

In the next three years, 2002 to 2004, the Company plans to drill 44 exploratory wells, three delineation wells and 147 development wells.

The exploration activities for the next three years will concentrate on the existing producing areas in the Extension/Kampar block (25 wells) and the Rimau block (10 wells). Based on geological and seismic data in respect of this area of major reserves, the Company believes that it can increase its reserves with minimum costs. The Company will also conduct exploration activities in Madura (5 wells) and Simenggaris (1 well) in anticipation of an increase in the market demand for oil and gas.

Delineation activities for the next three years will focus on moving gas reserves currently in the "probable" to the "proved" category, and also to monetise gas from the Senoro field.

Development activities will concentrate on developing the existing producing areas in the Rimau block and the development of the newly discovered fields in the Extension block to increase oil production volume.

CONTRACT DRILLING OPERATIONS

The Company provides services for oil, gas and geothermal drilling by leasing drilling rigs (usually accompanied by specialist personnel) to companies wishing to carry out oil, gas or geothermal exploration and production. The Company's clients in the drilling business include most of the major international oil and gas exploration and production companies operating in Indonesia, such as TotalFinaElf, Devon and Lasmo. The Company's drilling activities comprise onshore and offshore contract drilling. The Company aims to provide premium quality, cost-effective services to its customers in order to maximise the utilisation of its rig fleet at attractive dayrates. The Company's understanding of its customers' future needs guides strategic decisions regarding investment in equipment, selection of geographic markets and development of Company skills.

Drilling Rigs

The following table sets forth details of the Company's onshore drilling rigs:

Rig No.	*Rig Type*	*Year Acquired*	*Type of Drilling*	*Maximum Drilling Depth Capacity*
				(feet)
2	HSE 1500E	1982	Exploration	14,395
3	HSE 1500E	1982	Exploration	12,500
4	Skytop Brewster NE 95A	1983	Exploration	13,513
5	Dreco 2000E	1985	Exploration	14,121
6	Dreco 2000E	1985	Development	17,752
8	Gardner Denver 1000E	1990	Development	10,092
9	Gardner Denver 2000E	1990	Geothermal	14,362
10	Ideco E2100	1993	Development	12,744
11	Skytop Brewster TR 800	1993	Exploration	6,233
12	National Model 4215-D	1997	Exploration	6,233
14	Skytop Brewster RR 850	1998	Exploration	4,167
15	Wilson Mogul 42	2000	Exploration	10,000

The Company owns three offshore contract drilling rigs; one jack-up rig (acquired in December 1994 and operational from September 1995) and two submersible swamp barges (acquired in May 1992 and December 1995) for oil and gas production.

Jack-Up Rig. A jack-up is a mobile rig that jacks down its legs to stand on the sea floor with its hull elevated above the water surface during drilling operations. For transportation between locations, the legs are raised and the hull is floated. The legs are raised and lowered by multiple jacking units attached to the legs. The water depth limit for each rig is a function of several factors, including leg length, seafloor conditions and the anticipated wind, wave and current severity. The Company's jack-up rig, *Rani Woro*, can operate in depths of up to 100 metres. Jack-up rigs can be used to drill exploration wells or to drill multiple production wells at the same location. Several features are important for this latter capability. A cantilever, on which is mounted the derrick, drilldoor and substructure, enables the rig to drill alongside and over an adjacent platform or sub-sea template and to drill multiple wells at the same location without repositioning the rig. Skid-off capability enables the drilling system to be skidded onto a production platform for development drilling while the rig serves in a tender-assist mode. A top-drive enables the rig to drill long, highly deviated wells both more efficiently and more safely than conventional rotary equipment.

Submersible Swamp Barges. The Company's submersible rigs, *Maera* and *Raisis*, are designed to work in depths of up to eight metres. These submersible rigs operate on the sea floor with the machinery, quarters and drilling equipment on a deck structure above the surface. When the Company needs to mobilise the rigs, they are floated and towed by tugs. Once positioned, the hulls are filled with water to sink the drill onto the sea bed. On 1 March 2002, a gas blowout took place in Mahakam Delta in East Kalimantan. One of the Company's three offshore rigs, *Maera*, contracted to TotalFinaElf, was damaged due to fire caused by the blowout. The Company plans to repair the rig, and the repair works are expected to take approximately three to six months. The drilling rig equipment is mostly covered by insurance. TotalFinaElf is conducting an investigation as to the cause of the blowout. The estimated amount of potential damage arising from the blowout is unknown pending the outcome of the investigation.

The profitability of the Company's contract drilling operations depends upon maximising the contracted out period ("**utilisation**") of its fleet at the highest achievable dayrate. A fixed dayrate is charged while the rig is in operation, with a standby rate, generally 90% of the dayrate, charged while the rig is under contract but not in use (for example, if the Company is awaiting customer directions or customer-furnished materials or services, or while the rig is being relocated from one well to another). In the Company's experience, a full day rate is chargeable for, on average, between 85% to 90% of the period during which its onshore drilling rigs are under contract and about 95% of the period during which its offshore rigs are under contract. Rental rates for the Company's drillingrigs are payable in U.S. dollars and approximately 60% of operating costs are payable in Rupiah. As a result of strong demand for offshore rigs, the Company has been able to increase its rental rates for renewed contracts. The Company's onshore and offshore drilling rig utilisation is shown in the following table:

	Year ended 31 December			*Nine months ended 30 September*
	1998	*1999*	*2000*	*2001*
	(%)	*(%)*	*(%)*	*(%)*
Onshore rigs	53	25	37	33
Offshore rigs	100	86	76	92

Contract drilling industry conditions in Indonesia, and resulting drilling rig utilisation and dayrates, have been extremely volatile in recent years. From the mid-1980s through the early 1990s, worldwide demand, including in Indonesia, for drilling rigs was declining or stagnant, and the industry fleet of offshore rigs was reduced, primarily by attrition. Offshore contract drilling industry conditions and resulting offshore drilling rig utilisation and dayrates, as well as land rig dayrates, improved substantially in the mid-1990s. As a result of the Asian financial crisis in 1997, dayrates once again become severely depressed, but conditions have since been improving steadily.

Drilling Rig Contracts

Drilling contracts are most often awarded through competitive bidding. However, some contracts are a result of direct negotiations between the drilling contractor and the customer. In many cases, the specifications of the bid contain certain requirements not met by any of the Company's available rigs. As a result, if the Company is awarded the contract, the Company may incur considerable expense in upgrading and outfitting a rig in the specified manner.

The Company operates each of its rigs under a contract either to drill a specified well or number of wells, or for a stated period of time, which is generally automatically extended beyond the scheduled expiration date to enable completion of the drilling. Contracts may be cancelled upon specified notice at the option of the customer, and some, but not all, contracts provide for the customer to pay a specified early termination payment in the event of such cancellation. The contracts customarily provide for either automatic termination or termination at the option of the customer in the event of total loss of the drilling rig or if drilling operations are suspended for extended periods by reason of force majeure or excessive rig downtime for repairs.

Many of the Company's contracts provide for compensation on a dayrate basis, payable in U.S. dollars, under which the Company receives a fixed amount for each day that the rig operates under contract. Under a dayrate contract, the Company provides the drilling rig and personnel to operate the rig and to conduct the drilling operations. Operating expenses, such as crew wages and incidental supplies, with respect to the contracted rig, are paid by the Company. All of the Company's drilling rig contracts provide for penalties in the form of reduced or suspended compensation if certain specified timing goals are not achieved, particularly in relation to the date the rig commences operations under the contract and for extended breakdown time.

The rate of compensation specified in each contract depends on the type of equipment required, its availability and location, the location and nature of the operation to be performed, the duration of the work, market conditions and other variables. The contracts generally provide for a reduced dayrate or lump sum payment when the rig is being transported to or from the first and last drill site. Generally, a reduced dayrate or no payment is applicable when operations are suspended because of force majeure or extended mechanical breakdown. Reduced dayrates may also apply while a rig is on standby awaiting a customer's directions or customer-furnished materials or services, or while moving between well locations under the same contract. When drilling rigs are being relocated a substantial distance, the Company attempts to obtain either a lump sum or a dayrate plus transport costs, as compensation for mobilisation and demobilisation expenses as well as the rig time incurred during the period of transit. The Company's contracts generally provide for payment in U.S. dollars except for small amounts required to meet local expenses.

Contracts commonly contain renewal or extension provisions exercisable at the option of the customer which address extension for a number of wells or for a specified period of time. These options may provide that the compensation for the extension period must be agreed upon before commencement of the extension or the parties may have negotiated the extension period compensation at the time of the initial contract. The Company prefers either to negotiate provisions which require mutual agreement upon compensation for the option term (to obtain prevailing market rates) or to establish a means of increasing compensation for the option term to reflect cost escalation and anticipated market conditions.

In February 2002, the Company won the bidding for a seven and a half year drilling contract (with a six month extension) with a leading gas producer in Indonesia. Execution of the final contract is subject to approval by Pertamina.

Mesa Drilling

Mesa was established in June 2001 as a joint venture company between the Company (50%) and Mesa Drilling AS (50%), a Norwegian company. As part of the agreement, the Company provided Rig #7 as an in kind participation valued at U.S.$3 million whereas Mesa provided U.S.$2 million in cash and U.S.$1 million worth of equipment. Mesa has a rental agreement with the Company for Rig #6. Mesa will concentrate on expanding contract drilling in the United States.

Gas Related Downstream Projects

With the enactment of the new oil and gas law under which domestic companies other than Pertamina as well as international companies can enter into downstream businesses, the Company will seek to enter into working alliances with other companies as gas suppliers. The aim is to obtain long-term contracts with power plants and industrial users as new users of natural gas.

Bunyu Island Methanol Plant

Pursuant to a 20 year agreement entered into with Pertamina in April 1997, the Company began operating a methanol plant on Bunyu Island, east of Kalimantan, which is owned by Pertamina. The Company took over the operation of the plant in October 1997 following a six month trial period beginning in April 1997. The methanol plant, which has a capacity of 330,000 MT per year, began operations in 1986 and until April 1997, was operated by Pertamina using gas from its own fields on Bunyu Island.

The operation of the plant has suffered from technical difficulties and an under-supply of gas in the past. However, following a recommendation by James Chemical Engineering Inc. in 1996, Pertamina incurred additional capital expenditure in order to remedy the plant's technical deficiencies. The Company has entered into a 10-year contract with Pertamina which expires in 2007 to supply up to 30 MMCFD of gas from the Tarakan PSC area to Pertamina, which has a back-to-back contract with the Company, as operator of the Bunyu Methanol Plant, to supply this gas to the methanol plant. Under the contract, the methanol plant must take or pay for an average of 21 MMCFD of gas each year supplied from the Tarakan PSC area. The plant requires 34 MMCFD of gas to operate at maximum capacity and it purchases the balance from Pertamina. The plant is currently operating at about 81% of designed capacity and using about 28 MMCFD of gas. In October 2000, production at the plant was suspended for approximately six months as a result of an explosion of a heater and utilisation dropped to 47% for 2000 as a result. This heater has since been replaced. The damage caused to the heater was covered by insurance but lost revenue was not.

The methanol produced by the plant is a high quality "AA" grade methanol of 99.98% purity. 40% of the production is sold domestically whilst 60% is for export. The methanol produced is largely used in the manufacture of formaldehyde thermosetting resins as glue for the plywood industry and, of the 40% domestic share, approximately 90% of the plant's production is sold to a number of Indonesian companies engaged in this business, with the balance sold to companies producing solvents for paints.

COMPETITION

Oil and Gas Exploration and Production. The Company encounters competition from other oil and gas companies in all areas of its operations, including the acquisition of production sharing arrangements. The Company's competitors in Indonesia and Southeast Asia include international oil and gas companies, many of which are large, well-established companies with substantially larger operating staffs and greater capital resources and larger operating staffs than the Company's and which, in many instances, have been engaged in the oil and gas business for a longer time than the Company. Such companies may be able to offer more attractive terms in obtaining concessions for exploratory prospects and secondary operations, to pay more for productive natural gas and oil properties and exploratory prospects, and to define, evaluate, bid for and purchase a greater number of properties and prospects than the Company's financial or human resources permit. The Company's ability to acquire production sharing arrangements and to discover and produce reserves in the future will depend upon its ability to evaluate and select suitable properties and to consummate transactions in this highly competitive environment. However, given the importance of the oil and gas industry to the national economy, local participation has been actively encouraged by the Government. Being one of the few Indonesian companies involved in the oil and gas exploration and production industry, the Company believes that it has certain advantages in its effort to expand its business in this sector. Upon implementation of the new oil and gas law, Pertamina will become a competitor of the Company.

One of the Company's competitive strengths is its relatively low cost structure which enables it to economically rehabilitate older oil and gas fields. Rehabilitation has not been a significant area of focus of the major international oil companies operating in Indonesia. While the Company intends to continue to focus on existing fields and fields with substantial exploratory data, it also plans to compete for the award of new production sharing arrangements. Although the industry operates in a competitive bidding environment for the award of new contract areas, the Company believes that it is in a strong position, either alone or together with a major international oil and gas company, to win further contract areas with the Government upon implementation of the new oil and gas law, given the depth of its knowledge and experience of the exploration and production environment in Indonesia and its long-standing relationship with the Government.

Contract Drilling. The boom in the Indonesian oil industry in the 1980s led to an increase in the number of drilling companies operating in Indonesia from approximately 13 to 130. However, following the reduction in market prices for oil in 1985, the numbers reduced and approximately 25 domestic and joint venture companies are currently active. Currently, drilling contractors for onshore work in Indonesia are generally domestic operators. Offshore drilling contractors are generally international companies working through agencies on a contract basis.

The Company believes that it has an advantage over its domestic competitors because its fleet has the greatest drilling capacity among Indonesian competitors. The larger-sized horsepower drilling rigs are capable of drilling deeper wells, particularly gas wells, which are now an increasingly common feature of the Indonesian oil and gas industry. Due to the size of its operations, the Company has been able to tender for projects requiring the use of custom-built equipment and to respond to the requirements of customers by keeping its rigs in operating condition and in locations in close proximity to their intended projects. Due to the nature of the oil and gas drilling rig contracting business, there are barriers to entry by new participants: a high capital outlay is required to acquire and recondition the rigs to meet demands of customers and a high level of technical expertise is needed. As shallow reserves in the established oil and gas producing regions of Indonesia (such as Sumatra, Java and East Kalimantan) are depleting, demand for deeper drilling rigs is expected to increase. Rigs capable of drilling deeper wells command a higher contract price.

The Company is aware that competition for onshore drilling rig contracts from foreign operators or domestic operators with temporarily imported rigs will increase significantly but it believes that it can compete with both domestic and foreign operators on the basis of its proven track record in the reliability of its rigs and crews and its technical expertise. The Company seeks to keep abreast of the production commitments and exploration plans of all significant participants in the Indonesian oil and gas and geothermal industries so as to position itself to tender successfully for contract drilling projects. The Company's policy is to build and maintain good long-term relations with its clients.

OPERATING HAZARDS AND UNINSURED RISKS

The Company's operations 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, pipeline ruptures and spills, and of which can result in the loss of hydrocarbons, environmental pollution, personal injury claims and other damage to properties of the Company. Additionally, certain of the Company's natural gas and oil 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 Company maintains insurance coverage against some, but not all, potential losses. The Company's coverages for its oil and gas exploration and production activities include, but are not limited to, loss of wells, blowouts and certain costs of pollution control, physical damage on certain assets, employer's liability, comprehensive general liability, automobile and worker's compensation. (See *"Summary — Recent Developments — Recent Rig Blowout"* and *"Business — Contract Drilling Operations"*).

The Company maintains coverage for its drilling rigs, equipment and machinery for their replacement value and insures against third party liability and workers' compensation. It does not, however, insure against business interruption or loss of revenues following damage to or loss of a drilling rig, except in respect of the offshore drilling rigs where it was a term of the financing for these rigs that such coverage was put in place for the benefit of the financiers. The Company believes that its insurance is adequate and is representative of insurance taken out by companies of a similar size engaged in operations similar to those of the Company. However, losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The occurrence of an event that is not fully covered by insurance could have an adverse impact on the Company's financial condition and results of operations.

SAFETY

The Company has extensive safety procedures designed to ensure the safety of its workers, the assets of the Company, the public and the environment. A detailed central safety manual of operating procedures available at the operations level is maintained, with a further specific manual maintained by each operating subsidiary, which together govern all procedures. Certain procedures must be approved by a safety officer in advance.

It is the policy of the Company that in the event of any conflict between the progress of work and safety or environmental concerns, the safety of employees, equipment and third parties and preservation of the environment are paramount. The Company provides its employees with comprehensive training in safety and environmental related matters. In particular, because the Company's drilling rigs are contracted out to international companies, it must be able to demonstrate that its procedures meet international standards before the contract will be awarded and must comply with the contractor's safety standards during the contract period. The Company believes that its safety record has exceeded international standards over the past decade, as compiled by the International Association of Drilling Contractors. Government officials make both scheduled and random checks to operating facilities to ensure that safety procedures are being followed.

EMPLOYEES

As of 30 September 2001, the Company had 1,670 full time employees, 491 of whom were located at the Company's offices in Jakarta, Indonesia and the remainder of whom were located at field offices. With the exception of the employees of the Company's contract drilling subsidiaries, the Bunyu methanol plant and the Company's headquarters, all full-time Indonesian employees of companies involved in oil and gas exploration and production are technically employees of Pertamina, and Pertamina must approve the hiring, termination and other material decisions with respect to such employees as part of the PSC arrangements. In addition to its full time employees, the Company also employed 1,678 daily contract labourers as of such date.

PROPERTIES

The Company's principal offices are located at two sites in Jakarta, Indonesia. In addition, the Company maintains field operations offices in the areas where it operates its properties and administrative offices in other locations in Indonesia.

ENVIRONMENTAL MATTERS

The Company's operations are subject to Indonesian laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, which may restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, require remedial measures to prevent pollution from former operations, such as plugging abandoned wells, and impose substantial liabilities for pollution resulting from the Company's operations. In addition, these laws, rules and regulations may restrict the rate of oil and natural gas production below the rate that would otherwise exist. The regulatory burden on the oil and gas industry increases the cost of doing business and consequently affects its profitability. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly waste handling, disposal and clean-up requirements could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. Management believes that the Company is in compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on the Company.

The Government has imposed environmental regulations on oil and gas companies operating in Indonesia and in Indonesian waters. Operators are prohibited from allowing oil into the environment and must ensure that the area surrounding any onshore well is restored to its original state insofar as this is possible after the operator has ceased to operate on the site. An environmental impact study and a Government permit is required before any exploration work can commence. Pertamina has direct control over operators to ensure that they meet Government regulations. The Company provides reports to the Indonesian environmental agency on a bi-annual basis, which contain an environmental impact analysis.

LEGAL PROCEEDINGS

From time to time, the Company may be a party to various legal proceedings. The Company is not currently party to any material pending legal proceedings.

The Secretary of State of the State of Delaware, U.S., had designated three of the Company's subsidiaries to be "void" as a result of such companies not having paid their franchise taxes under Chapter 5 (Corporation Franchise Tax) of the Delaware Code from 1995 to 2000. The Company has successfully filed certificates of revival in respect of these companies. The Company believes that these companies have been revived with the same force and effect as if their certificate of incorporation had not been void and any actions taken while the companies were void have been validated. The Company is in the process of preparing their U.S. tax returns for the years 1995 through 2000. Although the Company is not currently able to assess exactly how much tax is payable in relation to these companies, it has been advised that its total liability is not expected to be material, although no assurance can be given that any liability will not ultimately be higher than expected or will not have a material adverse impact on the Company's future results of operation or financial condition.

MANAGEMENT

Commissioners, Directors, Advisors and Executive Officers of the Company

The management and day-to-day operations of the Company are carried out by the Board of Directors under the supervision of the Board of Commissioners, the members of which are appointed through a general meeting of shareholders. The rights and obligations of each member of the Board of Commissioners and Board of Directors are regulated in the Articles and by the decisions of the shareholders of the Company in general meeting. Under the Articles, the Board of Directors must consist of at least three members including a President Director and two or more Directors. The President Director acting together with one other Director can legally bind the Company. The Board of Commissioners must have at least three members: a President Commissioner and two or more Commissioners. The President Commissioner and one Commissioner acting together are entitled to act for and on behalf of the Board of Commissioners.

The Board of Commissioners is currently composed of seven members. The Board of Directors is currently composed of four members. Commissioners and Directors are elected for a term of office of five years and four years, respectively without prejudice to the rights of the general meeting of shareholders to dismiss a Commissioner or Director during their term of office or to reappoint a Commissioner or Director whose term of office has expired. The officers of the Company serve at the discretion of the Board of Directors. There is also a Board of Advisors, currently composed of three members.

Information regarding the Commissioners, Directors and Advisors of the Company is set forth below:

Board of Commissioners

Mr. John Sadrak Karamoy	President Commissioner/Commissioner Independent
Mr. Wijarso	Commissioner/Commissioner Independent
Ms. Yani Yuhani Rodyat	Commissioner
Mr. Gustiaman Deru	Commissioner
Mr. Darmoyo Doyoatmodjo	Commissioner
Mr. Chitrapongse Kwangsukstith	Commissioner
Mr. Tevin Vongvanich	Commissioner

Mr. John Sadrak Karamoy. Joined Medco Group in 1992. Graduated in Chemical Engineering, Bandung Institute of Technology in 1963. Has more than 40 years of experience in the oil and gas sector. Held various key positions at PT Stanvac Indonesia for 32 years until becoming Senior Vice President of PT Stanvac Indonesia (1981-1987), Senior Vice-President Director of Huffco Indonesia (now Vico) (1987-1992), President Director of Exspan Kalimantan (1992-1995), President Commissioner of the Exspan companies (1994-1998) and President Director of PT Medco Energi Internasional Tbk (1998-September 2001).

Mr. Wijarso. Joined Medco Group in 1993. Graduated in Chemical Engineering, Gajah Mada University in 1956. Commissioner of the Exspan companies since 1998. Former member of the Company's Board of Advisors (1994-1998) and also held various key positions at the Ministry of Mines and Energy and Pertamina. Currently President Commissioner of PT Medco Methanol Bunyu.

Ms. Yani Yuhani Rodyat. Joined Medco Group in 1994. Graduated in Electrical Engineering, Bandung Institute of Technology in 1975 and received a Masters Degree in Management from the Bandung Graduate School of Management in 1995. Currently Director at several Medco Group subsidiaries.

Mr. Gustiaman Deru. Joined PT Medco Energi Internasional Tbk as a Commissioner in 2000. Graduated in Civil Engineering, Parahyangan Katholik University in 1985 and received a MBA degree in Banking and Finance from the Rotterdam School of Management/Erasmus Universiteit-Rotterdam in the Netherlands in 1990. Presently Director of Credit Suisse First Boston. Previously a Director of ING Barings, Hong Kong (1996-1998) and a Director of Peregrine, Hong Kong (1994-1996).

Mr. Darmoyo Doyoatmodjo. Joined Medco Group in 1980. Graduated in Electrical Engineering, Bandung Institute of Technology in 1975. Received a MBA (1990) and a MSc (1991) degree from the University of Southern California, U.S.. Director of PT Medco Energi Internasional Tbk and a Commissioner of several of the Company's subsidiaries since 1994.

Mr. Chitrapongse Kwangsukstith. Joined Medco Group in February 2002 as a Commissioner. Graduated in Mechanical Engineering, Institut Teknologi Bandung, Indonesia in 1970, received a MSc degree in Industrial Engineering, Lamar University, U.S. in 1975 and received a PhD degree in Industrial Engineering, Lamar University, U.S. in 1977. Previously held positions at Department of Mineral Resources, Ministry of Industry of Thailand (1970), ESSO Standard Thailand, Ltd. (1971-1973), Sabine Steel Construction (1975-1979), Fluor Engineering and Construction (1980-1981). Also held various key positions at Petroleum Authority of Thailand (1982-1999). Currently President of PTTEP since 2000.

Mr. Tevin Vongvanich. Joined Medco Group in February 2002 as a Commissioner. Graduated in Chemical Engineering, Chulalongkom University, Bangkok, received a MSc degree in Chemical Engineering, Rice University, U.S. and received a MSc degree in Petroleum Engineering, University of Houston, U.S.. Previously engineer at Unocal Thailand, Ltd. (1984-1989). Held various key positions at PTTEP (1989-1999). Currently Senior Vice President, New Projects Division, PTTEP since 1999.

Board of Directors

Mr. Hilmi Panigoro	President Director/Chief Executive Officer
Mr. Sugiharto	Director, Chief Financial Officer
Mr. Rashid I. Mangunkusumo	Director, Chief Operating Officer
Mr. Peerachat Pinprayong	Director, Corporate Planning and Business Development

Mr. Hilmi Panigoro. Joined Medco Group in 1997. Graduated in Geology, Bandung Institute of Technology in 1981, attended the MBA Core Program at Thunderbird University, U.S. in 1984 and received a MSc degree from Colorado School of Mines, U.S. in 1988. Held various key positions at Huffco (now Vico) for 14 years since 1982 until becoming Vice President of Vico Indonesia (1996-1997). Currently President Commissioner of the drilling services subsidiary, PT Apexindo Pratama Duta, Commissioner of the Exspan companies and Chief Executive Officer of PT Medco Duta.

Mr. Sugiharto. Joined Medco Group in 1991. Graduated in Economics, University of Indonesia in 1987, received a MBA degree from the Indonesia School of Management, Jakarta in 1994 and the Amsterdam School of Management, the Netherlands in 1997. Previously held position as Commissioner at several of the Company's subsidiaries. Before joining Medco, he held several key positions at SGV-Utomo, Bankers Trust Company and Chemical Bank Jakarta.

Mr. Rashid I. Mangunkusumo. Joined Medco Group in 1995. Graduated in Engineering, Delft Institute of Technology in 1960 and received a B.Sc degree in Petroleum Engineering from Oklahoma University, U.S. in 1963 and a Masters degree in Engineering from Oklahoma University in 1965. Previously held the position of President Director of PT Exspan Nusantara in 1995-2001, a subsidiary of PT Medco Energi Internasional Tbk.

Mr. Peerachat Pinprayong. Joined Medco Group in February 2002. Graduated in Geology at Chulalongkom University, Bangkok in 1979, obtained a MA degree in Industry Psychology at Thammasat University, Bangkok in 1990, and received a MBA degree in Business Management, Sasin Graduate Institute of Business Administration, Chulalongkom University, Bangkok. Previously held various positions at the Department of Mineral Resources, Ministry of Industry (1980-1986) and Unocal Thailand, Ltd. (1986-1990). Also held various key positions at PTTEP (1990-2000). Currently Senior Manager of the Arthit Asset Operations Division at PTTEP since 2000.

Board of Advisors

Mr. Ismail Saleh	Board of Advisors
Mr. Arifin Panigoro	Board of Advisors
Mr. Subroto	Board of Advisors

Mr. Ismail Saleh S.H. Joined Medco Group in 1994. Graduated with a law degree from the Military Justice Academy in Jakarta in 1962 before joining the Indonesian army. Retired from the Indonesia army in 1981 having attained the rank of Lieutenant General. Been Chairman of the Board of Advisors since 1993. Previously Cabinet Secretary of the Republic of Indonesia (1978-1979), Head of the Investment Co-ordinating Board (1979-1981), Attorney General of the Republic of Indonesia (1981-1984) and Minister of Justice of the Republic of Indonesia (1984-1993). Member of the advisory team to the President of the Republic of Indonesia since 1993, with responsibility for advising on the application of Pancasila (P4), the state ideology.

Mr. Arifin Panigoro. Founder of the Medco Group and involved in the drilling and oil and gas industry since 1980. Withdrew from the Company's management in 1998 in order to be more focused as a member of the Parliament. Advisor to the Company since withdrawal from management.

Mr. Subroto. Joined Medco Group in 1997. Graduated with a degree in Economics from the University of Indonesia. Obtained a MA degree from McGill University, Montreal, Canada in 1956, and a Ph.D. in Economics from the University of Indonesia in 1958. Appointed Director General for Research and Development in the Government's Commerce Department in 1966, and then as the Head of the National Committee for Export Development in 1977. Minister for Manpower, Transmigration and Co-operatives (1973-1978), Minister of Mines and Energy for two administrations (1978-1993 and 1983-1988) and Secretary General of OPEC (July 1988-June 1994). Dean of the Economics Faculty of Pancasila University and the Dean of the Economics Faculty of the University of Indonesia since 1995.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information, as of 31 December 2001, with respect to the ownership of the common shares by each person who, according to the records of the Company, owned more than 1% of the Company's common shares, and ownership by the public and treasury stock held by the Company.

Name of Shareholder	*Number of Common Shares Held*	*Percentage of Total Outstanding Common Shares*
New Links Energy Resources Ltd.	2,847,356,565	85.4
PT Medco Duta	78,360,000	2.4
Credit Suisse First Boston (Hong Kong) Limited	39,127,384	1.2
Public	206,611,990	6.2
Treasury Stock	157,624,954	4.7

The authorised share capital of the Company is Rp.400 billion comprising four billion shares of Rp.100.00 each, of which 3,332,451,450 shares are issued and outstanding and are fully paid up.

The number of the Company's shares owned by the public is likely to be reduced following completion of a tender offer launched in December 2001 by New Links. The JSX has the authority to cancel the Company's listing on the JSX within six months if the number of the Company's shares owned by the public falls below 5% and the number of shareholders falls below 100.

The Acquisition of New Links Shares by PTTEP

On 7 October 2001, PTTEP entered into a shares purchase agreement with Cumin Limited ("**Cumin**"), a special purpose vehicle incorporated in the Cayman Islands and wholly owned by Credit Suisse First Boston (Hong Kong) Limited ("**CSFB**") pursuant to which Cumin Limited agreed to sell to PTTEP 40% of New Links (the "**PTTEP Acquisition**"), a company incorporated in Mauritius by way of continuation which itself owns 85.44% of the total issued share capital of the Company. Following closing of the PTTEP Acquisition on 12 December 2001, New Links was required by Indonesian regulations to make a tender offer for those the Company shares owned by public shareholders. Completion of the tender offer is expected to take place in May 2002.

Shareholders Agreement

Immediately prior to closing of the PTTEP Acquisition, PTTEP, Encore Limited ("**Encore**") (a corporation incorporated in the British Virgin Islands wholly-owned by the Panigoro family), Cumin and New Links entered into a shareholders agreement (the "**Shareholders Agreement**") to define their mutual rights and obligations as the sole shareholders of New Links and to establish the general policy and governance principles with respect to their interests, through New Links, in the Company.

Pursuant to the Shareholders Agreement, Encore is entitled to nominate three individuals and PTTEP is entitled to nominate one individual to the board of directors of the Company. Furthermore, in addition to the number of commissioners required to be independent, Encore is entitled to nominate two individuals, PTTEP is entitled to nominate two individuals and Cumin is entitled to nominate one individual to the board of commissioners of the Company. Encore and PTTEP shall be entitled to nominate unanimously two individuals to become the independent commissioners of the Company. Each of Encore, PTTEP and Cumin have agreed to vote their New Links shares to procure the appointment of each New Links shareholder's nominees.

Encore has agreed not to sell its New Links shares prior to 12 December 2004, PTTEP has agreed not to sell its New Links shares prior to 12 June 2003 and Cumin has agreed not to sell its New Links shares prior to 12 December 2002 (provided that Cumin shall retain at least 2% of the issued share capital of New Links until 12 December 2004) (the "**Lock-Up Periods**"). Following the expiry of the relevant Lock-Up Period, the appropriate New Links shareholder may, subject to the rights of first refusal of the other New Links shareholders, sell its New Links shares and, in the case of Cumin only, may procure the sale by New Links of its indirect *pro rata* share of New Links shareholding in the Company. In addition, Cumin has tag-along rights over the transfer of New Links shares by the other New Links shareholders.

Should the Company be delisted from the JSX whilst Cumin is a shareholder, Encore, PTTEP and Cumin have agreed to use all reasonable commercial endeavours to relist the Company's shares within 12 months.

DESCRIPTION OF THE ISSUER

The Issuer, a wholly-owned subsidiary of the Guarantor, was incorporated under Mauritius law as a Mauritian Global Business Company Category One (previously known as an "Offshore Company") with limited liability on 25 January 2002. The purpose of the Issuer is to issue the Notes and to finance the business operations of the Company. The Issuer intends to advance the proceeds of the issue of the Notes to the Company to be used primarily to finance its acquisitions of oil and gas reserves, as well as its exploration, development and production activities in Indonesia, additional working capital and other general corporate purposes. See "*Use of Proceeds*". The Board of Directors of the Issuer is responsible for the day-to-day management of the Issuer, including representing the Issuer vis-à-vis third parties. The correspondent address of the Issuer is c/o Citco Mauritius Limited, Cathedral Square, Port Louis, Mauritius and its telephone number is (230) 210-2035. The authorised share capital of the Issuer consists of 100,000 ordinary shares, par value U.S.$1 per share, of which one share is issued and outstanding and held by the Guarantor. As of the date of this Offering Circular, the Issuer does not have any debt outstanding.

No financial statements for the Issuer are included herein, and the Issuer will not publish financial statements on an interim basis or otherwise (except for such statements, if any, which the Issuer is required by Mauritius law to publish), because the Issuer will not have any operations independent from the Company and the Issuer's obligations under the Notes will be guaranteed by the Guarantor to the extent set forth herein. In addition, the Issuer does not intend to furnish to the Trustee or the Noteholders financial statements of, or other reports relating to, the Issuer. Any such information or reports, if published, will be made available at the office of the Singapore Paying Agent.

Since the date of the Issuer's incorporation, there has been no material adverse change in the financial condition or results of operations of the Issuer.

The issuance of the Notes was approved by the Board of Directors on behalf of the Issuer as of 31 January 2002.

ENFORCEMENT OF THE GUARANTEE IN INDONESIA

The Company is required to file particulars of its offshore borrowings (including copies of the Guarantee) with Bank Indonesia in accordance with the provisions and procedures set forth in the Decision of the Board of Directors of Bank Indonesia No. 5/9 KEP. DIR/1972 and to the PKLN Team pursuant to Presidential Decree No. 39 of 1991 and thereafter to report, on a quarterly basis, any payments of interest or repayment of principal. The Company will undertake in the Notes and the Conditions to comply with all such requirements in respect of the Guarantee. At present there are conflicting Indonesian Supreme Court decisions on the question of whether such reporting requirements are administrative requirements only or whether they will affect the validity or enforceability of the Guarantee. Failure to report to Bank Indonesia and the Minister of Finance is punishable by a fine. Indonesian counsel to the Company, Ery Yunasri & Partners, has advised the Company that in its opinion, failure to make such filing and quarterly reports with Bank Indonesia is an administrative matter only and will not invalidate the obligations of the Company under the Guarantee.

It is well-established under Indonesian law that a guarantor may waive its right to require the obligee to exhaust its legal remedies against the obligor on a guaranteed obligation prior to the obligee exercising its rights under the related guarantee, and that such waiver is enforceable against the guarantor. The Guarantee contains a waiver of such obligation. In one recent case in Indonesia, however, the district court imposed a condition precedent to enforcement of a guarantee that the obligee prove that all available legal remedies against the obligor had, in fact, been exhausted. Although the appellate court reversed this decision, the case has been appealed to the Supreme Court of Indonesia. The decision remains on appeal and there can be no assurance that the Supreme Court will not reverse the appellate court in the instant case. In any event, because prior decisions are not binding precedent in Indonesia at any level of the judicial hierarchy, there can be no assurance that a future court might not impose a similar obligation on the Noteholders (notwithstanding the waiver of such obligation in the Guarantee).

TAXATION

The following summary is based on tax laws of Mauritius and Indonesia as in effect on the date of this Offering Circular, and is subject to changes in Mauritius or Indonesian law, including changes that could have retroactive effect. The following summary does not take into account or discuss the tax laws of any countries other than Mauritius or Indonesia. Prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to Mauritius or Indonesian or other tax consequence of the purchase, ownership and disposition of Notes.

Mauritius Taxation

The Republic of Mauritius has a double taxation agreement with Indonesia. The Issuer is a Mauritian Global Business Company-Category One and is liable to pay tax on its income at the rate of 15%.

For payments of income received from Indonesia, the Issuer may claim a credit for the higher of: (a) the actual foreign tax paid in Indonesia, including underlying tax, or (b) deemed foreign tax representing 90% of the Mauritius tax on foreign income. Therefore the effective tax payable in Mauritius will not exceed 1.5%. As from the year of assessment 2003-2004, the deemed tax credit will be reduced to 80%.

The Issuer, being a Mauritius company, intends to be a tax resident of Mauritius and will apply for a tax residence certificate with the Commissioner of Income Tax in Mauritius.

There is no withholding tax or capital gains tax in Mauritius. There is also no estate duty, inheritance tax or gift tax.

Indonesian Taxation

The following is a summary with respect to taxes imposed by the Republic of Indonesia. The summary does not address any laws other than the tax laws of Indonesia in force and as they are applied in practice as of the date of this Offering Circular.

General. Resident taxpayers, individual or corporate, are subject to income tax in Indonesia. Subject to any provisions of any applicable double taxation treaty, non-resident taxpayers, namely individuals or corporations not domiciled or established in Indonesia that derive income sourced in Indonesia from, *inter alia*, (i) the sale of assets situated in Indonesia, (ii) services performed in or outside Indonesia or (iii) interest, royalties or dividends from Indonesia, are subject to a withholding tax on that income at the final rate of 20%, so long as the income is not effectively connected with a permanent establishment of such persons or entities in Indonesia. If the income is effectively connected with a permanent establishment, the income is subject to full resident income tax. With regard to asset sales, the 20% withholding tax is based on the estimated net income. However, there are no implementing regulations yet setting out the calculation of estimated net income, nor the withholding tax mechanism.

Withholding Tax. Payments under the Notes are not subject to withholding tax in Indonesia. The amount of any payment by the Guarantor under the Guarantee attributable to interest payable on the Notes will be subject to withholding tax in Indonesia unless reduced by an applicable income tax treaty. Payments by way of interest in whatever form under the Guarantee is subject to withholding tax at the rate of 20% on the gross amount if paid by a resident to a non-resident taxpayer and to withholding tax at the rate of 15% if paid to a resident taxpayer (other than an Indonesian bank). In the case of non-resident taxpayers (that do not have a permanent establishment in Indonesia), the withholding tax is a final tax and the effective rate of tax may be reduced by virtue of a double treaty. A Noteholder that elects not to apply for such reduced rate of withholding may be entitled subsequently to claim a refund of the additional 10% of Indonesian taxes withheld.

The Issuer or the Guarantor will pay additional amounts in respect of any such withholding taxes regardless of whether the Noteholder has submitted an application for a reduced rate of withholding under a tax treaty (as discussed in the preceding paragraph). To the extent that the Issuer or the Guarantor is required to pay additional amounts in accordance with the terms of the Notes, such amounts will be subject to withholding tax in the manner described above.

Payments of interest made by the Guarantor to the Issuer with respect to the loan from the Issuer to the Guarantor of the net proceeds from the sale of the Notes will be subject to withholding tax in Indonesia. As described above, the statutory rate of such withholding is 20%.

Taxes from Capital Gains. Non-resident individuals and companies without a permanent establishment in Indonesia deriving capital gains from the disposal of the Notes are exempt from individual or corporate income tax or such income.

Other Indonesian Taxes. There are no Indonesian estate, inheritance, succession, or gift taxes generally applicable to the acquisition, ownership or disposition of the Notes. There are no Indonesian stamp, issue, registration or similar taxes on duties payable by Noteholders.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ITS SUBSIDIARIES AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

1. Revaluation of Property, Plant and Equipment

While Indonesian GAAP do not generally allow companies to recognise increases in the value of property, plant and equipment that occur subsequent to acquisition, an exception is provided for revaluation made in accordance with government regulation.

Based on U.S. GAAP, property, plant and equipment may not be stated at more than their historical acquisition cost.

2. Foreign Exchange Differential on Property under Construction

Under Indonesian GAAP, starting in 1997, foreign exchange differential resulting from loans used to finance property under construction should be capitalised. Capitalisation of foreign exchange differential ceases when the construction is substantially completed and the constructed property is ready for its intended use.

Under U.S. GAAP, foreign exchange differential should be charged to current operations.

3. Negative Goodwill

Under Indonesian GAAP, negative goodwill should be deferred and matched with any expected future losses or expenses to which it relates. To the extent that it does not relate to identifiable future losses or expenses, it should be recognised as income on a systematic basis (not be less than 20 years) and, to the extent that it exceeds the fair value of such assets, it should be recognised as income immediately.

Under U.S. GAAP, negative goodwill is written off proportionately against non-current assets other than marketable securities. If a balance of negative goodwill remains after reducing non-current assets to zero, it is treated as a deferred credit and amortised to income on the same basis as goodwill.

4. Forward Contracts

Under Indonesian GAAP, accounting treatment specified for swap transactions for hedging purposes is as follows:

- Foreign exchange difference should be recorded as discount or premium and amortised;
- At the end of the period, the liability in foreign currency should be calculated. The exchange difference which arises is recognised as a gain or loss in the current period; and
- In the balance sheet, forward receivables or payables and unamortised discount or premium should be combined into the related asset or liability.

Under U.S. GAAP, gains and losses on forward contracts which are designated and effective as hedges are not included in determining net income, but are reported in stockholders' equity in the same manner as translation adjustments.

Guidance is provided for the calculation of the gain/loss on forward exchange contracts.

5. Treatment of borrowing cost

Under Indonesian GAAP, borrowing costs are to be expensed in the period in which they are incurred except where they are related to the acquisition, construction or production of qualifying assets, in which case they are to be capitalised. Therefore, if the criteria are met, capitalisation is mandatory.

Under U.S. GAAP, enterprises are required to capitalise borrowing costs where it requires time to prepare an asset for its intended use (eg, production facilities, property development). Interest may be capitalised in respect of equity-accounted investments during the period in which the investee is engaged in activities necessary to commence planned principal operations, provided that such activities include the use of funds to acquire qualifying assets.

Under Indonesian GAAP, where funds are borrowed specifically, costs eligible for capitalisation are the actual costs less any income earned on the temporary investment of such borrowings.

Under U.S. GAAP, where funds have been borrowed specifically, income earned on funds temporarily invested is not deducted in arriving at the amount to be capitalised.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited, the sole lead manager (the "**Manager**") has, in a subscription agreement dated 12 March 2002 (the "**Subscription Agreement**") and made between the Issuer, the Guarantor and the Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 98.093% of their principal amount less a combined management, underwriting and selling commission. The Issuer has also agreed to reimburse the Manager for certain of its expenses incurred in connection with the management of the issue of the Notes. The Manager is entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Sates of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has further represented, warranted and undertaken that:

No offer to public: It has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

Financial Promotion: It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

General compliance: It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Indonesia

The Manager has further represented and agreed that this Offering Circular may not be distributed in the Republic of Indonesia and the Notes may not be offered or sold in the Republic of Indonesia or to Indonesian citizens wherever they are domiciled, or to Indonesian residents in a manner which constitutes a public offer under the laws of Indonesia.

Singapore

The Manager has further represented and agreed that this Offering Circular has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore. Accordingly, the Manager has represented and agreed that it has not offered or sold, nor will it circulate or distribute this Offering Circular or any other offering document or material relating to the Notes, directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 106C of the Singapore Companies Act, (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Companies Act.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

Affiliates of the Manager have provided investment banking, advisory services and other services to the Company and its affiliates in the past and are expected to do so in the future. Credit Suisse First Boston (Hong Kong) Limited, an affiliate of the Manager, is an indirect shareholder in the Company through its 19.99% ownership of New Links through Cumin and owns 1.17% of the Company's shares outright.

The Company may enter into an interest rate swap with the Manager or its affiliates in connection with the issue of the Notes. The swap counterparty may require the Company's exposure under such a swap to be collateralised and such collateral may be used to invest in the Notes.

GENERAL INFORMATION

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 31 January 2002. The giving of the Guarantee of the Notes has been authorised by a resolution of the Board of Directors of the Guarantor dated 31 January 2002.

2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, the Guarantor, any of its subsidiaries or any of their respective assets, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Guarantor since 30 September 2001 that is material in the context of the issue of the Notes.

4. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:

   (a) the Paying Agency Agreement; and

   (b) the Trust Deed.

5. For so long as any of the Notes are outstanding, copies of the following documents (together with English translations thereof) may be obtained during normal business hours at the Specified Office of each Paying Agent:

   (a) the audited consolidated financial statements of the Issuer for the last two financial years, if any;

   (b) the unaudited consolidated financial statements of the Issuer for the six months ended 30 June;

   (c) the audited consolidated financial statements of the Guarantor for the last two financial years; and

   (d) the unaudited consolidated financial statements of the Guarantor for the six months ended 30 June.

6. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

7. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0145016498 and the common code is 014501649.

GLOSSARY

"Bbls"	means barrels.
"Bbls/d"	means barrels per day.
"BCF"	means billion cubic feet.
"BOE"	means barrels of oil equivalent; natural gas is converted to BOE using the ratio of one Bbl of crude oil to six Mcf of natural gas.
"BTU"	means British Thermal Unit, the standard measure of the heating value of natural gas.
"Company"	means PT Medco Energi Internasional Tbk and its subsidiaries.
"Conditions"	means the terms and conditions in respect of the Notes.
"contract area"	means a specified geographic area that is the subject of a production sharing arrangement pursuant to which an operator and its partners provide financing and technical expertise to conduct exploration, development and production operations.
"development well"	means a well that is drilled to exploit the hydrocarbon accumulation defined by an appraisal well.
"DME"	means dimethyl-ether, a liquefied fuel derived from natural gas.
"dry well" or "dry hole"	is an exploratory, development or appraisal well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.
"Exspan Kalimantan"	means PT Exspan Kalimantan, a subsidiary of the Company.
"Exspan Sumatera"	means PT Exspan Sumatera, formerly PT Stanvac Indonesia, a subsidiary of the Company.
"exploration well"	means a well that is designed to initially test the validity of a seismic interpretation and to confirm the presence of hydrocarbons.
"Extension/Kampar PSC"	is the production sharing contract between Pertamina and Exspan Sumatera dated 6 July 1989, as may be amended from time to time.
"f.o.b."	means free on board.
"FSO"	means floating storage and offloading vessel.
"Government"	means the government of Indonesia.

"gross reserves"	reflect the Company's interest after multiplying such reserves or volumes by the Company's working interest in the applicable properties, but prior to deduction of applicable payments to the Government in its capacity as owner of the reserves under the applicable contractual arrangement.
"Guarantor"	means PT Medco Energi Internasional Tbk.
"ICP-SLC"	means the Indonesian Crude Price-Sumatra Light Crude/Minas which is a reference price calculated using a formula determined by the Government. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".
"Indonesia"	means the Republic of Indonesia.
"Indonesian GAAP"	means generally accepted accounting principles in Indonesia.
"JOB"	means joint operating body, a form of contract where Pertamina and the relevant contractor form a joint management team.
"JSX"	means the Jakarta Stock Exchange.
"LNG"	means liquefied natural gas.
"LPG"	means liquefied petroleum gas.
"Mcf"	means thousand cubic feet.
"Medco Group"	means the group of Indonesian companies controlled, directly or indirectly, by PT Medco Duta.
"MMBbls"	means million barrels.
"MMBOE"	means million barrels of oil equivalent.
"MMBTU"	means million BTU.
"MMCF"	means million cubic feet.
"MMCFD"	means million cubic feet per day.
"MT"	means metric tonne.
"MW"	means megawatts.
"OPEC"	means the Organisation of Petroleum Exporting Countries.
"Pasemah PSC"	is the production sharing contract between Pertamina and Exspan Exploration and Production Pasemah Limited and Petronas Carigali Overseas Sdn. Bhd. dated 27 February 1993, as may be amended from time to time.

"Pertamina"	means Perusahaan Pertambangan Minyak Dan Gas Bumi Negara, the Indonesian state owned oil and gas company.
"Proved"	reserves are those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.
"Proved plus probable"	are proved reserves plus reserves that are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.
"PSC"	means production sharing contract.
"PTTEP"	means PTT Exploration and Production PCL of Thailand acting through its offshore subsidiary, PTTEP Offshore Investment Company Limited.
"Rimau PSC"	is the production sharing contract between Pertamina and Exspan Airsenda Exspan Airlimau Inc. dated 23 April 1973, as may be amended from time to time.
"Rp." or "Rupiah"	means Indonesian rupiah.
"Sanga-Sanga TAC"	is the technical assistance contract between Pertamina and Exspan Kalimantan dated 14 March 1998, as may be amended from time to time.
"TAC"	means technical assistance contract.
"Tarakan PSC"	is the production sharing contract between Pertamina and PT Exspan Tarakan dated 14 January 1982, as may be amended from time to time.
"Tcf"	means trillion cubic feet.
"U.S."	means the United States of America.
"U.S.$"	means United States dollars.
"United States"	means the United States of America.

"United States person"	means an individual who is a citizen or resident of the United States, a partnership, corporation or other entity organised in or under the laws of the united States or any state thereof, an estate that is subject to United States federal income taxation without regard to the source of income, or a trust that is subject to the supervision of a court within the Untied States and the control of a United States fiduciary.

P.T. MEDCO ENERGI INTERNASIONAL TBK
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000 AND
THE NINE MONTHS ENDED SEPTEMBER 30, 2001
AND INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Hans Tuanakotta & Mustofa
Registered Public Accountants
License No.KEP-1048/KM.17/1998
Wisma Antara 17th Floor
Jl. Medan Merdeka Selatan No.17
Jakarta 10110
Indonesia

Tel. : (62-21) 2312879,2312955,2312381
Fax. : (62-21) 3840387,2313325
e-mail : htm@deloitte-htm.com
www.deloitteap.com

Deloitte Touche Tohmatsu HTM

No. 070102 MEI LSW SA1

The Stockholders, Board of Commissioners and Directors
P.T. Medco Energi Internasional Tbk

We have audited the accompanying consolidated balance sheets of P.T. Medco Energi Internasional Tbk and its subsidiaries as of December 31, 1998, 1999 and 2000 and September 30, 2001, and the related consolidated statements of income, changes in equity, and cash flows for the years ended December 31, 1998, 1999 and 2000 and the nine months ended September 30, 2001. 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 did not audit the financial statements of Exspan Myanmar (L), Inc. and Exspan Cumi-Cumi (L), Inc. for the years ended December 31, 1999 and 2000 and for the nine months ended September 30, 2001, which statements reflect total assets constituting 1.53% and 2.72% and 2.89%, respectively, of the consolidated total assets as of December 31, 1999 and 2000 and September 30, 2001. Those statements were audited by other auditors whose reports thereon, with unqualified opinion, have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P.T. Medco Energi Internasional Tbk and its subsidiaries as of December 31, 1998, 1999 and 2000 and September 30, 2001, and the results of their operations, changes in their equity and their cash flows for the periods then ended, in conformity with accounting principles generally accepted in Indonesia.

As discussed in Notes 10 and 38 to the consolidated financial statements, the Company has had related party transactions that require approvals from independent stockholders. Such approval is required based on the Decree of the Chairman of the Capital Market Supervisory Board No. KEP-84/PM/1996 as amended by Decree No. KEP-12/PM/1997 dated April 30, 1997 and No. KEP-32/PM/2000 dated August 22, 2000. Moreover, in accordance with letter No. S-28/PM/S.2/2001 dated April 26, 2001 from BAPEPAM, the Company is obliged among other things, to hold a general stockholders' meeting in which one of the agenda is the announcement to the independent stockholders of transactions with related parties and the maturity date of the receivable that arose from those transactions, the due date of which shall be within a certain period.

On November 30, 2001 and December 21, 2001, the Company held an Extraordinary Meeting of the Independent Stockholders concerning such transactions. As the quorum of the meeting did not meet the minimum 50% attendance required by BAPEPAM, the meeting was not qualified to make a decision on the proposed account receivable rescheduling under the Debt Acknowledge Agreement. However, the meeting did acknowledge the occurrence of such potential conflict of interest transactions. Based on BAPEPAM's regulation, the Extraordinary Meeting of the Independent Stockholders shall be held by the Company once it has obtained the guidance from BAPEPAM. The Company is currently in the process of obtaining such guidance.

Note 43 to the consolidated financial statements includes a summary of the effects of the economic condition in Indonesia has had on the Company and its subsidiaries' operations. The accompanying consolidated financial statements include the effects of the economic condition to the extent they can be determined and estimated.

We did not audit the accompanying consolidated balance sheets of PT Medco Energi Internasional Tbk and its subsidiaries as of September 30, 2000, and the related consolidated statements of income, changes in equity, and cash flows for the nine months then ended and, therefore, we do not express an opinion on the consolidated financial statements referred to above.

HANS TUANAKOTTA & MUSTOFA

Ludovicus Sensi W.SE,MM, BAP
License No. 99.1.0705

January 7, 2002

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

P.T. MEDCO ENERGI INTERNASIONAL TBK AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998, 1999 AND 2000 AND SEPTEMBER 30, 2001

(Figures in tables are stated in thousands of Rupiah)

	Notes	December 31, 1998 (As restated Note 45)	December 31, 1999 (As restated Note 45)	December 31, 2000 (As restated Note 45)	September 30, 2000 (Unaudited)	September 30, 2001
		Rp	Rp	Rp	Rp	Rp
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	2d,3,38,39	122,937,887	167,698,399	641,191,311	493,206,832	497,383,189
Temporary investments	2e,4,38,39	5,194,407	10,286,311	17,748,678	6,270,808	6,386,920
Trade accounts receivable from third parties - net of allowance for doubtful accounts of Rp1,437,563 thousand, Rp1,437,563 thousand and Rp10,318,604 thousand at December 31, 1998, 1999 and 2000, nil (unaudited) and Rp10,318,604 thousand at September 30, 2000 and 2001 ..	2f,5,39	387,147,179	523,505,059	624,389,084	489,480,253	571,519,734
Other accounts receivable	6,39	30,763,949	30,892,693	134,583,463	104,012,090	221,852,253
Inventories	2g,7	165,111,876	125,342,888	136,836,648	209,820,939	198,705,273
Prepaid taxes	2q,8	32,801,071	29,457,637	41,875,791	44,912,132	66,091,644
Prepaid expenses	2h	7,598,068	4,681,615	7,016,743	11,515,728	11,939,665
Total Current Assets		751,554,437	891,864,602	1,603,641,718	1,359,218,782	1,573,878,678
NONCURRENT ASSETS						
Restricted cash in banks	9,39	21,038,380	3,408,000	3,198,685	3,327,620	6,414,525
Accounts receivable from related parties - net of allowance for doubtful accounts of nil, Rp144,609,009 thousand and Rp504,488,885 thousand at December 31, 1998, 1999 and 2000 and Rp399,359,482 thousand (unaudited) and Rp762,537,253 thousand at September 30, 2000 and 2001 ..	2f,10, 38,39	286,594,368	583,511,965	341,662,629	406,786,179	94,346,985
Deferred tax assets - net	2q,34	19,298,929	9,253,965	17,681,327	11,541,304	1,873,104
Investment in shares of stock	2e,11	–	–	6,100,866	6,166,632	36,648,937
Property and equipment - net of accumulated depreciation of Rp196,284,509 thousand, Rp262,618,827 thousand and Rp334,681,324 thousand at December 31, 1998, 1999 and 2000, and Rp318,152,742 thousand (unaudited) and Rp424,650,960 thousand at September 30, 2000 and 2001 ..	2i,2j,12	489,902,503	410,685,845	440,069,780	431,698,086	1,049,945,932
Oil and gas properties - net of accumulated depreciation and amortization of Rp439,057,793 thousand, Rp489,750,170 thousand and Rp795,319,701 thousand at December 31, 1998, 1999 and 2000 and Rp701,774,687 thousand (unaudited) and Rp945,679,291 thousand at September 30, 2000 and 2001 ..	2k,13	1,578,881,476	1,417,097,111	1,942,092,020	1,732,365,596	2,148,766,736
Security deposits	14	462,462,292	–	–	–	–
Deferred stock issuance cost - net ..	2n	1,039,405	–	–	–	–
Other assets	2l,15,39	17,980,794	15,461,963	16,120,734	17,900,034	15,576,550
Total Noncurrent Assets		2,877,198,147	2,439,418,849	2,766,926,041	2,609,785,451	3,353,572,769
TOTAL ASSETS		3,628,752,584	3,331,283,451	4,370,567,759	3,969,004,233	4,927,451,447

	Notes	December 31, 1998 (As restated Note 45)	December 31, 1999 (As restated Note 45)	December 31, 2000 (As restated Note 45)	September 30, 2000 (Unaudited)	September 30, 2001
		Rp	Rp	Rp	Rp	Rp
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Trade accounts payable	16,38,39					
Related parties		17,214,329	10,866,088	18,854,165	17,316,816	1,950,205
Third parties		201,112,135	126,900,189	283,147,249	295,413,423	216,650,352
Other accounts payable	17,39	41,298,410	30,929,224	104,107,656	19,552,513	120,685,325
Taxes payable	2q,18	115,892,744	87,217,013	101,586,529	118,665,796	165,038,796
Accrued expenses	2p,19, 37,39	28,647,748	19,344,971	26,923,500	39,927,130	33,520,769
Notes payable	20	184,699,068	–	–	–	–
Current maturities of noncurrent liabilities						
Bank loans	21,39	154,359,945	56,336,228	44,294,358	78,545,178	47,888,059
Property and equipment purchase contract payables	22,39	57,269,490	4,339,109	–	–	–
Loans from non-bank financial institutions	23,39	72,080,109	87,488,784	–	–	–
Lease liabilities		314,604	209,599	–	–	–
Swap payable	2r,24,39	453,239,365	–	–	–	–
Long-term notes payable	2r,39	661,296,218	–	–	–	–
Total Current Liabilities		1,987,424,165	423,631,205	578,913,457	569,420,856	585,733,506
NONCURRENT LIABILITIES						
Deferred tax liabilities - net	2q,34	89,313,104	73,318,802	62,420,680	69,600,658	97,848,893
Long-term liabilities - net of current maturities						
Bank loans	21,39	–	66,185,064	105,117,447	61,873,450	69,473,757
Property and equipment purchase contract payables	22,39	4,897,864	–	–	–	–
Loans from non-bank financial institutions	23,39	98,886,971	–	–	–	–
Lease liabilities	2j	156,211	–	–	–	–
Long-term notes payable	2r,25,39	290,386,908	470,261,400	208,402,172	190,700,477	24,845,400
Unrealized gain on disposal of property and equipment		–	–	–	–	16,746,552
Total Noncurrent Liabilities		483,641,058	609,765,266	375,940,299	322,174,585	208,914,602
NEGATIVE GOODWILL	2b,26	15,685,640	14,751,682	13,817,723	14,051,215	13,117,255
MINORITY INTERESTS IN NET ASSETS OF SUBSIDIARIES	2b,27	51,691,061	57,083,545	70,841,951	68,449,379	153,022,581
EQUITY						
Capital stock - par value per share of Rp500 in 1998 and 1999, and Rp100 in 2000 and 2001, respectively						
Authorized - 800,000,000 shares in 1998 and 1999, and 4,000,000,000 shares in 2000 and 2001						
Subscribed and paid up - 344,760,000 shares at December 31, 1998, 666,490,290 shares at December 31, 1999, and 3,332,451,450 shares at December 31, 2000, September 30, 2000 (unaudited) and 2001; net of treasury shares of 13,361,500 at December 31, 2000 and 131,196,500 at September 30, 2001	2m,28	172,380,000	333,245,145	331,908,995	333,245,145	320,125,495
Additional paid - in capital	2m,29	2,720,000	967,910,870	960,628,786	967,910,870	889,927,786
Revaluation increment in property and equipment	2i,30	3,044,424	3,044,424	3,044,424	3,044,424	498,114,360
Translation adjustments	2c	439,475,370	273,196,568	858,829,302	650,386,531	856,444,336
Retained earnings	2m					
Appropriated		–	–	–	–	66,649,029
Unappropriated		472,690,866	648,654,746	1,176,642,822	1,040,321,228	1,335,402,497
Total Equity		1,090,310,660	2,226,051,753	3,331,054,329	2,994,908,198	3,966,663,503
TOTAL LIABILITIES AND EQUITY ..		3,628,752,584	3,331,283,451	4,370,567,759	3,969,004,233	4,927,451,447

See accompanying notes to consolidated financial statements
which are an integral part of the consolidated financial statements.

P.T. MEDCO ENERGI INTERNASIONAL TBK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(Figures in tables are stated in thousands of Rupiah)

		(One year)			*(Nine months)*	
		1998	*1999*	*2000*		
	Notes	*(As restated Note 45)*	*(As restated Note 45)*	*(As restated Note 45)*	*2000 (Unaudited)*	*2001*
		Rp	*Rp*	*Rp*	*Rp*	*Rp*
NET SALES AND OPERATING REVENUES	2o,31,40	1,836,008,150	1,628,590,090	3,118,297,367	2,011,267,662	2,944,327,657
COST OF SALES AND DIRECT EXPENSES	2o,32,40	(784,428,981)	(794,177,304)	(1,351,826,465)	(834,091,532)	(1,125,547,089)
GROSS PROFIT		1,051,579,169	834,412,786	1,766,470,902	1,177,176,130	1,818,780,568
OPERATING EXPENSES	2o,33,40					
General and Administrative		(209,491,173)	(188,011,175)	(291,332,512)	(178,109,256)	(258,180,738)
Selling		(14,177,893)	(6,159,533)	(15,405,449)	(6,028,628)	(7,896,195)
Total Operating Expenses		(223,669,066)	(194,170,708)	(306,737,961)	(184,137,884)	(266,076,933)
INCOME FROM OPERATIONS ..		827,910,103	640,242,078	1,459,732,941	993,038,246	1,552,703,635
OTHER INCOME (CHARGES)						
Interest Income	3,4,9,10	103,971,915	55,351,424	40,510,663	31,846,775	35,774,487
Interest expense	20,21,22, 23,24,25	(141,727,216)	(109,166,077)	(70,643,808)	(30,815,797)	(29,708,948)
Gain (loss) on foreign exchange - net	2c	(177,880,061)	(22,700,590)	82,828,192	87,395,549	(88,970,037)
Provision for doubtful accounts receivable from related parties ..	2f,10	–	(144,609,009)	(359,879,876)	(254,750,473)	(258,048,368)
Equity in net loss of an associated company	2e,11	–	–	(737,256)	(671,490)	(3,192,929)
Gain on sale of property and equipment	2i	4,343,987	247,366	393,693	394,478	16,970,326
Others - net		(36,288,074)	18,226,174	12,124,940	9,286,477	25,403,100
Other Charges - net		(247,579,449)	(202,650,712)	(295,403,452)	(157,314,481)	(301,772,369)
INCOME BEFORE TAX		580,330,654	437,591,366	1,164,329,489	835,723,765	1,250,931,266
INCOME TAX (EXPENSE)						
Current tax	2q,34	(168,994,406)	(260,424,382)	(687,621,508)	(487,380,908)	(647,465,654)
Deferred tax		(28,369,497)	5,949,339	19,325,484	6,005,483	(51,236,436)
Tax Expense		(197,363,903)	(254,475,043)	(668,296,024)	(481,375,425)	(698,702,090)
EXTRAORDINARY ITEM - net of tax ..		–	–	84,587,510	84,587,510	1,436,025
INCOME BEFORE MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES		382,966,751	183,116,323	580,620,975	438,935,850	553,665,201
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	2b,27	(29,102,190)	(7,152,443)	(8,292,320)	(7,279,951)	(8,663,553)
NET INCOME		353,864,561	175,963,880	572,328,655	431,655,899	545,001,648
EARNINGS PER SHARE (in full Rupiah)	2s,35					
Including extraordinary item:						
Basic		205	92	172	130	168
Excluding extraordinary item:						
Basic		205	92	146	104	168

See accompanying notes to consolidated financial statements
which are an integral part of the consolidated financial statements.

P.T. MEDCO ENERGI INTERNASIONAL TBK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998,1999 AND 2000
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(Figures in tables are stated in thousands of Rupiah)

		(One year)			(Nine months)	
		1998	1999	2000		
	Notes	(As restated Note 45)	(As restated Note 45)	(As restated Note 45)	2000 (Unaudited)	2001
		Rp	Rp	Rp	Rp	Rp
CAPITAL STOCK	2m,28					
Beginning balance		172,380,000	172,380,000	333,245,145	333,245,145	333,245,145
Addition		–	160,865,145	–	–	–
Treasury stock		–	–	(1,336,150)	–	(13,119,650)
Ending balance		172,380,000	333,245,145	331,908,995	333,245,145	320,125,495
ADDITIONAL PAID-IN CAPITAL	29					
Beginning balance		2,720,000	2,720,000	967,910,870	967,910,870	960,628,786
Addition (deduction)		–	965,190,870	(7,282,084)	–	(70,701,000)
Ending balance		2,720,000	967,910,870	960,628,786	967,910,870	889,927,786
REVALUATION OF PROPERTY AND EQUIPMENT	30					
Beginning balance		3,044,424	3,044,424	3,044,424	3,044,424	3,044,424
Addition		–	–	–	–	495,069,937
Ending balance		3,044,424	3,044,424	3,044,424	3,044,424	498,114,361
TRANSLATION ADJUSTMENTS	2c					
Beginning balance		200,209,352	439,475,370	273,196,568	273,196,568	858,829,302
Addition		239,266,018	(166,278,802)	585,632,734	377,189,963	(2,384,966)
Ending balance		439,475,370	273,196,568	858,829,302	650,386,531	856,444,336
RETAINED EARNINGS						
Appropriated						
Beginning balance		–	–	–	–	–
Addition		–	–	–	–	66,649,029
Ending balance		–	–	–	–	66,649,029
Unappropriated						
Beginning balance	45	154,799,256	472,690,866	648,654,746	648,654,746	1,176,642,822
Cumulative effect in prior years of change in accounting for income taxes		(35,972,951)	–	–	–	–
Effect of acquisition of treasury stock		–	–	(4,351,162)	–	(43,812,650)
Cash dividend		–	–	(39,989,417)	(39,989,417)	(275,780,294)
General reserve		–	–	–	–	(66,649,029)
Net income		353,864,561	175,963,880	572,328,655	431,655,899	545,001,648
Ending balance		472,690,866	648,654,746	1,176,642,822	1,040,321,228	1,335,402,497
TOTAL EQUITY		1,090,310,660	2,226,051,753	3,331,054,329	2,994,908,198	3,966,663,503

See accompanying notes to consolidated financial statements
which are an integral part of the consolidated financial statements.

P.T. MEDCO ENERGI INTERNASIONAL TBK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998, 1999 AND 2000
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(Figures in tables are stated in thousands of Rupiah)

	(One year)			*Nine months*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
	Rp	*Rp*	*Rp*	*Rp*	*Rp*
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	1,666,937,276	1,458,559,651	3,178,174,323	1,972,173,072	4,401,832,463
Cash paid to suppliers and employees	(923,356,498)	(788,956,142)	(1,273,814,556)	(721,461,441)	(2,764,809,636)
Cash generated from operations ..	743,580,778	669,603,509	1,904,359,767	1,250,711,631	1,637,022,827
Interest and financial charges paid ..	(22,179,548)	(28,796,430)	(46,469,257)	(24,855,586)	(17,054,074)
Income tax paid	(77,734,396)	(293,611,067)	(685,694,314)	(471,386,620)	(659,916,885)
Receipt of insurance claim	–	1,858,500	12,063,880	12,063,880	–
Net Cash Provided by Operating Activities	643,666,834	349,054,512	1,184,260,076	766,533,305	960,051,868
CASH FLOWS FROM INVESTING ACTIVITIES					
Placements in temporary investments	(5,194,407)	(5,296,097)	(13,229,238)	2,553,926	12,538,350
Interest received	–	6,662,804	12,918,533	–	22,404,008
Receipt of (addition to) security deposits	(215,017,436)	10,928,021	(2,024,332)	(1,965,899)	1,022,199
Acquisitions of property and equipment	(89,973,487)	(36,494,978)	(64,707,260)	(40,089,417)	(23,426,075)
Proceeds from disposal of property and equipment	6,302,245	15,000	649,465	500,000	422,796
Additions to oil and gas properties ..	(365,352,363)	(236,481,954)	(310,228,275)	(92,784,490)	(396,694,563)
Additions to construction in progress	(2,611,069)	–	–	–	–
Proceeds from (increase in) accounts receivable from related parties ..	–	(58,090,800)	22,694,001	99,208,300	–
Payment of advances to projects ..	–	(7,019,953)	(2,481,324)	–	–
Proceeds (payment) of deferred charges	(5,520,870)	–	(36,720,545)	–	–
Placements in other investments ..	9,711,421	–	–	(6,764,021)	(13,466)
Acquisitions of new subsidiaries ..	–	–	(7,715,372)	–	–
Net Cash Used in Investing Activities	(667,655,966)	(325,777,957)	(400,844,347)	(79,251,188)	(383,746,751)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from (placement to) other loans	–	268,951	(5,702,566)	–	(4,737,170)
Payment of property and equipment contract payables	(69,137,522)	(41,829,236)	(4,339,109)	(4,339,109)	–
Payments of loans from non-bank financial institutions	(11,517,680)	(64,886,285)	(97,395,604)	(87,488,784)	(194,344,304)
Payments of lease liabilities	(184,199)	(263,419)	(144,883)	(99,854)	–
Proceeds (payments) of bank loans ..	18,355,561	(4,317,308)	(14,112,424)	(18,622,431)	(21,262,459)
Receipt (placement) of restricted fund	–	–	–	3,408,000	3,198,685
Proceeds (payments) of long-term notes payable	332,121,121	–	(215,174,238)	(267,495,577)	–
Issuance of capital stock	–	94,660,265	–	–	–
Acquisition of treasury stock	–	–	(13,704,213)	–	(126,297,150)
Dividends paid	–	–	(39,909,581)	(39,909,581)	(275,782,156)
Net Cash Provided by (Used in) Financing Activities	269,637,281	(16,367,032)	(390,482,618)	(374,637,755)	(619,224,554)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	245,648,149	6,909,523	392,933,111	312,644,362	(42,919,437)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	78,392,620	122,937,887	167,698,399	167,698,399	641,191,311
Effect of foreign exchange rate changes	(180,064,502)	20,220,629	81,909,802	12,034,861	(94,474,160)
Restricted cash in banks	(21,038,380)	17,630,360	(1,350,000)	829,210	(6,414,525)
CASH AND CASH EQUIVALENTS AT END OF YEAR	122,937,887	167,698,399	641,191,311	493,206,832	497,383,189

	(One year)			Nine months	
	1998	1999	2000	2000 (Unaudited)	2001
	Rp	Rp	Rp	Rp	Rp
SUPPLEMENTAL DISCLOSURES					
Noncash investing and financing activities:					
Ordinary activities					
Write off of donation of property and equipment	–	27,830	14,785	–	–
Oil and gas properties charged to expense	–	86,435,689	129,159,095	–	9,162,980
Provision for doubtful accounts	42,929,620	148,974,732	370,198,481	254,750,473	254,750,473
Additions to additional paid-in capital from debt restructuring	–	884,053,500	–	–	–
Acquisition of property and equipment through donation ..	–	–	747,200	–	–
Discount on redemption of notes	–	–	84,587,510	84,587,510	–
Transfer of oil and gas property from acquisition of working acreage	–	–	77,162,865	–	–
Transfer of payable from acquisition of working acreage	–	–	52,995,238	39,746,428	–
Additions to capital stock from debt restructuring	–	147,342,250	–	–	–
Allowance for decrease in inventory value	–	–	–	–	878,220
Investment in associated company through transferred fixed assets	–	–	–	–	30,384,842
Addition in fixed assets from revaluation	–	–	–	–	568,221,054
Reclassification of development cost under construction to development costs	180,566,991	57,402,471	–	–	–
Capitalization of loss on foreign exchange to property and equipment	122,034,817	–	–	–	–
Reclassification of construction in progress to property and equipment-direct acquisitions	3,734,453	10,379,017	–	5,229,404	–
Capitalization of loss on foreign exchange to development costs	145,254,713	–	–	–	–
Reclassification of leased assets to property and equipment-direct acquisitions (book value)	24,823	–	–	–	–
Impairment of property and equipment	–	(47,752,105)	–	–	–
Impairment of oil and gas properties	–	(67,035,658)	–	–	–
Reclassification of deposits in liquidated banks to accounts receivable from related parties	10,850,000	–	–	–	–
Additions to property and equipment from purchase contract payables	426,600	–	–	–	–
Provision for possible losses on current accounts with liquidated bank	1,773,091	–	–	–	–
Additions to property and equipment from inventory usages	2,938,828	–	–	–	–

See accompanying notes to consolidated financial statements which are an integral part of the consolidated financial statements.

1. GENERAL

a. Establishment and General Information

P.T. 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 deed No. 19 dated June 9, 1980 of Notary Imas Fatimah, S.H. The deed of establishment was approved by the Minister of Justice of the Republic of Indonesia in his decision letter No. Y.A.5/192/4 dated April 7, 1981 and was published in the State Gazette No. 102 dated December 22, 1981, Supplement No. 1020.

To comply with Corporate Law No.1/1995 and Capital Market Law No. 8/1995, the Company's articles of association were amended by notarial deed No.159 dated June 26, 1997 of Notary Mrs. Poerbaningsih Adi Warsito, S.H. This amendment was approved by the Minister of Justice of the Republic of Indonesia in his decision letter No. C2-10.492.HT.01.04.Th.97 dated October 8, 1997 and was published in the State Gazette No. 64 dated August 10, 1999, Supplement No. 4861.

The Company's articles of association were amended by notarial deeds No. 26 dated November 17, 1999 and No. 36 dated December 17, 1999 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., concerning a Limited Public Offering of a maximum of 379,236,000 shares with a par value of Rp500 per share through Rights Issue I. The amendment in the articles of association under notarial deed No. 36 was approved by the Department of Law and Legislation in its decision letter No. C-618.01.04.Th. 2000 dated January 20, 2000.

Under notarial deed No. 32 dated January 25, 2000 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., notary in Jakarta, the articles of association were amended concerning:

1) the change in the Company's name to P.T. Medco Energi Internasional Tbk;

2) stock split from Rp500 to Rp100 par value per share; and

3) additions to members of the Board of the Commissioner by promoting Mr. Gustiaman Deru, Mr. Michael Watzky and Mr. Lap Wai Chan.

The above amendment was approved by the Minister of Law and Legislation in his decision letter No. C-3409 HT.01.04-TH.2000 dated February 22, 2000.

The most recent amendment in the Company's articles of association was by notarial deed No. 10 dated July 5, 2000 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., concerning the function and authority of the Directors and Commissioners, the authorized capital, and rules on annual stockholders' meeting and extraordinary stockholders' meeting.

The Company's head office is located on the 16th floor of Graha Niaga Building, Jalan Jenderal Sudirman, Kav. 58, Jakarta 12190.

In accordance with article 2 of the Company's articles of association, the scope of its activities comprises of, among others, exploration, production of and support services for oil and natural gas and other energy industries, including onshore and offshore drilling, and making direct investments and indirect investments through its subsidiaries. The Company started commercial operations in December 13, 1980. The Company had average total number of employees of 1,782 in 1998, 1,871 in 1999, 1,958 in 2000 and 2,048 in 2001.

At December 31, 1998, 1999 and 2000 and at September 30, 2001, the Company's management consisted of the following:

	December 31, 1998	December 31, 1999	December 31, 2000	September 30, 2001
President Commissioner:	Ir. Hertriono Kartowisastro	Ir. Hertriono Kartowisastro	Ir. Hertriono Kartowisastro	Ir. John Sadrak Karamoy
Commissioners:	Ir. Wijarso Ir. Yani Yuhani Rodyat	Ir. Wijarso Ir. Yani Yuhani Rodyat	Ir. Wijarso Ir. Yani Yuhani Rodyat Gustiaman Deru Michael Watzky Lap Wai Chan	Ir. Wijarso Ir. Yani Yuhani Rodyat Gustiaman Deru Michael Watzky Lap Wai Chan
President Director:	Ir. John Sadrak Karamoy	Ir. John Sadrak Karamoy	Ir. John Sadrak Karamoy	Ir. Hilmi Panigoro, MSc
Directors:	Drs. Sugiharto, MBA Ir. Darmoyo Doyoatmojo, MBA, MSc Ir. Hilmi Panigoro, MSc	Drs. Sugiharto, MBA Ir. Darmoyo Doyoatmojo, MBA, MSc Ir. Hilmi Panigoro, MSc	Drs. Sugiharto, MBA Ir. Darmoyo Doyoatmojo, MBA, MSc Ir. Hilmi Panigoro, MSc	Drs. Sugiharto, MBA Ir. Darmoyo Doyoatmojo, MBA, MSc Ir. Rashid Irawan Mangunkusumo

Mr. Ir. Hertriono Kartowisastro, President Commissioner, resigned effective on April 9, 2001 and subsequently replaced by Mr. John Sadrak Karamoy on October 1, 2001. Mr. Hilmi Panigoro, and Mr. Rashid Irawan Mangunkusumo were also appointed as a new President Director and Director, respectively, at the same date based on the approval of the Extraordinary Shareholder's Meeting dated June 25, 2001.

Salary and other fringe benefit including personal income tax paid to the Commissioners and Directors amounted to Rp1,892,250 thousand in 1998, Rp15,839,116 thousand in 1999, Rp29,899,070 thousand in 2000 and Rp4,823,216 thousand and Rp41,049,049 thousand in the nine months ended September 30, 2000 and 2001.

b. Subsidiaries

The Company has ownership interest of more than 50%, directly and indirectly, in the following subsidiaries:

					Total Assets				
					December 31,			September 30,	
Subsidiaries Domicile of Operation	*Nature of Business*	*Start of Commercial Operations*	*Percentage of Ownership*	*Year Acquired*	*1998*	*1999*	*2000*	*2000 (Unaudited)*	*2001*
P.T. Medco Antareja (MEA) Jakarta	Onshore drilling operations of oil and natural gas, and related services for companies involved in oil and gas industry	1983	96%	1983	266,081,755	189,374,563	239,087,581	218,859,174	344,680,013
P.T. Antareja Jasatama Jakarta	Open fields for mining activities and services related to drilling operation	June 18, 1999	93.8%	1999	–	181,747	13,915,800	10,436,850	4,495,205
P.T. Apexindo Pratama Duta (APD) Jakarta	Offshore drilling operations of oil and natural gas, and related services for companies involved in oil and gas industry	1992	85%	1992	506,979,544	416,186,226	467,633,189	463,626,128	1,042,380,512
P.T. Exspan Tarakan (ET) Jakarta	Exploration and production (E & P) of oil and natural gas under the Production Sharing Contract (PSC) with PERTAMINA was subsequently amended to 2022	May 1, 1992	95.93%	1992	325,785,372	246,703,892	352,498,778	266,281,497	319,291,681

Subsidiaries Domicile of Operation	Nature of Business	Start of Commercial Operations	Percentage of Ownership	Year Acquired	*Total Assets* December 31, 1998	1999	2000	September 30, 2000 (Unaudited)	2001
P.T. Exspan Kalimantan (EK), Jakarta	E & P of oil and natural gas under the Technical Assistance Contract (TAC) with PERTAMINA until 2008	May 1, 1992	95.93%	1992	605,208,689	538,018,915	794,976,012	767,927,080	537,360,352
Exspan Cumi-Cumi (L) Inc. Labuan, Malaysia	E & P of oil and natural gas under PSC with Pertamina until 2010. The Company already proposed to relinquish the PSC, until the date of this report, the relinquishment is still in process	–	95.93%	1999	–	–	171,376	35,657,766	172,805
P.T. Exspan Nusantara (EN), Jakarta	E & P of oil and natural gas under PSC with PERTAMINA until 2013	November 3, 1995	99.99%	1995	500,693,898	409,410,893	1,374,430,670	1,321,386,219	1,696,588,307
Exspan Airsenda, Inc. (EAS), Jakarta	E & P of oil and natural gas under PSC with PERTAMINA was subsequently amended to 2003	November 3, 1995	100%	1995	307,327,478	360,380,962	889,260,320	726,985,826	1,194,377,502
Exspan Airlimau, Inc. (EAL), Jakarta	E & P of oil and natural gas under PSC with PERTAMINA was subsequently amended to 2003	November 3, 1995	100%	1995	307,327,478	360,380,962	889,260,320	726,985,826	1,194,377,502
Exspan Pasemah, Inc. (EP) Jakarta	E & P of oil and natural gas under PSC with PERTAMINA until 2023	November 3, 1995	100%	1995	45,612,968	40,344,238	6,001,087	59,835,323	6,282,907
Exspan Exploration and Production Pasemah, Ltd. (EEP), Jakarta	E & P of oil and natural gas under PSC with PERTAMINA until 2023	–	100%	1995	45,612,968	40,344,238	6,001,087	59,835,323	6,282,907
P.T. Medco Methanol Bunyu, Jakarta	Production of methanol and its derivatives under the Refinery Agreement with PERTAMINA until 2017	April 1, 1997	99.99%	1997	207,121,281	132,309,556	222,838,627	224,847,841	344,680,013
Exspan Myanmar (L), Inc. Labuan, Malaysia	E & P of oil and natural gas under PSC with Myanmar Oil and Gas Enterprise	–	100%	1997	23,488,413	51,087,922	118,514,648	114,908,671	142,130,433
P.T. Exspan Energi Nusantara, Jakarta	Generation, distribution and maintaining the supply of electrical energy	–	95.93%	1997	253,714	–	276,393	275,063	284,873
P.T. Exspan Petrogas Intranusa, Jakarta	Conducting activities and/or rendering services to companies involved in oil and natural gas exploration and production	1999	98.37%	1997	14,782,305	48,840,322	108,528,412	80,286,725	192,134,947

Subsidiaries Domicile of Operation	Nature of Business	Start of Commercial Operations	Percentage of Ownership	Year Acquired	Total Assets				
					December 31,			September 30,	
					1998	1999	2000	2000 (Unaudited)	2001
Medco Energi Finance Overseas (Medco B.V.), Netherlands	Raising funds by issuing debt and marketable securities as well as obligation papers	October 14, 1999	100%	1999	–	483,198	18,184,001	13,638,000	26,861,260
Senoro Toili (Indonesia) Ltd., Jakarta	E & P of oil and natural gas. Participating interest in PSC - Joint Operating Body (JOB) has been transferred to P.T. Exspan Tomori Sulawesi	–	100%	2000	–	–	19	19	19
Medco Simenggaris Pty. Ltd., Jakarta	E & P of oil and natural gas under PSC - JOB with PERTAMINA until 2028	–	75%	2000	–	–	1,551,281	180,359	3,983,159
Medco Madura Pty. Ltd., Jakarta	E & P of oil and natural gas under PSC - JOB with PERTAMINA until 2027	–	75%	2000	–	–	929,180	301,066	6,440,996
P.T. Exspan Tomori Sulawesi, Jakarta	E & P of oil and natural gas under PSC - JOB with PERTAMINA until 2027	–	99.99%	2000	–	–	80,695,562	10,235,434	160,562,111

c. Public Offering of Shares

On September 13, 1994, the Company obtained Notice of Effectivity from the Chairman of BAPEPAM in his decision letter No. S-1588/PM/1994 for the Company's initial public offering of 22,000,000 shares with par value of Rp1,000 per share. All of these shares were listed on the Jakarta Stock Exchange on October 12,1994.

On November 16, 1999, the Company obtained the Notice of Effectivity No. S-2244/PM/1999 from the Chairman of BAPEPAM for the Limited Public Offering of maximum of 379,236,000 shares through Rights Issue I to stockholders. A total of 321,730,290 new shares were issued in this offering which were listed in Jakarta Stock Exchange on November 19, 1999. On June 26, 1997, the stockholders approved the change in the entire articles of association to comply with Corporate Law No. 1 year 1995 and Capital Market Law No. 8 year 1995 and the Company's plan to change the par value of shares from Rp1,000 per share to Rp500 per share. On May 31, 2000, Jakarta Stock Exchange declared the Company's stock split from Rp500 to Rp100 par value per share.

As of September 30, 2001, all of the Company's shares totaling 3,332,451,450 shares have been listed and recorded in The Jakarta Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared using accounting principles and reporting practices generally accepted in Indonesia and the regulations stipulated under the PSC and TAC for subsidiaries that are involved in oil and gas industry. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and reporting practices generally accepted in other countries and jurisdictions.

The consolidated financial statements, except for the statements of cash flows, are prepared under the accrual basis of accounting. The measurement basis used is the historical cost, except for certain accounts which are measured on the bases described in the related accounting policies.

The reporting currency used in the preparation of the consolidated financial statements is the Indonesian Rupiah (Rp).

The consolidated statements of cash flow are prepared using the direct method which classifies cash flows into operating, investing and financing activities.

Under the regulations issued by the Chairman of BAPEPAM, starting in 2000, the consolidated statements of cash flows are required to be prepared using the direct method with classifications of cash flows into operating, investing and financing activities. For comparative purposes, the 1998 and 1999 consolidated statements of cash flows, which were previously presented using the indirect method, were restated to conform with the 2000 and 2001 presentation.

b. Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries wherein the Company has direct or indirect ownership interest of more than 50%. Intercompany balances and transactions including unrealized gain/loss on intercompany transactions are eliminated to reflect the financial position and the results of operations of the Company and its subsidiaries as one business entity.

The excess of acquisition cost over the Company's interest in fair value of net assets of the subsidiaries acquired is recorded as goodwill and is included under oil and gas property as fair value adjustment and amortized over the life of the Production Sharing Contract or 18 years using the unit of production method. The excess of the Company's interest in fair value of the net assets over cost of the investments is recognized as negative goodwill and is treated as deferred income which is amortized using straight-line method over 20 years.

c. Foreign Currency Transactions and Translations

The books of accounts of the Company and its subsidiaries, except for Medco B.V. and Mesa and its subsidiaries which are involved in oil and natural gas industry, are maintained in Indonesian Rupiah. Transactions during the period involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At balance sheet date, monetary assets and liabilities denominated in foreign currencies were adjusted to reflect the rates of exchange prevailing at that date. The resulting gains or losses are credited or charged to current operations.

The books of accounts of the subsidiaries which are involved in oil and natural gas industry are maintained in US Dollars. Medco B.V., the Company's subsidiary established in Amsterdam, maintains its books of accounts in Euro currency. For consolidation purposes, assets and liabilities of these subsidiaries have been translated into Indonesian Rupiah using the rates of exchange prevailing at balance sheet date while revenues and expenses and cash flows were translated using the average rates of exchange. The resulting foreign exchange differences are credited or charged to "Translation Adjustments" under the Equity.

Subsequently, starting January 1, 2002, The Minister of Finance through his decree No. MEI-641/PJ.42/2001 dated October 19, 2001 approved the Company to organize its book and records by using its major functional currency in US Dollar.

d. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks and all unrestricted investments with maturities of three months or less from the date of placement.

e. Investments

Time deposits

Time deposits with maturities of three months or less which are pledged as loan collateral and time deposits with maturities of more than three months, are presented as temporary investments and are stated at face value.

Investments in associated companies

Investments in shares of stock with ownership interest of 20% to 50%, directly or indirectly owned, are accounted for using the equity method whereby the Company's proportionate share in the net income or loss of the associated company after the date of acquisition is added to or deducted from, and the dividends received are deducted from the acquisition cost of the investments. Equity in net income or losses is adjusted for the straight-line amortization over five years of goodwill. The carrying amount of the investments is written down to recognize a permanent decline in the value of individual investments. Any such writedown is charged directly to current operations.

f. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on a review of the status of the individual receivable accounts at the end of the period.

g. Inventories

Inventories of methanol, spare parts and other supplies for drilling rigs, wells and equipment are stated at cost or net realizable value, whichever is lower. Cost is determined using the weighted average method.

h. Prepaid Expenses

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

i. Property and Equipment - Direct Acquisitions

Direct acquisitions of property and equipment are stated at cost, except for certain revalued assets, less accumulated depreciation. Certain assets were revalued based on independent appraisal made in accordance with Government Regulation. Revaluation increment in property and equipment was credited to a separate account under equity.

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

	Years
Buildings	20
Offshore drilling rigs	17-21
Offshore drilling pipes	4
Mud equipment	5
Offshore rig equipment	5
Onshore rig equipment	8
Vehicles	3-5
Leasehold improvement	3-8
Catalyst	3
Furniture, fixtures and office equipment	3-5

Land is stated at cost and is not depreciated.

Unused property, plant and equipment are stated at carrying value or net realizable value whichever is lower.

When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its estimated recoverable amount, which is the higher of net selling price or value in use.

The cost of maintenance and repairs is charged to operations as incurred; expenditures which extend the useful life of the asset or result in increased future economic benefits are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the current operations.

Construction in progress represents costs directly associated with the construction of facilities and the preparation of property and equipment for intended use. These costs include interest during construction on debts incurred to finance the construction. Construction in progress is transferred to the respective property and equipment account when completed and ready for use.

Construction in progress is stated at cost which includes borrowing costs during construction on debts incurred to finance the construction. Construction in progress is transferred to the respetive property, plant and equipment account when completed and ready for use.

j. Leases

Lease transactions are recorded as capital leases when the following criteria are met:

1) The lessee has the option to purchase the leased assets at the end of the lease term at a price mutually agreed upon at the inception of the lease agreement.

2) All periodic lease payments made by the lessee plus residual value shall represent a return of the cost of leased asset and interest thereon as the profit of the lessor.

3) Minimum lease period is two years.

Lease transactions that do not meet the above criteria are recorded as operating leases.

Leased assets and lease liabilities under the capital lease method are recorded at the present value of the total installments plus residual value (option price). Leased assets are depreciated using the same method and estimated useful lives used for directly acquired property and equipment (Note 2i).

k. Oil and Gas Properties

The Company's subsidiaries engaged in oil and gas industry uses the successful efforts method of accounting for oil and gas activities. Under this method, cost to acquire mineral interest in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Cost to drill exploratory wells that do not find proved reserves, geological and geophysical cost and other exploration costs are charged to income as incurred.

The costs of drilling exploratory wells include cost of drilling exploratory-type stratigraphic test wells which are initially capitalized and recorded as part of uncompleted wells, equipment and facilities. However, should the efforts be determined unsuccessful, such costs are then charged against income.

The costs of drilling development wells and development-type stratigraphic test wells include costs of dry holes, platforms, well equipment and attendant production facilities which are capitalized as uncompleted wells, equipment and facilities. Uncompleted wells, equipment and facilities will be transferred to wells and related equipment and facilities when drilling or construction is completed.

Depreciation and amortization of the capitalized costs of oil and gas properties are provided on a unit of production basis using estimated recoverable reserves expected to be produced.

Costs to acquire the rights to explore for and extract oil and gas are recorded as unoperated acreage or operated acreage. This account is periodically assessed for impairment in value, and a loss is recognized at the time of impairment by providing an allowance for impairment.

l. Deferred Charges

Costs incurred in connection with the acquisition of the rights to operate PERTAMINA's Bunyu Methanol Refinery, was deferred and is being amortized over three years, using the straight-line method since the economic life of these expenditures are shorter than the lease period of methanol refinery.

m. Treasury Stock

Reacquisition of capital stock (treasury stock) which will be reissued in the future is accounted for under the par value method. Par value of treasury stock is presented as a reduction from 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 debited. Any excess of the reacquisition cost over the original issuance price is debited to retained earnings.

n. Deferred Stock Issuance Cost

Expenses incurred in connection with the issuance of the Company's shares of stock to the public are deferred and amortized over five years using the straight-line method starting October 1994.

o. Revenue and Expense Recognition

Revenue from drilling services are recognized when service is rendered to customer.

Revenue from the sale of crude oil and gas is recognized based on production and delivery to PERTAMINA.

Revenue from sale of methanol is recognized when goods are delivered to the customer.

Expense is recognized when incurred.

p. Pension and Other Employee Benefit Plans

The Company and its subsidiaries provide pension and other employee benefit that consisting of:

1. *Pension Plan*

The Company's subsidiaries that are involved in oil and gas industry established defined contribution pension plans covering all 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' salary. The shares of the subsidiaries in the pension costs are accrued when incurred.

2. *Other Employee Benefit Plan*

The Company and its subsidiaries recognize the employee benefit obligations relating to employee's death, retirement or resignation which are contemplated under the Decree No. Kep-150/Men/2000 dated June 20, 2000, issued by the Minister of Manpower and the terms of the employment contract of the employees.

Current service cost is charged to operations in the current period. Past service cost is treated as transitional liability, which is amortized over 5 years using straight-line method.

The actuarial calculation method used is the Projected Unit Credit Method.

q. Income Tax

The Company and its subsidiaries determine their income taxes in accordance with PSAK No. 46, "Accounting for Income Taxes".

Corporate Income Tax and Dividend Tax

Subsidiaries involved in the oil and gas industry are subject to a final tax rate of 35% as stated in PSC, except for EAS and EAL which use 30% and ET at 45% based on gross oil and gas revenue after deducting all production and operating expenditures giving consideration to other taxable/nontaxable and deductible/nondeductible items. Dividend tax is computed at 20%, except for EN which is computed at 15% based on revenue after deducted by corporate income tax.

Subsidiaries which are operating under the provisions of TAC are subject to a final income tax and dividend tax at 35% and 13%, respectively, based on income after deducting all production and operating expenditures, giving consideration to other taxable/nontaxable and deductible/nondeductible items.

The difference between the financial statement carrying amounts of assets and liabilities and their respective final tax bases are not recognized as deferred tax assets or liabilities.

Final income tax expense is recognized in proportion to income recognized in the current period.

The difference between the final income tax paid and the final tax expense in the consolidated statements of income is recognized as prepaid tax or tax payable.

Non-final Income Tax

Current tax expense is determined based on the taxable income for the year computed using prevailing tax rates.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable income will be available in future periods against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary differences arise from goodwill or negative goodwill, or from the initial recognition of an asset and liability in a transaction, other than in a business combination, that affect neither accounting income nor taxable income (fiscal loss).

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the statement of income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited directly to equity.

Deferred tax assets and liabilities are offset in the balance sheet, except when these are for different legal entities, in the same manner as the current tax assets and liabilities are presented.

r. Derivative Instrument

For currency swap transactions, the difference between the spot rate and the swap rate is recorded as discount or premium and amortized over the term of the swap contract. Gain or loss from translation of the foreign currency swap receivable or payable at balance sheet date is reflected in the current operations. The swap receivable and payable and the unamortized discount or premium are presented at net amount as other swap receivable or payable in the balance sheets.

s. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the year.

Diluted earning per share is computed by dividing net income by the weighted average number of shares outstanding as adjusted for the effects of all dilutive potential ordinary shares.

t. Segment Information

The Company and its subsidiaries segment information is presented based on business segments.

A business segment is a distinguishable component that is engaged in providing an individual product or service or a group of related products or services that are different from those of other business segments, primarily to customers outside the Company or its subsidiaries.

3. CASH AND CASH EQUIVALENTS

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Cash on hand	90,294	599,370	311,076	92,422	120,169
Cash in bank					
Related party					
Rupiah					
Bank Himpunan Saudara 1906	7,931,262	3,983,598	5,776,572	12,500,224	7,974,784
Third parties					
Rupiah					
P.T. Bank Mandiri (Persero) ..	3,079,283	1,335,665	7,102,232	1,447,006	11,060,869
Bank Rakyat Indonesia	3,467,089	1,462,586	3,745,974	2,161,587	540,358
Bank BNI 1946	14,423	–	–	–	–
Citibank	254,833	146,956	728,489	187,815	663,517
Bank Niaga	742,790	2,331,665	331,444	536,967	738,336
Bank Lippo	–	–	274,954	–	237,213
Bank Internasional Indonesia	30,345	413,683	79,752	67,656	908,714
Bank Danamon	–	8,850	8,846	8,846	8,975
PDFCI	8,931	–	–	–	–
Chase Manhattan Bank	84	1,134,665	1,765	–	–
Bank IFI	106,763	826,714	–	725,835	–
Panin Bank	–	17,323	–	–	–
US Dollar					
Citibank	42,982,396	11,904,292	267,804,066	47,775,038	415,888,066
Bank Internasional Indonesia	16,873	15,700	18,252,645	20,049	23,032
The Dai-Ichi Kangyo Bank ..	–	1,613,560	3,193,959	2,166,946	3,448,898
Standard Chartered Bank ..	–	–	2,651,780	2,023,155	10,302,765
Bank Niaga	4,727,973	5,178,273	853,832	1,574,669	8,869,120
P.T. Bank Mandiri (Persero) ..	2,069,176	497,628	659,258	5,067,412	1,162,661
Myanmar Foreign Trade Bank	–	–	225,558	1,460,035	256,049
Chase Manhattan Bank	4,904,199	35,409,188	173,194	161,872	176,279
The Fuji Bank Ltd, Singapore	7,125,116	114,538	127,680	115,144	132,854
Hong Kong Shanghai Banking Corporation	–	–	9,691	7,838	73,000
Bank Danamon	–	9,132	9,514	9,514	11,807
PDFCI	10,780	–	–	–	–
Bank IFI	367,616	8,049	3,335	3,150	3,513
Bank Panin	16,017	–	–	–	–
Bank Pelita	1,773,091	–	–	–	–
Paribas - Metiere Bancaire, Paris	–	1,105,066	–	330,706	–
The Bank of Tokyo - Mitsubishi	12,297,742	2,967,260	–	–	–
Credit Suisse	–	2,896,104	–	–	–
UAE Dirham					
Citibank	–	–	499,259	–	831,339
Subtotal	92,017,076	73,979,865	312,824,875	78,443,886	463,432,318

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Time deposits					
Related party					
Time deposit placed in Rupiah Bank Himpunan Saudara 1906	20,490,000	46,455,004	4,704,300	4,440,000	18,969,412
Third parties					
Time deposits placed in Rupiah					
Bank Niaga	–	1,000,000	11,018,923	–	3,929,425
Citibank	–	1,420,000	4,500,000	–	–
P.T. Bank Mandiri (Persero) ..	2,105,000	55,000	805,000	805,000	305,000
Bank BNI 1946	15,293	13,530	–	–	–
Bank Internasional Indonesia	–	43,000,000	–	–	–
Time deposits placed in US Dollar					
Deutsche Bank	–	–	191,900,000	381,239,629	–
Standard Chartered Bank ..	–	–	47,975,000	–	–
Citibank	1,362,000	–	47,399,300	17,560,000	9,755,351
Bank Niaga	4,942,268	–	15,861,303	10,718,317	991,683
Bank BNI 1946	2,006,250	1,775,000	–	–	–
The Dai-ichi Kangyo Bank ..	–	–	4,202,610	–	–
Subtotal	30,920,811	93,718,534	328,366,436	414,762,946	33,950,871
Total	122,937,887	167,698,399	641,191,311	493,206,832	497,383,189
Interest rates per annum					
Rupiah	27.5%-49%	10.25%-26%	6%-13.22%	10.25%-26%	11%-15%
US Dollar	13%-15%	3%-10%	3.50%-6.65%	3%-10%	4.5%-5.5%

4. TEMPORARY INVESTMENTS

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Time deposits with maturity of more than 3 months					
US Dollar					
The Dai-ichi Kangyo Bank	—	3,166,600	2,110,900	3,915,880	—
Citibank	—	3,819,800	—	—	—
Sub-total	—	6,986,400	2,110,900	3,915,880	—
Time deposits used as collateral					
Rupiah					
Standard Chartered Bank	—	—	8,876,997	—	—
P.T. Bank Mandiri (Persero) ..	—	250,000	—	—	—
US Dollar					
Bank Niaga	5,194,407	3,049,911	1,283,475	1,344,043	852,029
P.T. Bank Mandiri (Persero) ..	—	—	924,478	1,010,885	944,103
Hong Kong Shanghai Banking Corporation	—	—	4,552,828	—	4,590,788
Subtotal	5,194,407	3,299,911	15,637,778	2,354,928	6,386,920
Total	5,194,407	10,286,311	17,748,678	6,270,808	6,386,920
Interest rates per annum					
Rupiah	—	10%-26%	7.5%	7.5%	—
US Dollar	13%-16%	3%-10%	5%-7%	5%-7%	5%-6%

Time deposits are used as collateral in relation to the issuance of bank guarantees, bid bonds, letter of credit and performance bonds as part of the normal course of the business.

5. TRADE ACCOUNTS RECEIVABLE FROM THIRD PARTIES

a. By debtor:

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Third parties					
Local debtors	357,432,461	484,585,259	471,512,037	407,909,219	419,566,316
Foreign debtors	31,152,281	40,357,363	163,195,651	81,571,034	162,272,022
Total	388,584,742	524,942,622	634,707,688	489,480,253	581,838,338
Allowance for doubtful accounts ..	(1,437,563)	(1,437,563)	(10,318,604)	—	(10,318,604)
Total	387,147,179	523,505,059	624,389,084	489,480,253	571,519,734

b. By age category:

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Not yet due	168,838,305	302,243,531	315,344,114	209,410,018	290,855,633
1 - 30 days past due	197,958,278	149,495,212	220,795,914	162,224,811	163,984,843
31- 60 days past due	20,320,258	57,011,067	40,784,170	105,818,787	49,495,377
61- 90 days past due	30,339	16,035,453	24,549,726	633,492	28,913,868
91- 120 days past due	–	–	20,260,213	1,946,680	23,143,288
More than 120 days past due	1,437,562	157,359	12,973,551	9,446,465	25,445,329
Total	388,584,742	524,942,622	634,707,688	489,480,253	581,838,338
Allowance for doubtful accounts	(1,437,563)	(1,437,563)	(10,318,604)	–	(10,318,604)
Net	387,147,179	523,505,059	624,389,084	489,480,253	571,519,734

c. By currency:

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Rupiah	–	38,527,218	24,906,473	12,517,392	14,749,852
US Dollar	388,509,136	486,347,864	609,701,790	476,943,629	567,053,587
Singapore Dollar	75,606	3,104	99,425	19,232	34,899
Poundsterling	–	64,436	–	–	–
Total	388,584,742	524,942,622	634,707,688	489,480,253	581,838,338
Allowance for doubtful accounts	(1,437,563)	(1,437,563)	(10,318,604)	–	(10,318,604)
Net	387,147,179	523,505,059	624,389,084	489,480,253	571,519,734

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Changes in the allowance for doubtful accounts					
Beginning balance	–	1,437,563	1,437,563	1,437,563	10,318,604
Additions	1,437,563	4,365,723	10,318,604	–	–
Deductions	–	(4,365,723)	(1,437,563)	(1,437,563)	–
Ending balance	1,437,563	1,437,563	10,318,604	–	10,318,604

Management believes that the allowance for doubtful receivables from third parties is adequate to cover possible losses on uncollectible accounts.

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

Accounts receivable generated from MEA's onshore drilling rigs No. 2, 5, 6, 9 was used as collateral for the Company's syndicated loan (Note 21), while Accounts Receivable generated from Apexindo's Swamp-Barge drilling rigs Maera - 101 and Raisis - 102, and Jack-up drilling rig Rani Woro - 201 were used as collateral for the Company's loan from Nissho Iwai Corporation, Japan, and Apexindo's loans from N.V. Marubeni Benelux SA, Belgium (Marubeni) and Nissho Iwai Corporation, Singapore, respectively (Notes, 22 and 23).

The loan from Marubeni has been fully paid on October 1999, while the loans from Nissho Iwai Corporation, Singapore and Japan has been fully paid on January and May 2000, respectively. In relation with the loan settlement, the accounts receivable have been released and discharged as collateral for the said loans.

6. OTHER ACCOUNTS RECEIVABLE

	December 31,			*September 30,*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
PERTAMINA	22,106,275	15,600,400	92,801,719	67,402,611	114,407,460
Loans to employees	6,242,397	4,740,343	16,759,903	8,555,613	28,620,280
Others	2,415,277	10,551,950	25,021,841	28,053,866	78,824,513
Total	30,763,949	30,892,693	134,583,463	104,012,090	221,852,253

Accounts receivable from PERTAMINA represents value added tax that have been paid by subsidiaries engaged in oil and gas industry and which are reimbursable by PERTAMINA, as well as PERTAMINA's field operational expenses that were paid by subsidiaries.

7. INVENTORIES

	December 31,			*September 30,*	
	1998 (As restated Note 45)	*1999 (As restated Note 45)*	*2000 (As restated Note 45)*	*2000 (Unaudited)*	*2001*
Spareparts, well supplies and others	133,075,999	116,901,465	124,711,069	168,533,625	166,445,258
Materials in-transit	10,130,192	7,111,244	7,812,672	9,219,224	15,362,371
Methanol	21,905,685	1,330,179	4,546,080	32,068,090	18,325,690
Total	165,111,876	125,342,888	137,069,821	209,820,939	200,133,319
Allowance for decline in value ..	–	–	(233,173)	–	(1,428,046)
Total - net	165,111,876	125,342,888	136,836,648	209,820,939	198,705,273
Change in the allowance for decline in value					
Beginning value	–	–	–	–	233,173
Additions	–	–	233,173	–	1,194,873
Ending balance	–	–	233,173	–	1,428,046

At September 30, 2001, all inventories and property and equipment, except land, were insured for USD82,277,523 and Rp10,733,500 thousand. Management believes that the insurance coverage is adequate to cover possible losses to the Company and its subsidiaries.

8. PREPAID TAXES

	December 31,			September 30,	
	1998 (As restated Note 45)	1999 (As restated Note 45)	2000 (As restated Note 45)	2000 (Unaudited)	2001
The Company					
Value added tax overpayments ..	–	–	–	730,624	351,456
Corporate income tax overpayments (Note 34) ..	4,875,382	5,360,551	6,596,349	3,996,788	2,592,339
Total	4,875,382	5,360,551	6,596,349	4,727,412	2,943,795
Subsidiaries					
Value added tax	22,667,416	17,034,769	18,962,931	20,571,782	27,738,319
Corporate income tax overpayments	5,258,273	7,062,317	16,316,511	19,612,938	35,409,530
Total	27,925,689	24,097,086	35,279,442	40,184,720	63,147,849
Total	32,801,071	29,457,637	41,875,791	44,912,132	66,091,644

9. RESTRICTED CASH IN BANKS

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
P.T. Bank Mandiri (Persero), USD333,370 in 2000 and USD379,000 as of September 30, 2000	–	–	3,198,685	3,327,620	–
The Bank of Tokyo - Mitsubishi, Ltd.,USD1,087,318 in 1998 and USD480,000 in 1999	8,725,727	3,408,000	–	–	–
The Fuji Bank Ltd., Singapore USD1,534,287	12,312,653	–	–	–	–
The Dai-Ichi Kangyo Bank USD663,000	–	–	–	–	6,414,525
Total	21,038,380	3,408,000	3,198,685	3,327,620	6,414,525

The account in The Bank of Tokyo-Mitsubishi, Ltd., represents placement of cash collaterals by Apexindo in escrow accounts as required under the purchase contract agreement between the Company and Nissho Iwai Corporation, Singapore (Note 22) and under the loan agreement between the Company, Nissho Iwai Corporation, Japan and Apexindo (Note 23).

At December 31, 2000 the Company, has no longer maintained the escrow account since the Company's and Apexindo's loans from Nissho Iwai Corporation had been fully paid in January and May 2000.

The account in The Fuji Bank Ltd., Singapore represents cash collateral required under the loan agreement between Marubeni and Apexindo (Note 23).

The loan from Marubeni has been fully paid on October 1999, therefore at December 31, 1999 the Company has no longer maintained the related escrow account.

Current account in P.T. Bank Mandiri represents escrow account as required under the credit facility obtained by the Company from P.T. Bank Mandiri with minimum balance equivalent to the principal installment plus interest amount of the following months (Note 21).

Current account in The Dai-Ichi Kangyo Bank represents escrow account required under the credit facility obtained by the Company from The Dai-Ichi Kangyo Bank with minimum balance equivalent to twice of the principal installment plus interest amount of the following months.

10. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Medco Central Asia Ltd. (MCA) ..	–	426,839,779	509,278,615	480,008,789	513,515,531
P.T. Medco Duta	232,044,524	246,598,341	284,797,837	272,722,908	286,876,377
P.T. Medco Inti Dinamika	54,027,268	54,589,771	51,981,979	53,286,144	51,552,469
Mesa Drilling Inc.	–	–	–	–	4,846,778
Others	522,576	93,083	93,083	127,820	93,083
Total	286,594,368	728,120,974	846,151,514	806,145,661	856,884,238
Allowance for doubtful accounts ..	–	(144,609,009)	(504,488,885)	(399,359,482)	(762,537,253)
Total	286,594,368	583,511,965	341,662,629	406,786,179	94,346,985

Changes in allowance for doubtful accounts:

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Beginning balance	–	–	144,609,009	144,609,009	504,488,885
Addition	–	144,609,009	359,879,876	254,750,473	258,048,368
Ending balance	–	144,609,009	504,488,885	399,359,482	762,537,253

Receivable from MCA was originally recorded as security deposit paid to MCA to secure the right to operate JSC-Mangistaumunaigaz (JSC-M) described as follows:

a. JSC-M is an oil and gas production and exploration company established in Kazakhstan. JSC-M's major stockholder is Central Asia Petroleum, a subsidiary of MCA.

b. The Company and MCA, signed a Memorandum of Understanding (MOU) on May 12, 1997 whereby the Company would be nominated as the operator of JSC-M's operation.

The MOU was in effect until November 12, 1999 and was not extended. Since that date, the security deposit was presented as accounts receivable from related parties. MCA is still in the midst of restructuring its debts.

In connection with the restructuring of loans of DUTA and INTI with its creditors, a Debt Acknowledgement Agreement was signed by the Company, DUTA and INTI on September 15, 2000. In accordance with the agreement, the interest rates per annum were changed from 12% to 7% for Rupiah and 8% to 5% for US Dollar. In addition, the term of the loans was also changed to 8 years with 3 years grace period.

MCA, DUTA and INTI's ability to repay its debts to the Company in the future is doubtful, hence the management has provided an allowance for doubtful accounts amounting to Rp144,609,009 thousand, Rp504,488,885 thousand and Rp762,537,253 thousand in December 31, 1999 and 2000 and September 30, 2001, respectively.

Notwithstanding the above, the Company, during the year 2000, was able to collect from MCA, DUTA and INTI in aggregate amount of USD11,735,000 in the form of Series A Notes.

Starting in 2000, the Company did not recognize interest income from the receivables from MCA, DUTA and INTI. Legally, the interest income is still a valid receivable from those affiliated Companies, therefore, the Company still records it in extracomptable and recognize it as an interest income when received.

In accordance with the Decree of the Chairman of BAPEPAM No. KEP-84/PM/1996, as amended by Decree No. KEP-12/PM/1997 dated April 30, 1997 and Decree No. KEP-32/PM/2000 dated August 22, 2000, the above receivables from related party transactions require approval from independent stockholders as these transactions may be construed to be a conflict of interest transactions among the Company and its related parties.

On November 30, 2001 and December 21, 2001, the Company held an Extraordinary Meeting of the Independent Stockholders concerning such transactions. As the quorum of the meeting did not meet the minimum 50% attendance as required by BAPEPAM, the meeting was not qualified to make a decision on the proposed account receivable rescheduling under the Debt Acknowledge Agreement. However, the meeting did acknowledge the occurrence of such potential conflict of interest transactions.

Based on BAPEPAM's regulation, the Extraordinary Meeting of the Independent Stockholders shall be held by the Company once it has obtained the guidance from BAPEPAM. The Company is currently in the process of obtaining such guidance.

11. INVESTMENT IN SHARES OF STOCK

	December 31,			*September 30,*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Mesa Drilling Inc.	–	–	–	–	30,624,418
Probe Technology Service Inc. ..	–	–	6,100,866	6,166,632	6,024,519
Total	–	–	6,100,866	6,166,632	36,648,937

Mesa Drilling Inc.

This account represents 50% interest of Apexindo, a subsidiary, in Mesa Drilling, Inc. (MESA). MESA is a company located in Texas USA is engaged in onshore drilling operation. The investment was paid by transferring one unit of rig at agreed amount of USD3,000,000 as stated in the Agreement for the Sale and Purchase and Subscription for shares in Mesa Drilling Inc. dated April 20, 2001.

As of September 30, 2001, the carrying amount of this investment which is accounted for under equity method is as follows:

	September 30, 2001
Original cost of investment (USD3,000,000)	33,741,000
Equity in net loss	(3,116,582)
Carrying amount	30,624,418

Probe Technology Service Inc.

This account represents 36.6% equity ownership of EPI, a subsidiary, in Probe Technology Service Inc., a company domiciled in Texas, United States which is involved in services and oil technology and acquired for USD875,000 or Rp6,838,125 thousand on May 11, 2000.

As of December 31, 2000 and September 30, 2001, the carrying amount of the investment which is accounted for under the equity method, is as follows:

		September 30,	
	December 30, 2000	*2000 (Unaudited)*	*2001*
Beginning balance	6,838,122	6,838,122	6,100,866
Equity in net loss	(737,256)	(671,490)	(76,347)
Carrying amount	6,100,866	6,166,632	6,024,519

12. PROPERTY AND EQUIPMENT

	January 1, 1998	*Capitalization of loss on foreign exchange*	*Additions*	*Deductions*	*Reclassifications*	*December 31, 1998*
At cost or revalued amounts:						
Direct acquisitions						
Land	432,443	–	3,687,359	127,440	–	3,992,362
Buildings and land improvements	240,097	–	2,926,161	135,720	–	3,030,538
Onshore and offshore drilling rigs and equipment	413,795,462	122,034,817	55,183,687	18,048	3,734,453	594,730,371
Vehicles	17,393,478	–	17,242,900	868,537	–	33,767,841
Office and other equipment ..	23,016,503	–	14,457,010	1,875,408	–	35,598,105
Leasehold Improvement ..	–	–	–	–	–	–
Catalyst	–	–	5,520,870	–	–	5,520,870
Leased assets						
Vehicles	651,802	–	–	158,202	–	493,600
Construction in progress	10,176,709	–	2,611,069	–	(3,734,453)	9,053,325
Total	465,706,494	122,034,817	101,629,056	3,183,355	–	686,187,012
Accumulated depreciation:						
Direct acquisitions						
Buildings and land improvements	14,135	–	17,572	2,827	–	28,880
Onshore and offshore drilling rigs and equipment	124,610,854	–	50,374,505	18,048	–	174,967,311
Vehicles	6,793,193	–	3,270,603	527,442	–	9,536,354
Office and other equipment ..	5,009,482	–	5,970,548	518,578	–	10,461,452
Leasehold Improvement ..	–	–	–	–	–	–
Catalyst	–	–	920,145	–	–	920,145
Leased assets						
Vehicles	266,050	–	237,696	133,379	–	370,367
Total	136,693,714	–	60,791,069	1,200,274	–	196,284,509
Net Book Value	329,012,780					489,902,503

	January 1, 1999	Impairment	Additions	Deductions	Reclassifications	December 31, 1999
At cost or revalued amounts:						
Direct acquisitions						
Land	3,992,362	–	–	–	–	3,992,362
Buildings and land improvements	3,030,538	–	1,582,082	–	693,245	5,305,865
Onshore and offshore drilling rigs and equipment	594,730,371	47,752,105	7,427,856	234,850	9,685,772	563,857,044
Vehicles	33,767,841	–	12,611,264	791,600	–	45,587,505
Office and other equipment ..	35,598,105	–	1,985,105	–	–	37,583,210
Leasehold Improvement ..	–	–	–	–	–	–
Catalyst	5,520,870	–	–	–	–	5,520,870
Leased assets						
Vehicles	493,600	–	–	–	–	493,600
Construction in progress	9,053,325	–	12,289,908	–	(10,379,017)	10,964,216
Total	686,187,012	47,752,105	35,896,215	1,026,450	–	673,304,672
Accumulated depreciation:						
Direct acquisitions						
Buildings and land improvements	28,880	–	228,767	–	–	257,647
Onshore and offshore drilling rigs and equipment	174,967,311	–	49,969,303	219,504	–	224,717,110
Vehicles	9,536,354	–	8,017,617	472,345	–	17,081,626
Office and other equipment ..	10,461,452	–	6,723,724	–	–	17,185,176
Leasehold Improvement ..	–	–	–	–	–	–
Catalyst	920,145	–	1,840,290	–	–	2,760,435
Leased assets						
Vehicles	370,367	–	246,466	–	–	616,833
Total	196,284,509	–	67,026,167	691,849	–	262,618,827
Net Book Value	489,902,503					410,685,845

	January 1, 2000	Additions	Deductions	Reclassifications	December 31, 2000
At cost or revalued amounts:					
Direct acquisitions					
Land	3,992,362	–	–	–	3,992,362
Buildings and land improvements	5,305,865	–	–	–	5,305,865
Onshore and offshore drilling rigs and equipment	563,857,044	13,906,534	–	15,977,579	593,741,157
Vehicles	45,587,505	30,740,310	546,470	–	75,781,345
Office and other equipment	37,583,210	1,872,824	177,220	–	39,278,814
Leasehold Improvement ..	–	28,505,210	–	–	28,505,210
Catalyst	5,520,870	8,215,334	–	–	13,736,204
Leased assets					
Vehicles	493,600	–	–	–	493,600
Construction in progress ..	10,964,216	18,929,910	–	(15,977,579)	13,916,547
Total	673,304,672	102,170,122	723,690	–	774,751,104
Accumulated depreciation:					
Direct acquisitions					
Buildings and land improvements	257,647	261,992	–	–	519,639
Onshore and offshore drilling rigs and equipment	224,717,110	49,979,253	–	–	274,696,363
Vehicles	17,081,626	10,283,070	158,283	–	27,206,413
Office and other equipment	17,185,176	6,301,251	36,999	–	23,449,428
Leasehold Improvement ..	–	2,222,701	–	–	2,222,701
Catalyst	2,760,435	3,209,512	–	–	5,969,947
Leased assets					
Vehicles	616,833	–	–	–	616,833
Total	262,618,827	72,257,779	195,282	–	334,681,324
Net Book Value	410,685,845				440,069,780

	January 1, 2000	Additions	Deductions	Reclassifications	September 30, 2000
At cost or revalued amounts:					
Direct acquisitions					
Land	3,992,362	–	–	–	3,992,362
Buildings and land improvements	5,305,865	–	–	–	5,305,865
Onshore and offshore drilling rigs and equipment	563,857,044	29,431,789	–	5,229,404	598,518,237
Vehicles	45,587,505	229,600	263,805	2,855,152	48,408,452
Office and other equipment	37,583,210	3,198,049	–	(2,855,152)	37,926,107
Leasehold Improvement ..	–	28,505,210	–	–	28,505,210
Catalyst	5,520,870	8,215,334	–	–	13,736,204
Leased assets					
Vehicles	493,600	–	–	–	493,600
Construction in progress ..	10,964,216	7,229,979	–	(5,229,404)	12,964,791
Total	673,304,672	76,809,961	263,805	–	749,850,828
Accumulated depreciation:					
Direct acquisitions					
Buildings and land improvements	257,647	196,494	–	–	454,141
Onshore and offshore drilling rigs and equipment	224,717,110	39,007,484	–	–	263,724,594
Vehicles	17,081,626	6,013,214	158,283	–	22,936,557
Office and other equipment	17,185,176	5,042,793	–	–	22,227,969
Leasehold Improvement ..	–	2,222,701	–	–	2,222,701
Catalyst	2,760,435	3,209,512	–	–	5,969,947
Leased assets					
Vehicles	616,833	–	–	–	616,833
Total	262,618,827	55,692,198	158,283	–	318,152,742
Net Book Value	410,685,845				431,698,086

	January 1, 2001	Additions	Deductions	Reclassifications	September 30, 2001
At cost or revalued amounts:					
Direct acquisitions					
Land	3,992,362	52,357	–	–	4,044,719
Buildings and land improvements	5,305,865	199,570	–	–	5,505,435
Onshore and offshore drilling rigs and equipment	593,741,157	660,035,220	11,856,550	5,485,882	1,247,405,709
Vehicles	75,781,345	6,968,902	1,366,589	442,320	81,825,978
Office and other equipment	39,278,814	4,158,254	252,005	9,134,795	52,319,858
Leasehold Improvement ..	28,505,210	–	–	4,225,732	32,730,942
Catalyst	13,736,204	–	–	2,476,747	16,212,951
Leased assets					
Vehicles	493,600	–	–	–	493,600
Construction in progress ..	13,916,547	41,906,629	–	(21,765,476)	34,057,700
Total	774,751,104	713,320,932	13,475,144	–	1,474,596,892
Accumulated depreciation:					
Direct acquisitions					
Buildings and land improvements	519,639	204,053	–	–	723,692
Onshore and offshore drilling rigs and equipment	274,696,363	85,332,296	11,360,757	–	348,667,902
Vehicles	27,206,413	3,437,975	1,033,925	–	29,610,463
Office and other equipment	23,449,428	6,252,252	185,639	–	29,516,041
Leasehold Improvement ..	2,222,701	3,730,215	–	–	5,952,916
Catalyst	5,969,947	3,593,166	–	–	9,563,113
Leased assets					
Vehicles	616,833	–	–	–	616,833
Total	334,681,324	102,549,957	12,580,321	–	424,650,960
Net Book Value	440,069,780				1,049,945,932

As at January 1, 2001, MEA and Apexindo have revaluated their property and equipment in accordance with the Decree of the Minister of Finance of Republic Indonesia No.384/KMK.04/1998 dated August 14, 1998. The assets that have been revalued were all of fixed assets owned by Apexindo and a part of drilling rigs and equipment owned by MEA as of January 1, 2001. Based on the Report of P.T. Graha Karya Reksatama dated May 8, 2001, the revaluation was made by Market Data Approach. On August 27, 2001, MEA and Apexindo obtained the approval from the Director General of Taxes through Decision Letter No. KEP-02/WPJ.04/KP.1205/2001. The revaluation increment of Rp495,069,936, net of minority interest, was recorded as part of equity.

In 2000, management of the Company and its subsidiaries evaluated the estimated recoverable amount of drilling rigs which were acquired between 1982 and 1995. Based on the evaluation made, the estimated recoverable amount of these assets was greater than the carrying amount thus there was no impairment in value of property and equipment as of December 31, 2000.

For the nine months period ended September 30, 2001, the additions to property and equipment accounts includes the revaluation increment amount summarized below:

	September 30, 2001
Land	52,357
Buildings and land improvements	199,570
Onshore and offshore drilling rigs and equipment	660,035,220
Vehicles	6,968,902
Office and other equipment	4,158,254
Total	671,414,303

Allocation of depreciation expense:

	One year			Nine months	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Cost of sales and direct expenses	58,396,030	62,037,157	66,473,436	51,628,177	99,453,499
Operating expenses	2,395,039	4,989,010	5,784,343	4,064,021	3,096,458
Total	60,791,069	67,026,167	72,257,779	55,692,198	102,549,957

MEA's onshore drilling rigs No. 2, 5, 6, 9 are used as collateral for the Company's syndicated loan (Note 21), while all Apexindo's offshore drilling rigs have been released and discharged as collateral for Apexindo's loan from Marubeni and Nissho Iwai, Singapore, and the Company's loan from Nissho Iwai, Japan, since all the loans has fully paid on October 1999, January and May 2000 respectively (Notes 22 and 23).

The Company and its subsidiaries own several pieces of land located in Pondok Pinang, Jakarta with Building Use Rights (Hak Guna Bangunan or HGB) for a period of 20 years until June 18, 2018. Management believes that there will be no difficulty in the extension of the landrights since all the pieces of land were acquired legally and supported by sufficient evidence of ownership.

At September 30, 2001, all inventories and property and equipment, except land, were insured for USD82,277,523 and Rp10,733,500 thousand. Management believes that the insurance coverage is adequate to cover possible losses to the Company and its subsidiaries.

In 1998, foreign exchange losses capitalized to property and equipment amounted to Rp122,034,817 thousand. In 1999, the Company recorded an impairment in value of the said asset amounting to Rp47,752,105 thousand due to the weakening of foreign currency exchange rates against Rupiah for the period.

13. OIL AND GAS PROPERTIES

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Operated acreage	177,581,004	157,112,165	236,310,208	211,409,002	265,748,324
Unoperated acreage	9,228,750	8,165,000	11,034,250	14,926,000	16,447,500
Wells and related equipment and facilities	1,100,379,437	1,233,225,951	1,728,062,561	1,415,640,483	2,074,350,921
Office equipment	5,283,556	17,665,425	27,297,765	22,258,678	33,076,929
Vehicles	4,100,679	15,846,305	23,174,026	19,090,038	24,564,438
Uncompleted wells, equipment and facilities	307,230,205	127,732,439	364,432,915	403,716,086	333,157,919
Fair value adjustment	414,135,638	347,099,996	347,099,996	347,099,996	347,099,996
Total	2,017,939,269	1,906,847,281	2,737,411,721	2,434,140,283	3,094,446,027
Accumulated depreciation and amortization	(439,057,793)	(489,750,170)	(795,319,701)	(701,774,687)	(945,679,291)
Net Book Value	1,578,881,476	1,417,097,111	1,942,092,020	1,732,365,596	2,148,766,736

At September 30, 2001, all well properties of subsidiaries which are involved in oil and gas industry were insured against fire, theft, and other possible risks for U.S.$34,222,313. Management believes that the insurance coverage is adequate to cover possible losses on the well properties insured.

Reserve Estimation

Oil and gas reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance which require evaluation by engineers interpreting the available data, as well as price, costs and other economic factors. Accordingly, reserve estimates are subject to revision as additional data becomes available during the producing life of a reservoir.

Estimated oil and gas reserves in Sumatera, Kalimantan and Tarakan areas (unaudited) are as follows:

	Crude Oil	*Gas*
	In thousands of barrels	*In millions of cubic feet*
Proven Developed, Undeveloped and Probable Reserves		
Balance as of January 1, 1998	170,661	891,129
Revision to previous estimate	49,225	38,585
Production in 1998	(11,804)	(37,959)
Balance as of December 31, 1998	208,082	891,755
Revision to previous estimate	42,025	(68,832)
Production in 1999	(15,707)	(32,249)
Balance as of December 31, 1999	234,400	790,674
Revision to previous estimate	67,414	20,518
Production in 2000	(24,441)	(31,739)
Balance as of December 31, 2000	277,373	779,453
Production in the nine months ended September 30, 2001	21,224	27,675
Balance as of September 30, 2001	256,149	751,778
Proven Developed, Undeveloped Reserves		
Balance as of January 1, 1998	109,460	658,216
Revision to previous estimate	32,235	20,733
Production in 1998	(11,804)	(33,222)
Balance as of December 31, 1998	129,891	645,727
Revision to previous estimate	77,346	(40,037)
Production in 1999	(15,707)	(32,249)
Balance as of December 31, 1999	191,530	573,441
Revision to previous estimate	52,729	30,393
Production in 2000	(24,441)	(31,739)
Balance as of December 31, 2000	219,818	572,095
Production in the nine months ended September 30, 2001	21,224	27,675
Balance as of September 30, 2001	198,594	544,420

At the end of each year, total reserves are evaluated by independent energy consultants. Based on the reports of Gaffney, Cline & Associate Pte. Ltd (GCA), independent energy consultants located in Singapore, the proven oil reserves are 180,119 thousand barrels as of December 31, 2000 and 181,181 thousand barrels as of December 31, 1999 and 140,280 million cubic feet as of December 31, 2000 and 140,224 million cubic feet as of December 31, 1999 for gas. These reports of reserves were prepared using generally accepted petroleum engineering principles.

14. SECURITY DEPOSITS

This account represents security deposits to Medco Central Asia Ltd. (MCA), Marubeni and security deposits to others.

In 1999, security deposits to MCA was reclassified to accounts receivable from related parties, while security deposit to Marubeni was fully applied against the loan installment payment (Note 23).

15. OTHER ASSETS

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Notes receivable - Kredit Asia Finance, Ltd.	41,492,057	41,492,057	41,492,057	41,492,057	41,492,057
Deferred charges - net	754,036	522,023	1,790,014	1,790,014	116,006
Security deposits	—	7,033,017	10,288,493	6,881,742	3,464,015
Deposit to PERTAMINA	—	—	—	—	6,122,938
Project development	8,256,767	—	—	—	—
Advanced payment for property and equipment	7,499,491	7,499,491	7,499,491	7,499,491	7,499,491
Others	1,470,500	407,432	2,057,380	1,728,787	5,873,591
Total	59,472,851	56,954,020	63,127,435	59,392,091	64,568,098
Allowance for possible losses on notes receivable and advanced payment for property and equipment	(41,492,057)	(41,492,057)	(47,006,701)	(41,492,057)	(48,991,548)
Net	17,980,794	15,461,963	16,120,734	17,900,034	15,576,550

Notes receivable from Kredit Asia Finance, Ltd., Hong Kong, with a principal amount of USD5,170,350 and interest rate of 10.5% per annum were purchased by the Company in 1995. These notes receivable have been extended several times, with the last extension due on December 23, 1999. The last interest income was received in July 1997. Management has made a 100% provision for possible losses on these notes receivable.

Deferred charges represent the costs of acquiring the rights to manage Bunyu Methanol Plant, which is being amortized for 3 years, respectively, and Car Purchase Assistance Policy for Directors which is being amortized for 5 years.

Advanced payment for property and equipment represents advance for the purchase of office space in Graha Niaga 2 under strata title ownership plan located in Jalan Jenderal Sudirman, Kav. 58 Jakarta. The developer has stopped the construction of the project since the middle of 1999. Management has made a 100% provision for possible losses on these accounts.

16. TRADE ACCOUNTS PAYABLE

a. By creditor:

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Related party					
P.T. Multifabrindo Gemilang ..	—	—	—	—	602,396
P.T. Andrawina Praja Sarana ..	17,214,329	10,866,088	18,854,165	17,316,816	1,347,809
Subtotal	17,214,329	10,866,088	18,854,165	17,316,816	1,950,205
Third parties					
Local suppliers	181,461,922	117,485,899	260,093,654	276,825,046	204,281,100
Foreign suppliers	19,650,213	9,414,290	23,053,595	18,588,377	12,369,252
Subtotal	201,112,135	126,900,189	283,147,249	295,413,423	216,650,352
Total	218,326,464	137,766,277	302,001,414	312,730,239	218,600,557

b. By currency:

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Rupiah	39,298,764	28,455,066	43,531,021	50,036,838	36,231,135
U.S. Dollar	174,006,192	105,850,925	256,289,942	259,566,098	181,629,222
Singapore Dollar	4,336,529	3,147,558	2,165,370	2,970,937	738,253
French Franc	684,979	312,728	15,081	156,366	1,947
Total	218,326,464	137,766,277	302,001,414	312,730,239	218,600,557

17. OTHER ACCOUNTS PAYABLE

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Beyond Petroleum (BP)	–	–	43,525,002	–	43,887,899
PERTAMINA	32,747,986	26,852,186	39,802,920	13,170,000	14,533,746
Baker Atlas Indonesia	–	–	1,160,932	–	–
Others	8,550,424	4,077,038	19,618,802	6,382,513	62,263,680
Total	41,298,410	30,929,224	104,107,656	19,552,513	120,685,325

Account payable to Beyond Petroleum (formerly ARCO) amounting to USD4,536,217 represents the amount payable by P.T. Exspan Tomori Sulawesi, a subsidiary, which is due when the petroleum production from the Senoro-Toili Block has reached a certain volume as provided for in the agreement.

Account payable to PERTAMINA represents payable in relation to the utilization of pipeline facilities of PERTAMINA used by subsidiaries.

18. TAXES PAYABLE

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
The Company					
Income tax					
Article 21	706,317	3,840,591	6,648,780	446,960	9,439,562
Article 23	15,025,411	3,590,110	1,929,739	7,504,394	79,194
Article 26	6,022,274	7,622,051	11,029,152	1,809,309	2,868,241
Value added tax	3,399,546	7,148	2,278,204	–	–
Subtotal	25,153,548	15,059,900	21,885,875	9,760,663	12,386,997
Subsidiaries					
Corporate income tax	63,018,302	31,045,140	53,603,119	98,938,467	74,140,602
Income tax					
Article 19	–	–	–	–	64,008,804
Article 21	9,166,047	7,077,236	11,916,197	7,931,182	4,685,052
Article 23	9,822,561	2,456,156	7,412,310	1,878,443	4,905,467
Article 25	839,139	3,178,848	690,132	–	–
Article 26	1,802,388	5,257,472	171,390	157,041	99,780
Value added tax	6,090,759	23,142,261	5,907,506	–	4,812,094
Subtotal	90,739,196	72,157,113	79,700,654	108,905,133	152,651,799
Total	115,892,744	87,217,013	101,586,529	118,665,796	165,038,796

In 2000, the Company received Overpayment Tax Assessment Letter (SKPLB) for 1997 corporate income tax overpayment of Rp1,371,376,010, from which the following income taxes were deducted: article 21 income tax payable for 2000 of Rp519,820; underpayment per tax assessment letter of article 21 income tax for 1997 of Rp71,358,734; article 23 income tax for 1997 Rp390,184,847; article 26 income tax for 1997 of Rp358,270,454; article 4 (2) income tax for 1997 of Rp1,641,410; and land and building taxes payable for 1997 and 1998 totaling Rp34,314,096. The net amount of refund of Rp515,086,649 was received by the Company on June 8, 2000.

The Company also received SKPLB for Value Added Tax (VAT) for December 1997 for overpayment of Rp578,171,272 from which the following were deducted: 1999 VAT of Rp11,865,016; 1999 article 23 income tax payable of Rp65,369; 2000 article 21 income tax payable of Rp25,000; 2000 article 4 (2) income tax payable of Rp2,830,284 and VAT payable after December 1999 of Rp228,694,872. The net of refund of Rp334,690,731 was received by the Company on August 7, 2000.

In 2001, the Company received Overpayment Tax Assessment Letter (SKPLB) for 1998 and 1999 corporate income tax overpayment of Rp1,006,697 thousand and Rp3,015,313 thousand, respectively, for which the following income taxes were deducted: by underpayment per tax assessment letter of 1998 article 21 income tax of Rp6,162 thousand, 1998 and 1999 article 23 income tax of Rp1,447,098 thousand and Rp1,264,835 thousand, respectively; 1998 and 1999 article 26 income tax of Rp2,231,734 thousand and Rp24,882 thousand, respectively; 1998 article 4 (2) income tax of Rp89,345 thousand; and 1998 and 1999 domestic VAT of Rp15,516 thousand and Rp24,882 thousand, respectively. The net amount of underpayment amounted to Rp1,082,443 thousand has been paid in 2001.

19. ACCRUED EXPENSES

	December 31,			*September 30,*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Other employee benefit (Note 37)	–	–	–	–	22,909,462
Interest	2,780,289	12,176,691	9,103,537	2,729,955	987,515
Others	25,867,459	7,168,280	17,819,963	37,197,175	9,623,792
Total	28,647,748	19,344,971	26,923,500	39,927,130	33,520,769

20. SHORT-TERM NOTES PAYABLE

The Company issued promissory notes through selling agents as follows:

	1998
PT Trimegah Securindo Lestari	56,175,000
PT Asia Kapitalindo Securities	48,418,506
PT Bank Internasional Indonesia	24,075,000
PT Dongsuh Kolibindo Securities	16,050,000
PT Bank Bira	16,050,000
Rothschild Assets Management (CI) Limited	16,050,000
Mees Pierson Asia Ltd.	8,376,471
Total	185,194,977
Less: unamortized discount	495,909
Net	184,699,068

The notes are payable in US Dollar and have maturities ranging from 1 - 3 months with interest rates ranging from 8.2% to 12.5% per annum, all of which have matured.

Most of the notes matured in 1998 and the Company was not able to pay the debts on due dates. However, on November 29, 1999, the Company reached an agreement with the creditors to restructure the entire notes payable (Note 25).

21. LONG TERM BANK LOANS

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Syndicated loan USD11,551,862, USD11,006,520 and USD9,321,840 at December 31, 1998, 1999 and 2000 and USD9,743,010 (unaudited) and USD7,047,090 at September 30, 2000 and 2001	92,703,695	78,146,292	89,443,055	85,543,628	68,180,598
PT Bank PDFCI Tbk Working Capital Facility	11,500,000	–	–	–	–
PT Bank Mandiri (Persero) USD6,250,000 at December 31, 1999, 1998 and September 30, 2000 and USD5,083,330 in September 30, 2001	50,156,250	44,375,000	59,968,750	54,875,000	49,181,218
Total	154,359,945	122,521,292	149,411,805	140,418,628	117,361,816
Less: current maturities	154,359,945	56,336,228	44,294,358	78,545,178	47,888,059
Total	–	66,185,064	105,117,447	61,873,450	69,473,757
Interest rate per annum					
Rupiah	35%	–	–	–	–
US Dollar	9%-13%	7%-10%	7%-10%	7%-10%	7%-10%

The Company, together with its four subsidiaries Apexindo, MEA, EK and ET, obtained a syndicated loan under a revolving credit facility with a maximum amount of USD15,000,000 from syndicate overseas banks and non-bank financial institutions of which The Dai-Ichi Kangyo Bank Limited Singapore Branch, (DKB) acted as Facility and Escrow Agent, and P.T. Bank Dai-Ichi Kangyo Indonesia as Security Agent. This loan is secured by drilling rigs No. 2, 5, 6 and 9 and its supporting equipment as well as related accounts receivable from utilization of the related rigs (Notes 5 and 12). This loan matured on September 11, 1998.

The Company has obtained loan rescheduling agreement which took effect on September 30, 1999, as described below:

Credit Facility (after restatement)	:	USD11,175,000
Principal amount + interest	:	Payable monthly
Interest Rate	:	DKB 's Cost of Fund + Margin. The margin is as follows: – 2.5% per annum for the period from September 10, 1999 until August 9, 2000. – 3% per annum for the period from August 10, 2000 until August 9, 2001. – 3.5% per annum for the period from August 10, 2001 until maturity date.
Loan period	:	3 years, maturing on August 10, 2002.
Collateral	:	Drilling equipment (Rig) 2, 5, 6 and 9 and the related receivables from the operations thereof.

Certain limitations as to the amount of the Company's liability have been retained in the loan agreement.

The Company obtained short-term working capital loan from P.T. Bank PDFCI Tbk (PDFCI) with a maximum limit of Rp12,000,000 thousand. This loan which matured on March 11, 1998 was secured by the Company's shares owned by Firstco Limited (Firstco), an affiliate. Based on PDFCI letter dated June 15, 1999, PDFCI sold for Rp12,575,580 thousand Firstco's 8 million shares in the Company which were used as collateral for this loan. The proceeds was used by PDFCI to pay the principal which amounted to Rp11,500,000 thousand and some of the interest payable amounting to Rp1,075,580 thousand. On December 7, 1999, the Company paid all of its outstanding liabilities to PDFCI. On December 14, 1999, the Company paid its debts to Firstco amounting to Rp12,575,580 thousand for the 8 million shares sold by PDFCI.

On August 28, 1996, Apexindo, a subsidiary, obtained a short-term bank loan of U.S.$6,250,000 from BDN Bank AG, Germany with interest rate per annum equivalent to a certain percentage above LIBOR. This loan is secured by a corporate guarantee from the Company. As of April 12, 1999, the loan was taken over by P.T. Bank Mandiri (Persero), Jakarta. This loan matured on October 16, 1998 and the restructuring proposal was approved on May 1, 2000 and was accommodated in notarized credit agreement of Notary B.R.Ay. Mahyastoeti Notonagoro, S.H. with credit agreement amendment deed No. 109 dated May 23, 2001.

Approved terms and conditions as stated in the Credit Facility Restructuring Agreement dated May 1, 2000 are as follows:

Credit facility	:	USD6,250,000
Maturity date	:	October 31, 2003
Terms of payment	:	Principal is payable based on installment schedule as follows:

- USD250,000 at the date the agreement is signed.
- USD1,000,000 from November 2000 to October 2001
- USD2,000,000 from November 2001 to October 2002.
- USD3,000,000 from November 2002 to October 2003

Interest rate	:	Payable monthly as follows:

- LIBOR + 2.5% per annum from the date of signing to July 2001
- LIBOR + 3% per annum from Agustus 2001 to July 2002.
- LIBOR + 3,5% per annum from Agustus 2002 to July 2003.
- LIBOR + 4% per annum from Agustus 2003 to October 2003

The installment of principle and interest are payable on a monthly basis.

In addition to the terms and conditions described above, Apexindo, a subsidiary is not allowed to obtain new loan except subordinated loan, without prior approval from P.T. Bank Mandiri (Persero). Apexindo also has to maintain debt to equity ratio not exceeding 2 to 1 and the balance of current account with P.T. Bank Mandiri (Persero) at a minimum amount equivalent to one month principal installment plus interest of the following month.

22. PROPERTY AND EQUIPMENT PURCHASE CONTRACT PAYABLES

	1998	1999
Nissho Iwai Corporation, Singapore USD604,327 in 1999 and USD7,895,134 in 1998	63,358,451	4,290,722
P.T. Astra Auto Finance	972,101	48,387
Imputed interest on amounts payable to Nissho Iwai Corporation, Singapore	(2,163,198)	–
Total	62,167,354	4,339,109
Less: current maturity	57,269,490	4,339,109
Long-term portion	4,897,864	–

In January 2000, Apexindo fully paid all its liability to Nissho Iwai Corporation, Singapore. In relation to the loan settlement, all related collateral have been released and discharged (Notes 5 and 12).

23. LOANS FROM NON-BANK FINANCIAL INSTITUTIONS

	1998	1999
Nissho Iwai Corporation, Japan USD16,690,034 and USD12,322,364 at December 31, 1998 and 1999	133,937,523	87,488,784
N.V. Marubeni Benelux SA, USD4,614,275 at December 31, 1998	37,029,557	–
Total	170,967,080	87,488,784
Less: current maturity	72,080,109	87,488,784
Long-term portion	98,886,971	–

In October 1999, Apexindo fully paid all its liability to N.V. Marubeni Benelux SA, Belgium.

In May 2000, the Company fully paid its loan from Nissho Iwai Corporation, Japan. In relation to loan settlement, all related collateral have been released and discharged (Notes 5 and 12).

24. SWAP PAYABLE

In 1997, the Company entered into a foreign currency swap transaction with Peregrine Fixed Income Limited (PFIL) for a period of 2 years (due on May 24, 1999) with a maximum limit of USD83,847,102 and a premium of 4.7% per annum.

As of December 31, 1998, the net position of this transaction was as follows:

	1998
Swap receivable	223,175,831
Less:	
Unrealized premium revenue	3,542,202
Swap payable - USD83,847,102	672,872,994
Swap payable - net	453,239,365

Based on the Transfer Agreement dated April 30, 1999, PFIL transferred all its rights and obligations to Asian Loan Recovery Limited (ALRL). In line with the agreement, the Company signed the Settlement Agreement with ALRL on September 28, 1999, in which both parties agreed that the amount payable by the Company to ALRL in connection with the swap transaction is USD58,282,265.

On November 29, 1999, this payable was restructured as agreed with the creditors (Note 25).

25. LONG-TERM NOTES PAYABLE

	December 31,			September 30,	
	1998	1999	2000	2000 (Unaudited)	2001
Series A Guaranteed Floating Rate Notes, maturing in 2007 (Series A Notes) - USD2,568,000 in September 30, 2001, USD2,868,000 in December 31, 2000 and USD42,783,000 in 1999	–	303,759,300	27,518,460	25,181,040	24,845,400
Series B Guaranteed Floating Rate Notes, maturing in 2007 (Series B Notes) - USD18,851,872 in 2000 and USD23,451,000 in 1999	–	166,502,100	180,883,712	165,519,437	–
Bank Tiara Asia - USD740,099,205	740,099,205	–	–	–	–
PT Asia Kapitalindo Securities ..	183,582,000	–	–	–	–
PT Bank Arya Panduarta	144,808,750	–	–	–	–
Total	1,068,489,955	470,261,400	208,402,172	190,700,477	24,845,400
Less: unamortized discount ..	116,806,829	–	–	–	–
Total	951,683,126	470,261,400	208,402,172	190,700,477	24,845,400
Less: current maturity	661,296,218	–	–	–	–
Total	290,386,908	470,261,400	208,402,172	190,700,477	24,845,400
Interest rates (USD) per annum ..	9.9%-10.2%	9.9%-10.2%	3.7%-6.9%	3.7%-6.9%	3.7%-6.9%

On March 24, 1997, the Company entered into an agreement to issue medium term notes (Indonesian Medium Term Note Program Agreement) with P.T. Peregrine Sewu Securities and The Chase Manhattan Bank, Jakarta with a maximum amount of U.S.$250,000,000 whereby P.T. Peregrine Sewu Securities acted as the placement agent and The Chase Manhattan Bank Jakarta as agent. Due to adverse economic condition in the region (Note 43), the Company was unable to repay most of the Notes that have matured in 1998. The Company was also not able to meet the required EBITDA to Debt Service Ratio specified in the agreement. On November 29, 1999, the related notes payable was restructured.

In 1999, Medco B.V., issued Series A and B Guaranteed Floating Rate Notes (FRN) amounting to USD42,783,000 and USD23,451,000, respectively, due in 2007. The FRN were issued in relation to the Company's debt restructuring program, as agreed with the creditors on November 29, 1999. The terms and conditions governing the FRN are as follows:

Guaranteed Floating Rate Notes - Series A

Loan period : 8 years, due in 2007

Repayment of principal : Upon maturity

Applicable interest rate (payable semi-annually) : LIBOR Flat

Interest payment dates : February 1 and August 1

Guaranteed Floating Rate Notes - Series B

Loan period : 8 years, due in 2007

Repayment of principal (payable semi-annually) :

- 10% per annum of the nominal value, for 3rd, 4th and 5th year
- 20% per annum of the nominal value, for 6th and 7th year
- 30% per annum of the nominal value, for 8th year

Applicable interest rates (payable semi- annually)	:	– LIBOR + 1.25% per annum for 1st year – LIBOR + 2.50% per annum for 2nd year – LIBOR + 3.25% per annum for 3rd year – LIBOR + 3.50% per annum for 4th year – LIBOR + 4.50% per annum for 5th year – LIBOR + 6.00% per annum for 6th and 7th year – LIBOR + 7.00% per annum for 8th year
Interest payment date	:	February 1 and August 1

The issuance of Series A and Series B Notes is governed by Agency Agreement dated November 29, 1999 among the Company, Medco B.V. and Chase Manhattan Bank, wherein the following matters have been arranged:

- Medco B.V. acts as the issuer of Series A and B Notes;
- The Company, acts as the Guarantor which has to fulfill its obligations to the noteholders; and
- Chase Manhattan Bank - Jakarta Branch, acts as the Agent Bank, which among others, has the responsibility to distribute interest and/or principal repayment to the noteholders.

When Series A and B Notes are still outstanding, the Company is required to comply with conditions and covenants determined in the agreement.

In accordance with the Agency Agreement, the Company is obliged to comply with certain conditions and covenants. Any event of default will resulted into all Series A and Series B Notes immediately due and payable.

The Company partially redeemed Series A and B notes at discount during 2000 and 2001. The gains resulting from those transactions amounting to Rp84,587,510 thousand and Rp1,436,025 thousand, respectively were recorded as the extraordinary income.

The Notes redeemed are summarized below:

Series A Notes	USD
Nominal Value	42,783,000
Redemption during 2000	(39,915,000)
Redemption during the nine months ended September 30, 2001	(300,000)
Balance as of September 30, 2001	2,568,000

Series B Notes	
Nominal Value	23,451,000
Redemption during 2000	(4,599,128)
Redemption during the nine months ended September 30, 2001	(18,851,872)
Balance as of September 30, 2001	–

26. NEGATIVE GOODWILL

This account represents the excess of net assets over cost of investments in the acquired subsidiaries as follows:

	December 31,			September 30,	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Exspan Exploration and Production Pasemah, Ltd.	7,065,410	7,065,410	7,065,410	7,065,410	7,065,410
Exspan Pasemah, Inc.	7,065,410	7,065,410	7,065,410	7,065,410	7,065,410
Exspan Airsenda, Inc.	1,877,753	1,877,753	1,877,753	1,877,753	1,877,753
Exspan Airlimau, Inc.	1,807,104	1,807,104	1,807,104	1,807,104	1,807,104
P.T. Apexindo Pratama Duta	782,909	782,909	782,909	782,909	782,909
P.T. Exspan Kalimantan	80,569	80,569	80,569	80,569	80,569
Total	18,679,155	18,679,155	18,679,155	18,679,155	18,679,155
Less: accumulated amortization ..	2,993,515	3,927,473	4,861,432	4,627,940	5,561,900
Net book value	15,685,640	14,751,682	13,817,723	14,051,215	13,117,255

Amortization credited to operations amounted to Rp933,959 thousand, Rp933,959 thousand and Rp933,959 thousand for the years ended December 31, 1998, 1999 and 2000, respectively, and Rp700,467 thousand for the nine months ended September 30, 2000 and 2001, respectively.

27. MINORITY INTERESTS

a. Minority interests in net assets of subsidiaries

	December 31,			September 30,	
	1998 (As restated Note 45)	*1999 (As restated Note 45)*	*2000 (As restated Note 45)*	*2000 (Unaudited)*	*2001*
P.T. Apexindo Pratama Duta	35,263,359	39,520,909	45,027,250	43,579,867	118,651,238
P.T. Exspan Kalimantan	8,507,188	9,053,437	15,246,351	14,936,657	19,298,781
P.T. Exspan Tarakan	4,222,151	5,023,134	9,483,366	6,767,488	11,332,191
P.T. Medco Antareja	3,672,114	3,488,006	1,646,061	2,902,610	4,976,291
P.T. Exspan Nusantara	27,411	1,188	1,921	265,275	13,380
P.T. Medco Methanol Bunyu	(1,162)	(3,129)	(3,593)	(2,518)	(2,592)
Medco Madura Pty, Ltd.	–	–	(361,926)	–	(753,324)
Medco Simenggaris Pty, Ltd.	–	–	(197,479)	–	(493,384)
Total	51,691,061	57,083,545	70,841,951	68,449,379	153,022,581

b. Minority interests in net income (loss) of subsidiaries

	December 31,			September 30,	
	1998 (As restated Note 45)	*1999*	*2000*	*2000 (Unaudited)*	*2001*
P.T. Apexindo Pratama Duta	16,756,158	4,257,550	5,506,341	4,058,958	4,866,341
P.T. Exspan Kalimantan	8,620,526	1,664,486	2,728,462	3,284,492	3,711,763
P.T. Exspan Tarakan	2,580,040	1,416,224	2,396,951	519,622	1,867,473
P.T. Medco Antareja	1,121,748	(184,108)	(1,841,945)	(584,679)	(1,063,240)
P.T. Exspan Nusantara	26,733	258	522	947	556
P.T. Medco Methanol Bunyu	(3,015)	(1,967)	(455)	611	992
Medco Madura Pty, Ltd.	–	–	(321,909)	–	(409,826)
Medco Simenggaris Pty, Ltd.	–	–	(175,647)	–	(310,506)
Total	29,102,190	7,152,443	8,292,320	7,279,951	8,663,553

28. CAPITAL STOCK

	December 31, 1998		
Name of Stockholders	*Number of Shares*	*Ownership Percentage*	*Total Paid-up Capital*
P.T. Medco Duta	217,557,500	63.10%	108,778,750
P.T. Multifabrindo Gemilang	1,700,000	0.49%	850,000
P.T. Nuansa Grahacipta	1,580,000	0.46%	790,000
P.T. Inti Persada Multigraha	18,912,500	5.49%	9,456,250
P.T. Meta Energi Petrasanga	12,852,000	1.10%	6,426,000
P.T. Intigraha Prasetya	7,565,000	2.19%	3,782,500
P.T. Meta Energi Pantranagari	3,808,000	3.73%	1,904,000
Public (less than 5%)	80,785,000	23.44%	40,392,500
Total	344,760,000	100.00%	172,380,000

	December 31, 1999		
Name of Stockholders	*Number of Shares*	*Ownership Percentage*	*Total Paid-up Capital*
P.T. Medco Duta	161,272,000	24.20%	80,636,000
Credit Suisse First Boston	34,234,200	5.14%	17,117,100
P.T. Multifabrindo Gemilang	400,000	0.06%	200,000
P.T. Nuansa Grahacipta	855,000	0.13%	427,500
Asian Loan Recovery Limited	328,591,318	49.30%	164,295,659
Public (less than 5%)	141,137,772	21.17%	70,568,886
Total	666,490,290	100.00%	333,245,145

Name of Stockholders	December 31, 2000 Number of Shares	Ownership Percentage	Total Paid-up Capital
New Links Energy Resources Limited	2,847,356,565	85.44%	284,735,657
P.T. Medco Duta	78,360,000	2.35%	7,836,000
P.T. Multifabrindo Gemilang	2,000,000	0.06%	200,000
P.T. Nuansa Grahacipta	2,970,000	0.09%	297,000
Public (less than 5%)	401,764,885	12.06%	40,176,488
Total	3,332,451,450	100.00%	333,245,145
Less: treasury stock	13,361,500	–	1,336,150
Total	3,319,089,950	100.00%	331,908,995

Name of Stockholders	September 30, 2000 (Unaudited) Number of Shares	Ownership Percentage	Total Paid-up Capital
New Links Energy Resources Limited	2,260,445,795	67.83%	226,044,580
P.T. Medco Duta	713,860,000	21.42%	71,386,000
P.T. Multifabrindo Gemilang	2,000,000	0.06%	200,000
P.T. Nuansa Grahacipta	2,970,000	0.09%	297,000
Public (less than 5%)	353,175,655	10.60%	35,317,565
Total	3,332,451,450	100.00%	333,245,145

Name of Stockholders	September 30, 2001 Number of Shares	Ownership Percentage	Total Paid-up Capital
New Links Energy Resources Limited	2,847,356,565	85.44%	284,735,657
P.T. Medco Duta	78,360,000	2.35%	7,836,000
P.T. Multifabrindo Gemilang	2,000,000	0.06%	200,000
P.T. Nuansa Grahacipta	2,970,000	0.09%	297,000
Public (less than 5%)	401,764,885	12.06%	40,176,488
Total	3,332,451,450	100.00%	333,245,145
Less: treasury stock	131,196,500	–	13,119,650
Total	3,201,254,950	100.00%	320,125,495

Based on the Extraordinary Stockholders' Meeting, as stated in deed No. 159 dated June 26, 1997 of Notary Poerbaningsih Adi Warsito, S.H., substitute notary Indah Fatmawati, S.H., the stockholders approved the change in the entire articles of association to comply with Corporate Law No. 1 year 1995 and Capital Market Law No. 8 year 1995 and the Company's plan to change the par value of shares from Rp1,000 per share to Rp500 per share. The changes in the articles of association were approved by the Minister of Justice of the Republic of Indonesia in his decision letter No. C2-10.492 HT.01.04.Th.97 dated October 8, 1997 and was announced by the Jakarta Stock Exchange on August 18, 1998 with declaration No. PENG-304/BEJ-2.4/0898.

Based on Chairman of BAPEPAM's decree No. Kep-45/PM/1998 dated August 14, 1998, shares of stock reacquired by a public company can be resold to the Company's directors and employees through Employees Stock Option Plan which has been approved in the General Meeting of Stockholders taking into consideration the BAPEPAM's regulations on conflict of interest transactions.

Based on the Extraordinary Stockholders' Meeting as stated in deed No. 26 dated November 16, 1999 and Notarial deed No. 36 dated December 17, 1999 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., the stockholders approved the Limited Public Offering I in connection with the Rights Issue of a maximum of 379,236,000 shares with par value of Rp500 per share. In 1999, the Company has issued 321,730,290 new shares at the price of Rp3,500 per share. The fund received from the rights issue was recorded as paid-up and additional paid-in capital.

Based on the Extraordinary Stockholders' Meeting as stated in notarial deed No. 32 dated January 25, 2000 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., the stockholders, among others, approved the Company's stock split from Rp500 to Rp100 par value per share.

Based on the Extraordinary Stockholders' Meeting as stated in notarial deed No. 63 dated June 23, 2000 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., the stockholders approved the stock ownership program for its directors and employees at a maximum of 5% of the total shares issued and will be issued within three years by the Company with option price equivalent to an average price during the 30 days period before the issuance of the option. However, although the program has already been approved, the implementing guidelines on the exercise and the related period of the option is still to be determined by the Board of Commissioners of the Company. In relation to the above-mentioned program, the Company shall acquire treasury stock in the stock exchange at a maximum estimated cost of Rp86 billion or an average maximum price of Rp2,000 per share within 12 months.

Based on General Meeting of Stockholders, as noted in the notarial deed of Notary Mrs. Poerbaningsih Adi Warsito, S.H. concerning Decision Meeting Statement No. 76, dated June 25, 2001, the Company's stockholders agreed to repurchase shares with a maximum cost of Rp264 billion. For the year ended December 31, 2000 and for the nine months ended September 30, 2001, the Company has reacquired 13,361,500 treasury stocks at a total cost of Rp13,704,212 thousand and 117,835,000 treasury stocks at a total cost of Rp126,297,151 thousand, prospectively or cumulatively 131,196,500 treasury stocks at a total cost of Rp140,001,363 thousand.

Changes in the shares outstanding are as follows:

	Number of Shares
Balance as of January 1, 1999	344,760,000
Additional paid-up capital from Limited Public Offering I	321,730,290
Balance as of December 31, 1999	666,490,290
Numbers of shares after stock split on May 31, 2000	3,332,451,450
Less: treasury stock in 2000	13,361,500
Less: treasury stock acquired during nine months ended September 30, 2001	117,835,000
Balance as of September 30, 2001	3,201,254,950

29. ADDITIONAL PAID-IN CAPITAL

	December 31,			*September 30,*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Premium on stock	73,700,000	967,910,870	959,893,970	967,910,870	889,192,970
Bonus shares	(70,980,000)	–	–	–	–
Donated capital	–	–	734,816	–	734,816
Total	2,720,000	967,910,870	960,628,786	967,910,870	889,927,786

Changes in additional paid in capital:

	Total
Sale of 22,000,000 shares through public offering in 1994	73,700,000
Distribution of bonus shares in 1998	(70,980,000)
Issuance of 321,730,290 shares through rights offering I to stockholders in 1999	965,190,870
Balance as of December 31, 1999	967,910,870
Premium related to treasury stock acquired in 2000	(8,016,900)
Premium related to treasury stock acquired for nine months ended September 30, 2001	(70,701,000)
Balance as of September 30, 2001	889,192,970

30. REVALUATION INCREMENT IN PROPERTY AND EQUIPMENT

	September 30, 2001
Beginning balance	3,044,424
Revaluation increment as at January 1, 2001 (Note 12)	495,069,936
Total	498,114,360

31. NET SALES AND OPERATING REVENUES

	One year			*Nine months*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Oil and gas sales	934,853,729	1,081,997,858	2,577,635,824	1,668,264,101	2,284,051,467
Drilling operations	688,393,667	335,835,395	361,386,529	237,172,714	435,779,006
Methanol sales	212,760,754	210,756,837	179,275,014	105,830,847	224,497,184
Total	1,836,008,150	1,628,590,090	3,118,297,367	2,011,267,662	2,944,327,657

The details of sales/operating revenues which individually represents more than 10% of the net sales/revenues are as follows:

	One year			*Nine months*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
PERTAMINA	934,853,729	1,081,997,858	1,130,073,433	747,963,985	1,005,789,706
Mitsui Oil (Asia) Hongkong Ltd.	–	–	1,447,562,391	920,300,116	1,278,261,761
Total Indonesie	388,416,409	212,093,108	–	–	–
Total	1,323,270,138	1,294,090,966	2,577,635,824	1,668,264,101	2,284,051,467

32. COST OF SALES AND DIRECT EXPENSES

	One year			Nine months	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Oil and gas					
Lifting expenses	165,530,844	202,818,426	438,668,963	343,113,008	362,570,407
Exploration	18,215,479	31,040,127	139,423,611	76,126,370	74,472,186
Depreciation and amortization	78,612,713	88,488,619	124,117,412	90,019,243	138,253,492
Cost of sales of oil	–	–	139,545,866	–	–
Subtotal	262,359,036	322,347,172	841,755,852	509,258,621	575,296,085
Drilling services					
Labor	93,612,148	59,672,546	84,886,024	61,184,753	77,989,650
Repairs and maintenance ..	65,453,506	50,104,525	72,086,596	46,902,000	67,512,717
Depreciation	57,475,885	61,337,627	62,120,337	45,769,027	90,707,486
Drilling equipment	7,831,671	10,655,895	34,938,344	4,364,409	22,521,342
Rental	3,060,829	6,313,927	33,712,545	14,184,412	34,662,279
Rigs movement	9,871,075	17,441,571	23,507,027	7,329,835	11,039,451
Catering	24,403,675	13,520,664	19,952,864	11,051,436	26,721,938
Transportation	12,128,785	6,559,712	9,074,526	5,811,735	11,982,610
Insurance	7,585,797	9,371,140	6,715,359	5,104,898	8,482,941
Others	5,588,807	5,108,718	6,396,348	16,517,960	20,297,267
Subtotal	287,012,178	240,086,325	353,389,970	218,220,465	371,917,681
Cost of sales of methanol ..	235,057,767	231,743,807	156,680,643	106,612,446	178,333,323
Total	784,428,981	794,177,304	1,351,826,465	834,091,532	1,125,547,089

The substantial portion of the catering services include services originated from related parties (Note 38).

Purchases of raw materials of methanol, spare parts and catering services for the years ended December 1998, 1999 and 2000 and the nine months ended September 30, 2000 and 2001 which individually represent more than 10% of the total purchases for the respective years:

	One year			Nine months	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
PERTAMINA	117,293,435	131,036,559	64,746,532	52,458,366	53,908,747
P.T. Andrawina Praja Sarana ..	24,403,675	13,520,664	16,776,224	9,393,721	15,231,481
Oil Service and Trading Inc. ..	7,412,731	8,281,271	14,143,340	11,459,093	11,136,332
C.V. Tiga Putra	4,388,436	4,902,623	10,356,459	8,390,919	8,622,913
Selective Marine Services Co. (LLC)	–	–	7,219,607	5,849,406	9,708,859
Total	153,498,277	157,741,117	113,242,162	87,551,505	98,608,332

33. OPERATING EXPENSES

	One year			Nine months	
	1998 (As restated Note 45)	*1999*	*2000*	*2000 (Unaudited)*	*2001*
General and administrative					
Salaries and wages	65,197,243	55,728,217	73,892,367	46,519,204	74,545,121
Contract charges	31,311,282	44,832,414	76,670,466	43,921,232	54,944,813
Amortization of fair value adjustment - net	28,147,463	15,601,128	18,116,783	13,592,428	13,685,568
Repair and maintenance	1,081,390	703,395	18,649,867	1,791,734	891,346
Professional fees	7,082,965	12,084,123	12,637,267	5,710,433	13,161,003
Provision for doubtful accounts	42,929,620	4,365,723	10,318,604	–	–
Rental	2,576,930	2,214,196	14,610,854	6,786,360	1,442,872
Office supplies	8,241,113	19,067,805	6,913,684	15,153,871	19,373,725
Depreciation	2,395,039	4,989,010	5,784,343	4,064,021	3,096,458
Amortization of deferred charges	232,011	232,011	532,011	174,008	451,841
Donation	669,413	1,094,799	1,851,885	401,050	1,335,675
Bank charges	5,766,765	1,502,757	1,610,263	1,419,719	981,876
Insurance	510,225	386,019	408,729	173,657	743,309
Other employee benefit	–	–	–	–	22,909,462
Amortization of issuance cost	1,329,344	1,039,405	–	–	–
Others	12,020,370	24,170,173	49,335,389	38,401,539	50,617,669
Total	209,491,173	188,011,175	291,332,512	178,109,256	258,180,738
Selling					
Business travel	7,248,897	4,136,486	11,610,547	3,460,973	4,956,166
Representation	6,165,417	1,340,493	2,245,246	922,220	85,399
Advertising and promotion ..	763,579	682,554	1,549,656	1,645,435	2,854,630
Total	14,177,893	6,159,533	15,405,449	6,028,628	7,896,195
Total Operating Expenses	223,669,066	194,170,708	306,737,961	184,137,884	266,076,933

34. INCOME TAX

The tax benefit (expense) of the Company and its subsidiaries consists of the following:

	One year			*Nine months*	
	1998 (As restated Note 45)	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Current tax					
Subsidiaries	(168,994,406)	(260,424,382)	(687,621,508)	(487,380,908)	(647,465,654)
Deferred tax					
The Company	8,424,151	(7,630,541)	428,999	139,197	528,124
Subsidiaries	(36,793,648)	13,579,880	18,896,485	5,866,286	(51,764,560)
Subtotal	(28,369,497)	5,949,339	19,325,484	6,005,483	(51,236,436)
Total	(197,363,903)	(254,475,043)	(668,296,024)	(481,375,425)	(698,702,090)

Current Tax

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

	One year			*Nine months*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Income before tax per consolidated statements of income	580,330,653	437,591,368	1,164,329,489	835,723,765	1,250,931,266
Less: income before tax of subsidiaries	779,468,356	667,398,608	1,357,846,900	(1,019,891,976)	(1,182,859,216)
Loss: before tax of and extraordinary item the Company	(199,137,703)	(229,807,240)	(193,517,411)	(184,168,211)	68,072,050
Extraordinary item	–	–	53,839,958	53,839,958	1,436,025
Loss: before tax of the Company	(199,137,703)	(229,807,240)	(139,677,453)	(130,328,253)	69,508,075
Temporary differences:					
Depreciation and amortization	1,310,614	1,334,755	1,429,996	463,988	1,760,412
Nondeductible expenses (nontaxable income):					
Income already subjected to final income tax	(4,310,773)	(871,515)	(87,651,420)	(1,415,602)	(459,754,518)
Nondeductible expenses	47,492,358	151,041,273	373,877,288	254,750,473	254,179,085
Impairment in the value of assets	(145,254,713)	67,035,657	–	–	–
Taxable income (fiscal loss) before prior years fiscal loss	(299,900,217)	(11,267,070)	147,978,411	123,470,606	(134,306,946)
Prior years fiscal loss	–	(299,900,217)	(311,167,287)	(311,167,287)	(163,188,876)
Fiscal loss carryforwards	(299,900,217)	(311,167,287)	(163,188,876)	(187,696,681)	(297,495,822)
Correction in relation to Tax Assessment Letter (SKP)	–	–	–	–	(226,747,886)
Fiscal loss carryforwards	(299,900,217)	(311,167,287)	(163,188,876)	(187,696,681)	(524,243,708)

Based on the Annual Tax Returns filed to the Director General of Taxes, the Company incurred fiscal loss at December 1998, 1999 and 2000 and at September 30, 2000 and 2001, thus no provision for current income tax was made.

The Company's corporate income tax overpayments are as follows:

	One year			*Nine months*	
	1998	*1999*	*2000*	*2000 (Unaudited)*	*2001*
Prepaid tax					
Value added tax	–	–	–	730,624	351,456
Income Tax Article 23 ..	4,875,382	5,360,551	6,596,349	3,996,788	2,592,339
Corporate income tax overpayments	4,875,382	5,360,551	6,596,349	4,727,412	2,943,795

Deferred Tax

Deferred tax is computed based on the effect of the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases.

The details of the Company and its subsidiaries' deferred tax assets and liabilities are as follows:

	January 1, 1998	*Credited (charged) to statement of income*	*December 31, 1998*	*Credited (charged) to statement of income*	*December 31, 1999*	*Credited (charged) to statement of income*	*December 31, 2000*
Deferred Tax Assets							
Fiscal loss	–	20,327,785	20,327,785	(10,490,330)	9,837,455	9,195,487	19,032,942
Depreciation of property and equipment and amortization of deferred charges ..	(393,711)	(221,188)	(614,899)	31,409	(583,490)	(768,125)	(1,351,615)
Amortization of stock issuance cost ..	(688,135)	274,177	(413,958)	413,958	–	–	–
	(1,081,846)	20,380,774	19,298,928	(10,044,963)	9,253,965	8,427,362	17,681,327
Deferred Tax Liabilities							
Fiscal loss	–	–	–	(1,274,028)	(1,274,028)	1,274,028	–
Depreciation of property and equipment and amortization of deferred charges ..	40,562,833	48,750,271	89,313,104	(14,822,411)	74,490,693	(12,070,013)	62,420,680
Amortization of stock issuance cost ..	–	–	–	102,137	102,137	(102,137)	–
	40,562,833	48,750,271	89,313,104	(15,994,302)	73,318,802	(10,898,122)	62,420,680
Deferred tax income (expense)		(28,369,497)		5,949,339		19,325,484	

	January 1, 2000	Credited (charged) to statement of income	September 30, 2000	January 1, 2001	Credited (charged) to statement of income	September 30, 2001
Deferred Tax Assets						
Fiscal loss	9,837,455	3,889,052	13,726,507	19,032,942	(15,013,821)	4,019,121
Depreciation of property and equipment and amortization of deferred charges	(583,490)	(1,601,713)	(2,185,203)	(1,351,615)	(794,402)	(2,146,017)
	9,253,965	2,287,339	11,541,304	17,681,327	(15,808,223)	1,873,104
Deferred Tax Liabilities						
Fiscal loss	(1,274,028)	1,274,028	–	–	–	–
Depreciation of property and equipment and amortization of deferred charges	74,490,693	(4,890,035)	69,600,658	62,420,680	35,428,213	97,848,893
Amortization of stock issuance cost	102,137	(102,137)	–	–	–	–
	73,318,802	(3,718,144)	69,600,658	62,420,680	35,428,213	97,848,893
Deferred tax income (expense) ..		6,005,483			(51,236,436)	

In 1998 and 1999, the Company incurred fiscal loss of Rp299,900,217 thousand and Rp11,267,070 thousand, respectively, which can be applied against the taxable income within the immediately succeeding five years. The management believes that the expected future benefits related to such fiscal loss can not be realized prior to expiration, hence, no deferred tax assets was recognized on such fiscal losses at balance sheet date.

A reconciliation between the total tax expense of the Company and the amounts computed by applying the effective tax rates to income before tax is as follows:

	One year			Nine months	
	1998	1999	2000	2000 (Unaudited)	2001
Income before tax per consolidated statements of income	580,330,653	437,591,368	1,164,329,489	835,723,765	1,250,931,266
Less: income before tax of subsidiaries	779,468,356	667,398,608	1,357,846,900	1,019,891,976	1,182,859,216
Gain (loss) before tax of the Company	(199,137,703)	(229,807,240)	(193,517,411)	(184,168,211)	68,072,050
Extraordinary item	–	–	53,839,958	53,839,958	1,436,025
Gain (loss) before tax of the Company	(199,137,703)	(229,807,240)	(139,677,453)	(130,328,253)	69,508,075
Tax benefit (expense) using effective tax rates	59,741,311	68,942,172	41,903,236	39,098,476	(20,852,423)
Tax effects on nontaxable income (nondeductible expenses):					
Income already subjected to final income tax	1,293,232	261,454	26,295,426	424,681	137,926,356
Nondeductible expenses	(14,247,707)	(45,312,382)	(112,163,186)	(76,425,142)	(76,253,726)
Impairment in the value of property and equipment ..	43,576,414	(20,110,698)	–	–	–
Fiscal loss estimated to be realizable in future years	(81,939,099)	(11,411,087)	–	–	–
Reinstatement of fiscal loss	–	–	44,393,523	37,041,182	(40,292,084)
Total	(51,317,160)	(76,572,713)	(41,474,237)	(38,959,279)	21,380,546
Total Tax (Income) Expense	8,424,151	(7,630,541)	428,999	139,197	528,124

35. EARNINGS PER SHARE

a. Including Extraordinary Item

The computation of basic earning per share is based on the following data:

	December 31,			September 30,	
	1998 (As restated Note 45)	1999	2000	2000 (Unaudited)	2001
Number of shares					
Weighted average number of ordinary shares for computation of basic earnings per share (in thousands)	1,723,800	1,922,127	3,331,944	3,331,944	3,242,891

The weighted average number of shares for the computation of basic earnings per share has been adjusted to reflect the effect of the stock split in May 2000 and the acquisition of treasury stock (Note 28).

	December 31,			September 30,	
	1998 (As restated Note 45)	1999	2000	2000 (Unaudited)	2001
Earnings per share					
a. Including Extraordinary Item					
Earnings for computation of basic earning per share ..	353,864,561	175,963,880	572,328,655	431,665,899	545,001,648
Basic earnings per share ..	205	92	172	130	168
b. Excluding Extraordinary Item					
Net income for the year ..	353,864,561	175,963,880	572,328,655	431,665,899	545,001,648
Extraordinary item - net of tax					
Gain on redemption of notes payable	—	—	(84,587,510)	(84,587,510)	(1,436,025)
Earnings for computation of basic earning per share ..	353,864,561	175,963,880	487,741,145	347,078,389	543,565,623
Basic earnings per share ..	205	92	146	104	168

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there was no dilutive potential ordinary shares in December 31, 1998, 1999 and 2000 and September 30, 2000 and 2001.

36. CASH DIVIDENDS AND GENERAL RESERVE

In 2000, the Company distributed cash dividends amounted to Rp39,989,417 thousand or Rp12 per share. This was based on the decision of stockholders in their annual stockholders meeting on June 23, 2000.

In 2001, the Company distributed cash dividends amounted to Rp275,780,294 thousand or Rp85 per share and decided to make general reserve of Rp66,649,029 thousand or 20% of subscribed and paid up capital. This was based on the decision of stockholders in their annual stockholders meeting on June 25, 2001.

37. PENSION AND OTHER EMPLOYEE BENEFITS

Pension Plan

The subsidiaries which are involved in oil and gas industry, established defined contribution pension plans covering all their local permanent employees. These plans provide pension benefits based on salaries of the employees and years of service. The pension plans are managed by Dana Pensiun Lembaga Keuangan Tugu Mandiri (DPLK Tugu Mandiri) which deed of establishment was approved by the Minister of Finance of the Republic of Indonesia in his decision letter No. Kep. 234/KM.17/1995 dated August 16, 1995. The pension plans are funded by contributions from both the subsidiaries and their employees. Employees contribute 1.2%, 2%, 2% of their gross salaries and 4%, 6%, 6% are contributed by the subsidiaries, in December 31, 1999 and 2000 and September 30, 2001, respectively.

The reconciliation of pension liability is as follows:

	December 31,		*September 30,*
	1999	*2000*	*2001*
Beginning balance	79,561	108,575	236,411
Pension cost for the period	1,279,232	2,341,503	2,576,133
Pension contribution paid during the period	(1,250,218)	(2,213,667)	(2,678,467)
Ending balance	108,575	236,411	134,077

Other Employee Benefits

In 2001, the Company and its subsidiaries recognize the employee benefit obligations relating to employee's death, retirement or resignation which are contemplated under the Decree No. Kep-150/Men/2000 dated June 20, 2000, issued by the Minister of Manpower and the terms of the employment contract of the employees.

The amount of the benefit obligation recognized in the balance sheet is as follows:

	September 30, 2001
Present value of benefit obligation	210,026,035
Fair value of the pension plan assets (excluding DPLK Tugu Mandiri)	(56,851,595)
Unfunded obligation	153,174,440
Unrecognized	(130,264,978)
Net liability, included in accrued expenses	22,909,462

The pension plan assets represent separate fund maintained in a bank account with P.T. Bank Mandiri (Persero) on behalf of the employees.

Employee benefit expense in the income statement (except pension contribution DPLK) represent the amortization of transitional liability for the nine months period ended September 30, 2001 amounted to Rp22,909,462 thousand.

38. NATURE OF RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

Nature of Relationship

a. Related parties which shareholder and management control are the same as the majority shareholder of the Company are as follows:

- P.T. Medco Inti Dinamika (INTI)
- P.T. Andrawina Praja Sarana (APS)
- P.T. Medco Central Asia (MCA)

b. P.T. Medco Duta (DUTA) is a stockholder of the Company.

c. Firstco Ltd. has a common key member of key management as the Company.

Transactions with Related Parties

In the normal course of business, the Company and its subsidiaries entered into certain transactions with related parties, including the following:

a. The Company and its subsidiaries engaged APS to provide catering services which, according to management, were made at similar prices and conditions as those done with third parties. Liabilities arising from this transaction were recorded as trade accounts payable which constitute 7.8%, 7.8%, 6.2%, 5.5% and 0.6% of the total accounts payable as of December 31, 1998,1999 and 2000 and September 30, 2000 and 2001, respectively.

b. MEA and Apexindo, subsidiaries, rent their office space from INTI, which, according to management, were made at similar prices and conditions as those made with third parties.

c. The Company and its subsidiaries also have other transactions with related parties as disclosed in Note 11. The receivables from these transactions were recognized as accounts receivable from related parties which represented 7.8%, 21.8%, 19.4%, 20.3% and 17.4% of the consolidated total assets as of December 31, 1998, 1999 and 2000 and September 30, 2000 and 2001, respectively.

   Net interest income from MCA, DUTA and INTI amounted to Rp13,822,749 thousand, Rp9,328,328 thousand and Rp2,554,939 thousand in 1999, respectively. In 1998, the net interest income from those party Rp55,047,221, Rp27,614,360 thousand, and Rp5,956,000 thousand, respectively. Starting in 2000, the Company did not recognize interest income from the receivables of MCA, DUTA and INTI (Note 10).

   In 1998, the Company used its time deposit amounting to Rp10,850,000 thousand in Bank Industri (liquidated bank) as settlement/compensation of the accounts payable of INTI to the same bank. This compensation was done by the Company based on the letter of the Bank Industri Liquidation Team.

d. On December 6, 1999 the Company entered into an agreement to purchase crude oil from P.T. Exspan Nusantara. Concurrently, the Company entered into an agreement with Mitsui Oil (Asia) Hong Kong Ltd., to sell crude oil of the same type, quality and quantity as that purchased from P.T. Exspan Nusantara. Until December 31, 1999, no transactions were made in relation to this agreement.

e. The Company entered into an agreement (subordinated Notes Agreement) with Medco B.V. in relation to the Company's debt restructuring whereby the Company acknowledges indebtedness to the latter of principal amount and/or interest payable on Series A and B Notes issued in exchange for the Company's notes payable.

   On January 28, 2000, an addendum was made so that the Company shall pay an interest of 0.25% per annum above the interest rate prevailing on Series A and Series B Notes retroactively, starting from August 1, 1999 on all of the Company's indebtedness to Medco B.V. and reimburse all expenses incurred in connection with the transactions.

39. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

At December 31, 1998, 1999 and 2000 and September 30, 2000 and 2001, the Company and its subsidiaries had monetary assets and liabilities denominated in foreign currencies as follows:

		December 31,					
		1998		*1999*		*2000*	
	Original Currency	*Foreign currency*	*Equivalent in Rp'000*	*Foreign currency*	*Equivalent in Rp'000*	*Foreign currency*	*Equivalent in Rp'000*
Assets							
Cash and cash equivalents ..	USD	10,542,243	84,601,497	8,942,787	63,493,790	62,668,340	601,302,725
	AED	–	–	–	–	190,049	499,259
Temporary investments ..	USD	647,278	5,194,407	1,413,565	10,036,311	924,615	8,871,681
Trade accounts receivable ..	USD	48,412,353	388,509,136	68,499,699	486,347,864	63,543,699	609,701,790
	SGD	15,634	75,606	729	3,104	17,950	99,425
	GBP	–	–	5,606	64,436	–	–
Other accounts receivable ..	USD	–	–	1,138,447	8,082,974	4,158,634	39,902,093
Restricted cash in banks ..	USD	2,621,605	21,038,380	480,000	3,408,000	333,370	3,198,685
Accounts receivable from related parties	USD	26,800,815	215,076,540	92,345,088	655,650,125	80,610,088	773,453,794
Other assets	USD	56,583,796	454,084,963	516,160	3,664,736	393,584	3,776,438
Total			1,168,580,529		1,230,751,340		2,040,805,890
Liabilities							
Trade accounts payable ..	USD	21,683,015	174,006,192	14,908,581	105,850,925	26,710,781	256,289,942
	SGD	896,718	4,336,529	738,863	3,147,558	390,932	2,165,370
	FRF	481,025	684,979	286,906	312,728	11,097	15,081
Other accounts payable ..	USD	199,148,558	1,598,167,178	3,743,970	26,582,187	9,680,512	92,884,513
Accrued expenses	USD	–	–	97,388	691,455	–	–
Bank loans	USD	17,801,862	142,859,943	17,256,520	122,521,292	15,571,840	149,411,805
Property and equipment purchase contract payables	USD	7,625,577	61,195,255	604,327	4,290,722	–	–
Loans from non-bank financial institutions ..	USD	21,304,309	170,967,080	12,322,364	87,488,784	–	–
Long-term notes payable ..	USD	–	–	66,234,000	470,261,400	21,719,872	208,402,172
Total			2,152,217,156		821,147,051		709,168,883
Net assets (liabilities) * ..			(983,636,627)		409,604,289		1,331,637,007

* Including the monetary assets and liabilities of the subsidiaries which are recorded in US Dollar.

		September 30,			
		2000 (Unaudited)		2001	
	Original Currency	Foreign currency	Equivalent in Rp'000	Foreign currency	Equivalent in Rp'000
Assets					
Cash and cash equivalents	USD	53,557,343	470,233,474	46,624,814	451,095,078
	AED	–	–	313,831	831,339
Temporary investment	USD	714,215	6,270,808	660,147	6,386,920
Trade accounts receivable	USD	54,321,598	476,943,629	58,610,190	567,053,587
	SGD	3,472	19,232	6,365	34,899
Other accounts receivable	USD	–	–	3,971,455	38,423,827
Restricted cash in bank	USD	379	3,327,620	663,000	6,414,525
Accounts receivable from related parties	USD	83,136,675	729,940,007	8,072,517	78,101,602
Other assets	USD	1,028,618	9,031,264	408,875	3,955,866
Total			1,695,766,034		1,152,297,643
Liabilities					
Trade accounts payable	USD	29,563,337	259,566,098	18,773,046	181,629,222
	SGD	–	–	134,644	738,253
	FRF	2,186,120	2,970,937	24,037	1,947
Other accounts payable	USD	1,500,000	156,366	1,764,989	17,076,266
Accrued expenses	USD	331,492	2,910,503	101,906	985,941
Bank loans	USD	15,993,010	140,418,628	12,130,420	117,361,813
Long-term notes payable	USD	–	–	2,568,000	24,845,400
Total			406,022,532		342,638,841
Net assets (liabilities) *			1,289,743,502		809,658,801

* Including the monetary assets and liabilities of the subsidiaries which are recorded in US Dollar.

Revenues, expenses and cash flows of the subsidiaries using currency other than Rupiah were translated using the average rates of exchange which are Rp9,814, Rp7,809 Rp8,534 for USD1 for the years ended December 31, 1998, 1999 and 2000, respectively and Rp8,210 and Rp10,214 for USD1 for the nine months ended September 30, 2000 and 2001, respectively.

The conversion rates used by the Company and its subsidiaries on December 31, 1998, 1999 and 2000 and September 30, 2000 and 2001 and the prevailing rates on January 7, 2002 are as follows:

	December 31,			September 30,		January 7,
Foreign currency	1998	1999	2000	2000	2001	2002
	Rp	Rp	Rp	Rp	Rp	Rp
1 GBP	13,336	11,495	14,299	12,849	14,237	15,008
1 USD	8,025	7,100	9,595	8,780	9,675	10,395
1 SGD	4,836	4,260	5,539	5,046	5,483	5,646
1 YEN	70	69	84	81	81	80
1 FRF	1,424	1,090	1,359	1,178	1,349	1,421
1 AED	–	–	2,627	–	2,649	2,846

40. BUSINESS SEGMENT INFORMATION

The Company and its subsidiaries are presently engaged in businesses as follows:

a. Exploration and production of oil and gas

b. Drilling services

c. Methanol production

a. Net Sales

	One year					
	1998		1999		2000	
	%	Amount	%	Amount	%	Amount
Exploration and Production of Oil and Gas	50.92	934,853,729	66.44	1,081,997,858	82.66	2,577,635,824
Drilling Services	37.49	688,393,667	20.62	335,835,395	11.59	361,386,529
Methanol production ..	11.59	212,760,754	12.94	210,756,837	5.75	179,275,014
Total	100.00	1,836,008,150	100.00	1,628,590,090	100.00	3,118,297,367

	Nine months			
	2000 (Unaudited)		2001	
	%	Amount	%	Amount
Exploration and Production of Oil and Gas	82.95	1,668,264,101	77.57	2,284,051,467
Drilling Services	11.79	237,172,714	14.80	435,779,006
Methanol production	5.26	105,830,847	7.62	224,497,184
Total	100.00	2,011,267,662	100.00	2,944,327,657

b. Cost of Sales and Direct Expenses

	One year					
	1998		1999		2000	
	%	Amount	%	Amount	%	Amount
Exploration and Production of Oil and Gas	33.45	262,359,036	40.59	322,347,172	62.27	841,755,852
Drilling Services	36.59	287,012,178	30.23	240,086,325	26.14	353,389,970
Methanol production ..	29.97	235,057,767	29.18	231,743,807	11.59	156,680,643
Total	100.00	784,428,981	100.00	794,177,304	100.00	1,351,826,465

	Nine months			
	2000 (Unaudited)		2001	
	%	Amount	%	Amount
Exploration and Production of Oil and Gas	61.06	509,258,621	51.11	575,296,085
Drilling Services	26.16	218,220,465	33.04	371,917,681
Methanol production	12.78	106,612,446	15.84	178,333,323
Total	100.00	834,091,532	100.00	1,125,547,089

c. **Operating Expenses**

	One year					
	1998		*1999*		*2000*	
	%	*Amount*	*%*	*Amount*	*%*	*Amount*
Exploration and Production of Oil and Gas	71.35	159,576,877	64.97	126,144,119	69.97	214,632,406
Drilling Services ..	12.49	27,941,007	20.45	39,710,008	16.83	51,633,443
Methanol production ..	16.16	36,151,182	14.58	28,316,581	13.19	40,472,112
Total	100.00	223,669,066	100.00	194,170,708	100.00	306,737,961

	Nine months			
	2000 (Unaudited)		*2001*	
	%	*Amount*	*%*	*Amount*
Exploration and Production of Oil and Gas	71.50	131,654,345	67.98	180,877,008
Drilling Services	16.87	31,059,891	19.83	52,772,125
Methanol production	11.63	21,423,648	12.19	32,427,800
Total	100.00	184,137,884	100.00	266,076,933

d. **Income (loss) from Operations**

	One year					
	1998		*1999*		*2000*	
	%	*Amount*	*%*	*Amount*	*%*	*Amount*
Exploration and Production of Oil and Gas	61.95	512,917,816	98.95	633,506,567	104.21	1,521,247,566
Drilling Services	45.11	373,440,482	8.75	56,039,062	(2.99)	(43,636,884)
Methanol production ..	(7.06)	(58,448,195)	(7.70)	(49,303,551)	(1.22)	(17,877,741)
Total	100.00	827,910,103	100.00	640,242,078	100.00	1,459,732,941

	Nine months			
	2000 (Unaudited)		*2001*	
	%	*Amount*	*%*	*Amount*
Exploration and Production of Oil and Gas	103.46	1,027,351,135	98.40	1,527,878,374
Drilling Services	(1.22)	(12,107,642)	0.71	11,089,200
Methanol production	(2.24)	(22,205,247)	0.88	13,736,061
Total	100.00	993,038,246	100.00	1,552,703,635

e. **Total Assets**

	One year					
	1998		1999		2000	
	%	Amount	%	Amount	%	Amount
Exploration and Production of Oil and Gas	53.69	1,948,401,677	59.04	1,966,775,844	64.64	2,824,973,511
Drilling Services	21.10	765,685,904	16.47	548,745,756	15.65	684,145,497
Methanol production ..	4.01	145,563,661	3.97	132,270,328	5.10	222,838,627
Supporting assets* ..	21.19	769,101,342	20.52	683,491,523	14.61	638,610,124
Total	100.00	3,628,752,584	100.00	3,331,283,451	100.00	4,370,567,759

	Nine months			
	2000 (Unaudited)		2001	
	%	Amount	%	Amount
Exploration and Production of Oil and Gas	69.01	2,738,888,141	64.50	3,178,391,843
Drilling Services	14.41	571,747,789	25.55	1,258,750,795
Methanol production	5.67	224,923,627	4.76	234,489,482
Supporting assets*	10.92	433,444,676	5.19	255,819,327
Total	100.00	3,969,004,233	100.00	4,927,451,447

* Represent assets of parent company and other subsidiary which are not allocated to each segment.

f. **Depreciation and Amortization**

	One year					
	1998		1999		2000	
	%	Amount	%	Amount	%	Amount
Exploration and Production of Oil and Gas	63.97	107,741,408	60.97	105,100,077	66.48	142,953,762
Drilling Services ..	42.69	58,162,332	36.28	62,551,306	29.65	63,751,768
Methanol production ..	1.49	2,511,039	2.75	4,741,512	3.87	8,318,455
Total	100.00	168,414,779	100.00	172,392,895	100.00	215,023,985

	Nine months			
	2000 (Unaudited)		2001	
	%	Amount	%	Amount
Exploration and Production of Oil and Gas	66.27	103,973,110	60.23	152,505,084
Drilling Services	29.76	46,686,026	36.02	91,209,034
Methanol production	3.97	6,224,415	3.74	9,470,057
Total	100.00	156,883,551	100.00	253,184,175

41. COMMITMENTS

a. The Company's subsidiaries entered into PSC and TAC with PERTAMINA in the exploration and production of crude oil and gas in certain areas. Following are the significant provisions of the contracts:

(i) Oil and gas produced are shared based on certain formula agreed by subsidiaries and PERTAMINA.

(ii) The subsidiaries are obliged to pay between USD1,000,000 to USD5,000,000 representing production bonus to PERTAMINA if the oil production averages 25,000 barrels to 50,000 barrels per day and additional bonus USD1,000,000 to USD10,000,000 if production increases to an average of 50,000 barrels to 100,000 barrels per day for a period of 120 consecutive days.

(ii) Until certain period, subsidiaries are required to surrender part of the contract area to PERTAMINA. The obligations to surrender parts of the contract area do not apply to the surface area of any field in which Petroleum has been discovered.

b. EN signed three PSC with Myanmar Oil and Gas Enterprise (MOGE) on July 14, 1997 for onshore petroleum operations in Kyaukkyi - Mindon Block EP 1, Ondwe Block RSF - 5 and Padaukpin - Monnatkon Block MOGE 3. Based on the letter dated October 20, 1997, the Director of Investment and Company Administration approved the three (3) PSC permits to trade and the related company registration to be under the name of Exspan Myanmar (L), Inc. (EMLI). Each agreement provides that during the initial six-months term of the Exploration Period EMLI shall spend a total exploration costs of not less than USD200,000. For the first extension of the exploration period, EN shall spend an additional amount of USD1,000,000 and for the second and third extensions it shall spend an additional amount of USD2,000,000 each.

c. The Company, Apexindo, MEA, EK, EN and MMB has Bond Guarantee Facility, Standby Letter of Credit, Advance Payment Facility and Import Facility, with aggregate maximum amount of USD8,000,000, Facility Overdraft with maximum amount of Rp5,000,000 thousand, and Foreign Exchange Trading facility from Standard Chartered Bank. These facility are guaranteed by the Company's Corporate Guarantee.

As at December 31, 2000 and September 30, 2001, Apexindo has utilized the Bond Guarantee Facility amounting to USD599,921 and USD2,528,160, respectively.

42. CONTINGENT LIABILITY

The Company's subsidiaries, incorporated in the State of Delaware, USA, but has no operating interest in the U.S, are studying their potential tax liabilities. The potential tax exposure, if any, may not be able to be determined at the date of this report.

43. EFFECTS OF ECONOMIC CONDITION ON THE ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES

Since the middle of 1997, many Asia Pacific countries, including Indonesia, have been experiencing adverse economic condition mainly resulting from currency depreciation in the region, the principal consequences of which have been an extreme lack of liquidity, high interest rates, the weakening of Rupiah currency and suspension of certain construction projects. Until now, Indonesia is still affected by the extended economic crisis primarily due to very unstable foreign exchange rates and price of shares in the capital market.

The lack of liquidity and high interest rates and the decline in price of crude oil in the market to an average of USD12 per barrel in 1998, has caused the Company and its subsidiaries' inability to pay their overdue short-term loans. Nevertheless, in 1999 the Company and its subsidiaries have been successfully restructured the loans with their creditors. The restructuring of the loans resulted in a significant debt to equity conversion and the extension of the maturity dates of the remaining loans.

In 2000, the price of crude oil in the world market had stabilized to an average of USD29 per barrel which provided sufficient fund for the redemption of significant amount of the Company and its subsidiaries' loans.

Recovery of the economy to a sound and stable condition is dependent upon the fiscal and monetary measures being taken by the government, actions which are beyond the Company and its subsidiaries' control. It is not possible to determine the future effects of the economic condition may have on the Company and its subsidiaries liquidity and earnings, including the effect of cash flow from their investors, customers and suppliers.

44. SUBSEQUENT EVENTS

a. Two subsidiaries, MEA and Apexindo plan to merge. In relation with the merger, MEA will be dissolved and Apexindo will become the surviving company. The merger will result into the entire activity and operation, assets and liabilities, payables and receivables and employees of MEA to be legally transferred to Apexindo. The merger has been announced on December 1, 2001 in order to obtain approval from extraordinary stockholders' meeting of MEA as well as Apexindo.

   The merger has been stipulated under the notarial deed No. 8 of notary Mardiah Said S.H., dated December 27, 2001 and was subsequently ratified by the Minister of Justice on the same date.

b. On December 7, 2001, the Company's subsidiaries have obtained extension for its two PSC covering Rimau and Tarakan. The extension has been signed by PERTAMINA and approved by Minister of Energy and Mineral Resources on behalf of Indonesian Government. Those two blocks have been extended for 20 years. Rimau block is extended from April 23, 2003 until April 23, 2023 whereas Tarakan block is extended from January 14, 2002 until January 14, 2022.

c. On November 15, 2001, the Company entered into agreement with Falcon Oil Pte, Ltd. to sell its 15% shares of Medco Simenggaris Pty, Ltd. (a subsidiary) and its 24% shares of Medco Madura Pty, Ltd. which each has a selling price of USD140 thousand and USD448 thousand, respectively. Both subsidiaries have working interest in oil field each, in JOB-PSC Simenggaris, East Kalimantan (2,794 km^2) and JOB-PSC Madura Island (2,719 km^2).

d. On December 12, 2001, the Company entered into agreement with P.T. Tri Vicindo International, P.T. Petroland Energi and Mr. Abdul Djalil Syah to purchase 95% shares of P.T. Petroner Bengara Energi (PBE) with a purchase price of USD1,600 thousand. PBE owns working interest in Bengara I Block (PSC) oil field.

e. On December 12, 2001, the Company declared that there has been a change in the ownership of the controlling shareholder, New Links Energy Resources Limited (New Links). New Links, which controls 85.44% of the Company's shareholding as at September 30, 2001, were owned jointly by Encore International Ltd (controlled by Panigoro family) and Cumin Limited (Cumin), a wholly owned subsidiary of Credit Suisse First Boston (CSFB). Under the Share Purchase Agreement dated December 12, 2001, Cumin sold 40% of its shares to PTTEP Offshore Investment Company Limited (PTTEPO), a public Company listed on Thailand Stock Exchange. The composition of the shareholding of New Links after the transactions are 40.1% by Encore International Ltd, 40% by PTTEPO and 19.9% by Cumin. The percentage of ownership of New Links in the Company however, remains unchanged after the acquisition (Note 28).

f. On December 28, 2001, the Company entered into agreement with EN and EK, subsidiaries to purchase 100% (500 thousand shares) ownership of P.T. Exspan Petrogas Intranusa (EPI) with the purchase price amounted to Rp600,000 thousand. Previously, EPI was owned by EN and EK, subsidiaries, with ownership composition of 60% and 40%, respectively.

g. The Company plans to incorporate MEI Euro Finance Limited, a wholly owned subsidiary in Mauritius. This Company is solely set up in relation to the Company's plan to issue Eurobonds. Up to the date of this report, the incorporation of this Company is still in process.

h. The Company plans to change its reporting currency from Rupiah into US Dollar effective as from January 1, 2002. The change in this currency of reporting has been approved by the Minister of Finance of the Republic of Indonesia in his Decree No. MEI-641/PJ.42/2001 dated October 19, 2001.

45. RESTATEMENT OF FINANCIAL STATEMENT AND CLASSIFICATIONS OF ACCOUNTS

In 2001, EK, a subsidiary, has made a prior year adjustment related to the correction of in the quantity of its spare parts inventory which had been originally included in the calculation of cost recovery with PERTAMINA in prior years.

Some accounts in the consolidated financial statements of 1998, 1999 and 2000 were reclassified to conform with the consolidated financial statements for nine months period ended September 30, 2001 presentation. The accounts before and after reclassification are as follows:

	1998		*1999*		*2000*	
	As restated	*As previously reported*	*As restated*	*As previously reported*	*As restated*	*As previously reported*
	Rp'000		*Rp'000*		*Rp'000*	
Inventory	165,111,876	201,265,970	125,342,888	157,329,687	136,836,648	180,063,879
Total Current Asset	751,554,437	1,110,456,993	891,864,602	955,838,200	1,603,641,718	1,690,096,180
Property, Plant and Equipment - net of accumulated depreciation	489,902,503	485,310,778	410,685,845	410,685,845	440,069,780	406,061,014
Deferred tax assets	19,298,929	–	–	–	–	–
Other Assets	17,980,794	22,581,519	15,461,963	18,222,398	16,120,734	50,169,500
Total non-current assets	2,877,198,147	2,857,899,218	–	–	–	–
Total Assets	3,628,752,584	3,645,607,749	3,331,283,451	3,363,270,250	4,370,567,759	4,413,794,990
Deferred tax liabilities	89,313,104	–	–	–	–	–
Non-current liabilities	483,641,058	394,327,954	–	–	–	–
Minority Interest	51,691,061	65,706,234	57,083,545	58,385,408	70,841,951	72,601,299
Translation adjustment						
At beginning of year	200,209,352	210,331,059	439,475,370	464,183,227	273,196,568	293,906,739
At end of year	858,829,303	890,322,420	273,196,568	293,906,739	858,829,303	890,322,420
Direct cost						
General operating expenses ..	784,428,981	86,233,683	–	–	–	–
Operating expenses						
General and administrative						
Salaries and wages	65,197,243	27,228,558	–	–	–	–
Professional fees	38,394,247	7,082,965	–	–	–	–
Office supplies	8,241,113	1,853,898	–	–	–	–
Others	12,252,381	5,395,954	–	–	–	–
Selling						
Business travel	7,248,897	3,538,823	–	–	–	–
Deferred tax income	(28,369,496)	–	–	–	–	–
Tax expense	(197,363,002)	(168,994,400)	–	–	–	–
Income before minority interests in income of subsidiaries ..	382,966,751	411,336,247	–	–	–	–
Minority interest in income of subsidiaries	(29,102,190)	(35,974,163)	–	–	–	–
Net income	353,864,561	375,362,084	–	–	–	–
Basic earning per share						
Including extraordinary item ..	205	218	–	–	–	–
Excluding extraordinary item	205	218	–	–	–	–
Retained earning						
At beginning of year	118,826,305	164,774,021	472,690,666	482,665,631	648,654,746	658,629,511
At end of year	472,690,866	482,665,631	648,654,746	658,629,511	1,176,642,822	1,186,617,587

REGISTERED OFFICE OF THE ISSUER

MEI Euro Finance Limited
United Docks Building
Cathedral Square
Port Louis
Mauritius

REGISTERED OFFICE OF THE GUARANTOR

PT Medco Energi Internasional Tbk
Graha Niaga
16/F Jl. Jend. Sudirman 58
Jakarta 12190
Indonesia

PRINCIPAL PAYING AGENT

JPMorgan Chase Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT

SINGAPORE PAYING AGENT

JPMorgan Chase Bank, Singapore Branch
168 Robinson Road
17th Floor
Capital Tower
Singapore 068912

TRUSTEE

JPMorgan Chase Bank, London Branch
Trinity Tower
9 Thomas More Street
London E1W 1YT

LEGAL ADVISERS

To the Issuer and the Guarantor as to Mauritius law:
Juristconsult Chambers
Cathedral Square
Port Louis
Mauritius

To the Issuer and the Guarantor as to Indonesian law:
Ery Yunasri & Partners
Graha Niaga
11th Floor
Jalan Jenderal Sudirman Kav. 58
Jakarta 12190
Indonesia

To the Manager as to English law:

Clifford Chance
29th Floor, Jardine House
One Connaught Place
Central
Hong Kong

Clifford Chance
16 Collyer Quay #10-00
Hitachi Tower
Singapore 049318

AUDITORS TO THE ISSUER

Deloitte & Touche
3rd Floor
Cerné House
La Chaussée Port Louis
Mauritius

AUDITORS TO THE GUARANTOR

Hans Tuanakotta & Mustofa
(member firm of Deloitte Touche Tohmatsu)
Registered Public Accountants
Wisma Antara
4th Floor
Jl Medan Merdeka Selatan No. 17
Jakarta 10110
Indonesia

SINGAPORE LISTING AGENT

Allen & Gledhill
36 Robinson Road #18-01
City House
Singapore 068877

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