

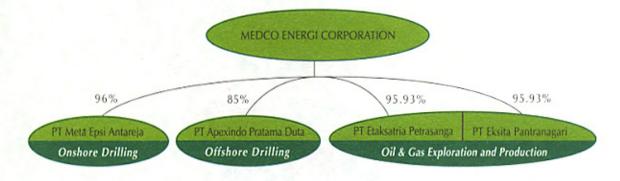
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he Company was established as PT Meta Epsi Pribumi Drilling Company in 1980 by Arifin Panigoro. It was the first wholly private-Indonesian-owned oil and gas drilling contractor.

The Company expanded in to offshore drilling in 1991 and in to oil exploration and production operations in 1992.

In 1994, the company changed its name to PT Medco Energi Corporation ("the Company") and became a Public Company, the first oil company to be listed on the Jakarta Stock Exchange. The Company is part of the Medco Group of Companies.

Medco Energi Corporation is owner of two land rigs and is a Holding Company for its four subsidiaries.



PT Meta Epsi Antareja Drilling Company (MEA) with its principal business activity in Onshore Contract Drilling, was established in 1983 and owns eight drilling rigs, ranging from 1000 HP heli-rigs to 2100 HP units capable of drilling to depths of greater than 20,000 feet. The Company has a 96% equity interest in MEA.

PT Apexindo Pratama Duta (APEXINDO) was established in 1984 and is involved in Offshore Contract Drilling. It owns and operates a state-of-the-art submersible drillbarge "Maera" and just recently acquired an additional jack-up rig "Rani Woro". The Company has a 85% equity interest in Apexindo.

Medco Energi's oil and gas activities are operated through PT Etaksatria Petrasanga and PT Eksita Pantranagari (EXSPAN companies) which were established in 1991.

PT Etaksatria Petrasanga operates a Technical Assistance Contract (TAC). Its activities are centred around three areas in East Kalimantan: Sanga-Sanga, Tarakan and Samboja, covering an area of approximately 138 square kilometres, producing 5.600 barrels of oil per day.

The Production Sharing Contract (PSC) is operated by Eksita Pantranagari. Its activities are located in Tarakan Island with an approximate area of 180 square kilometres, producing 150 barrels of oil per day. The Company has a 95.93% equity interest in the Exspan companies.



- 1980 The Company was established originally as PT Meta Epsi Pribumi Drilling Company by Arifin Panigoro for onshore contract drilling services. The Company started off its operations with a four well turnkey programme in South Sumatera.
- 1983 PT Meta Epsi Antareja Drilling Company (MEA) was established and acquired its first rig of 1200 HP. Its principal business activity is onshore drilling.
- 1985 MEA added to its fleet of onshore rigs by purchasing an additional three rigs of 2000 HP capacity.
- 1991 PT Apexindo Pratama Duta, offshore contract drilling services, constructed a stateof-the-art submersible drillbarge "Maera" which is contracted out to Total Indonesie for long-term drilling operations.
 - MEA acquired two additional onshore rigs.
- 1992 The company expanded its operations into oil and gas exploration and production by taking over a Technical Assistance Contract (TAC) now operated by Etaksatria Petrasanga and a Production Sharing Contract (PSC) now operated by Eksita Pantranagari, both known as Exspan.
- 1993 MEA owns a total of eight onshore drilling rigs, ranging from 1000 HP heli-rigs to 2100 HP units capable of drilling to depths of greater than 20,000 feet.
- In January, the Company changed its name to PT Medco Energi Corporation and restructured its capital base and reorganized its management.
 On October 12th, the Company successfully floated 21.7% of its enlarged capital base through an Initial Public Offering. The first energy company to be listed on the Jakarta Stock Exchange.

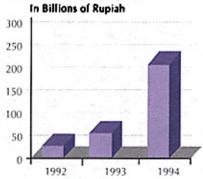
The Company goes international – it was awarded a contract by Hadson Energy Limited of Australia to provide contract drilling services in Varanus Island, North West Australia.

Apexindo acquired a second offshore unit, a jack-up rig, named "Rani Woro".

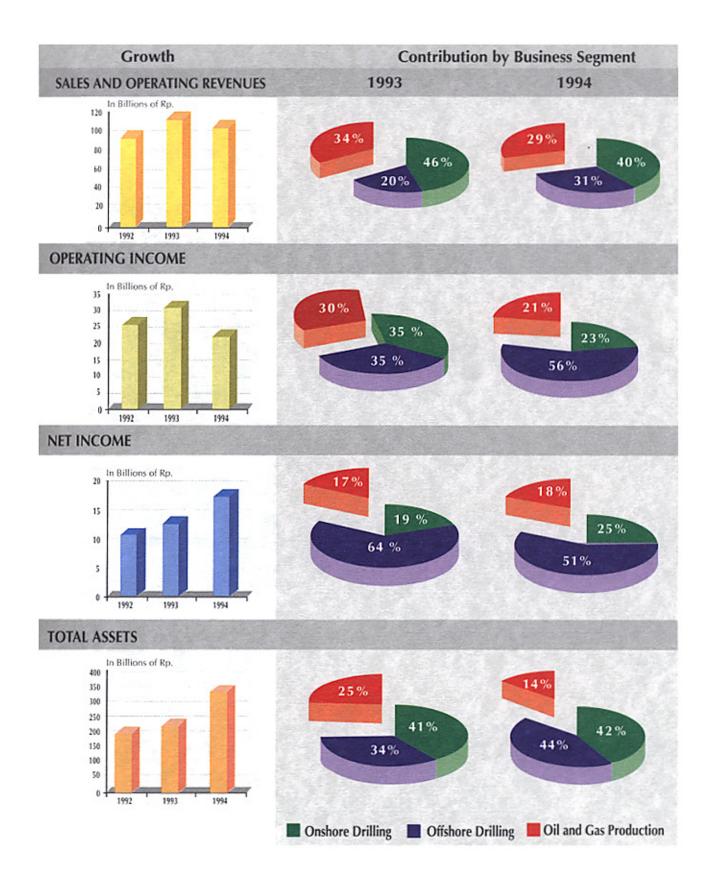
(Rp Million)

	1994	1993	1992
Sales and Operating Revenues	109.006	112.598	94.756
Gross Profit	47.308	57.562	45.417
Interest Expenses - net	3.947	8.105	6.572
Net Income After Tax	18.417	13.417	11.410
Current Assets	90.533	89.224	76.379
Property and Equipment - net	177.338	101.210	96.290
Development Costs - net	28.828	10.033	7.553
Other Assets	47.363	14.207	14.254
Total Assets	344.062	214.674	194.476
Current Liabilities	62.043	95.414	64.059
Long Term Liabilities	68.912	53.504	83.342
Total Liabilities	131.031	148.918	147.402
Minority Interest	8.893	11.861	8.009
Stockholders' Equity	203.275	53.113	38.283
Net Income and Operating Revenues	16.9%	11.9%	12.0%
Net Income/Total Assets	5.4%	6.2%	5.9%
Net Income/Stockholders' Equity	9.1%	25.3%	29.8%
Current Assets/Current Liabilities	146.0%	93.5%	119.0%
Current Liabilities/Total Assets	18.0%	44.4%	32.9%
Long Term Liabilities/Total Assets	20.0%	24.9%	42.9%
Total Liabilities/Stockholders' Equity	64.5%	280.0%	385.0%
Earnings Per Share (Rupiah) *	181.6	132.3	112.5

STOCKHOLDERS' EQUITY



^{*} For comparative purposes, the number of shares outstanding as of December 31, 1994 was consistently used for calculating the earnings per share.



Medco Energi Corporation is a business committed to the active development and growth of the energy and energy related industries in Indonesia, and in any region where opportunities can be developed. It shall serve and meet the needs of its clients, promote fair and beneficial cooperation with its business partners, and support the government and its policies.

The organisation shall strive to be a leader in each and every one of its endeavours. It shall continuously seek out the challenges and opportunities for a wider integration within the industry.

Professionalism, integrity and reliability shall be employed in all conduct of business, and in doing so, embody the common goals and aspirations of its employees, shareholders, the energy industry and the community.



his past year, 1994, has been one of significant achievement with PT Meta Epsi Pribumi Drilling Company being transformed into a holding company, PT Medco Energi Corporation. followed by a listing on the Jakarta Stock Exchange in October 1994 at a share price of Rp 4,350. Since listing, the Company's share price has continually exceeded its listing price, allowing investors to enjoy a premium on their investment. A Jakarta Stock Exchange survey released in May 1995 showed only 41 companies, out of the 224 listed, had a share price above their offering price. We were proud to be one of the 41, the top 18%.

The Initial Public Offering (IPO) of the Company was a culmination of fifteen years effort, starting with our first drilling rig in 1980. Although wishing to expand our business in 1980, we could not have imagined the size and the array of projects we presented to the public in our Offering Prospectus. The Due Diligence processes necessary for listing have shown that the Company was ready to meet the high standards of performance demanded of it. As a public company it can now take advantage of better terms for financing its activities, than would have been possible if it remained a purely private concern.

In line with the Company development philosophy, we have made progress by expanding our offshore drilling capacity, bidding on exploration and production contract areas, and moving downstream within the industry, the Company may soon enter the secondary energy field as an Independent Power Producer (IPP).

Our company is poised for growth in revenues and in assets, and it is our intention that you, our shareholders, will continue to share the benefits of our growth as our projects come to fruition and new growth opportunities present themselves.

Arifin Panigoro Chairman



From left to right : Darmoyo Doyoatmodjo Director Operations

Hetriono Kartowisastro President Director

Sugiharto Director Finance and Administration

Mustain Sjadzali Director Planning and Business Development During 1994, the Company achieved significant milestones which will expand the Company's operations.

In January 1994, the Company changed its name to PT Medco Energi Corporation to focus on energy and energy-related activities. At the same time, the Company restructured its capital base and reorganized its management to meet the expected growth and development of the Company.

In October 1994, the Company successfully floated 21.7% of its enlarged capital base to the public through its

Initial Public Offering (IPO) on the Jakarta Stock Exchange. The proceeds were used to acquire an additional offshore drilling rig, to partly finance a gas development project, to finance the methanol plant in Bunyu, and to repay certain high cost loans.

Results for the year

In 1994, the Company posted a net income of Rp 18.4 Billion with earnings per share of Rp 181.6 which is about 37% higher than last year's Rp 13.4 Billion with earnings per share of Rp 132.3. However, the profit margin decreased by 17.9% because of the oil price volatility and the decrease in average oil price to US\$ 16.15 per barrel as compared to US\$ 17.55 in 1993. The Company's oil production also decreased as a result of implementing a more conservative drilling program to reduce cost of operations at the lower oil prices. The onshore rigs' utilization percentage also declined as oil and gas exploration and production companies reduced their drilling activities.

Inspite of the decrease in profit margin, the Company was able to achieve its projected net income as a result of a decrease in interest expenses of about Rp 4.2 billion and a Rp 3.9 billion gain on the sale of land no longer required for operations. This was sold early in the year, before the IPO, plus a Rp 3.4 billion gain on sale of non-productive heavy equipment which was sold later during the year after the IPO.

Dividend

The Board of Directors recommends a cash dividend of Rp 50 per share representing 30% of the net income after tax for the year ended December 31, 1994.

Assets and Financial Position

Total assets during the year increased by Rp 130 bn from Rp 314 bn in 1993 to Rp 344 bn in 1994 as a result of the acquisition of an additional offshore drilling unit and the additional capital expenditure for gas development.

Substantial repayments of high interest bearing loans improved the debt to equity ratio from 73:27 in 1993 to 40:60 in 1994. This strengthened the Company's position to solicit funding through other lower interest-bearing, non-conventional form of borrowing to finance future project developments.

Operations and Production Review

For our existing business, contract drilling operations and oil production, it is fair to say 1994 was a disappointing year in spite of slightly exceeding our net profit target of Rp 18.2 bn. There was an unanticipated slow down of oil and gas activity in Indonesia for 1994. Exploration well activity reduced to 70% of 1993's activity. Seismic activity, a precursor of drilling operations, declined to 88% of 1993's activity and finally only one new production sharing contract was signed by Pertamina. The price we received for our oil in 1994 ranged between US\$ 14.56 to 17.73/bbl averaging US\$ 16.16/bbl as compared to 1993's average of US\$ 17.56/bbl. The volatile oil price and the lack of competitive incentives for attracting exploration risk capital to Indonesia for new ventures combined to reduce drilling activity. Inspite of this decline in drilling activity, the Company however managed to achieve an onshore rig utilization percentage of 52% due to management's effort to embark on drilling services abroad and to carry-out geothermal drilling services.

During the year, one of the Company's rigs was dispatched to Varanus Island, in Northwest Australia to perform drilling services for Hadson Energy Limited. This endeavor marked the Company's first international operation, beating international competition for this work.

The Company also successfully drilled 2 geothermal wells in Ulumbu for PLN's pilot project for producing electricity from geothermal energy. The Company's efficient performance of these services has resulted in an extension for an additional well in the island of Flores. This success places the Company in a good position to obtain future geothermal drilling contracts.

The offshore drilling company continued to perform efficiently with its heavy swamp barge drilling rig. Maera, drilling wells for Total Indonesie's gas development program in East Kalimantan to meet the gas demand for the Bontang Liquefied Natural Gas (LNG) plant.

The acquisition of another offshore drilling rig, Rani Woro, is a jack-up drilling rig which is capable of drilling in up to 300 ft. of water is expected to start its term contract with Total Indonesie for a gas drilling program, offshore in East Kalimantan by the third quarter of 1995.

The acquisition of this offshore drilling unit marks the Company's intent to be a leading offshore drilling contractor in Southeast Asia, before the turn of the century.

During the year 1994, the Company's total oil production was 1,967,000 barrels an average of 5,389 barrels of oil per day (BOPD) as compared to 2,058,000 barrels or 5,638 BOPD in 1993. This decrease in oil production of about 4.6% is attributable to reduced field activities to minimize cost in line with the lower oil prices.

Human Resources

During the year, the Company increased employees salaries by a range of 10 to 15%. This increase is consistent with the Company's committeent to constantly review salaries and remuneration packages and to provide a regular increase to reward productivity and to compensate for the increased cost of living.

Outlook

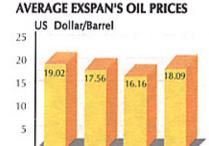
The Company is anticipating improved revenues from existing businesses in 1995. This improvement compared to 1994 will result from a more robust oil price currently above \$ 18/Bbl and additional revenues from the jack-up rig. In 1996, the impact of gas sales to the methanol plant and in 1997 from the power plant project will provide additional revenues above current business activities.

Acquisition of Oil and Gas Operations

As part of its strategy of growth in oil and gas production operations, the Company is evaluating various options for expansion. One option has been realized, which is to bid on the sale of companies or assets of existing producers in Indonesia, two opportunities have presented themselves.

The Company has signed an Agreement to acquire a 23.41% equity interest in the Malacca Straits Production Sharing Contract (PSC) area from LASMO OIL (MALACCA STRAITS) LTD ("LOMSL") and its affiliates, together LASMO.

The acquisition of the LASMO interest is subject to their partner preemption rights and Pertamina's approval to the transfer of the interest. LOMSL is also Operator of the Malacca Strait PSC. Subject to consultation and approval of its partners, the transfer of operatorship will be to a specially designated MEDCO subsidiary company, with an effective date retroactive to January 1st 1995.



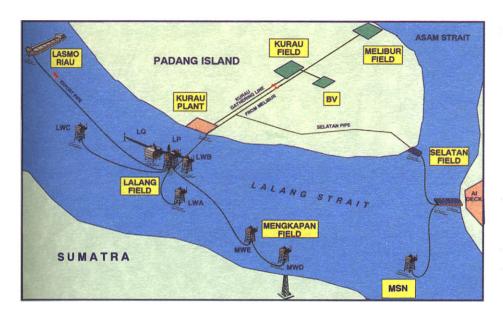
1993

1994

Apr.1995

(4 months)

1992



Malacca Strait

MEDCO Directors are proud to repeat their expansion strategy of acquiring mature producing areas from non-Indonesian oil companies. This represents another significant milestone in the development of Indonesian independent oil company expertise in exploration and production operations.

The Malacca Strait PSC is located in Riau Province, Central Sumatera, covering an area of 11,865 sq kms. There are currently 5 producing fields, 2 offshore and 3 onshore which together produce approximately 24,000 barrels of oil per day.

The Medco Directors believe that there is still potential for further development in the PSC and will pursue exploitation opportunities with Pertamina and its partners.

This acquisition, once concluded will increase the company's oil production result in an increased contribution to the company's total revenues of 44%. The second opportunity is under evaluation with a bid to be submitted before the end of July 1995.

Offshore drilling

The Rani Woro, jack-up rig, is expected to commence its drilling services for Total Indonesie's gas drilling activities in East Kalimantan by the third quarter of 1995. The contract is initially for one year, with the opportunities for extension given that Total Indonesie's gas production obligations are increasing for the supply of gas to the Bontang LNG plant. On the same basis, the existing contract for Maera, which is in its third year of a five-year contract, is also expected to be retained by Total into the foreseeable future.

Tarakan Gas Project

The Company has recently obtained Pertamina's approval to go ahead with the Plan of Development to supply gas to Bunyu from Tarakan. The construction work for the piping of gas 30 Kms. offshore from Tarakan to Pertamina's methanol plant in Bunyu Island is in progress and shall take about twelve (12) months to complete subject to prompt engineering and procurement contract approvals by Pertamina. The Company has already signed a Memorandum of Understanding with Pertamina to supply 30 million cubic feet of gas a day (mmcfgd) from Tarakan. Finalization of a supply and sales agreement is in progress, with revenue flows from this project expected by mid 1996.

Bunyu Methanol Plant

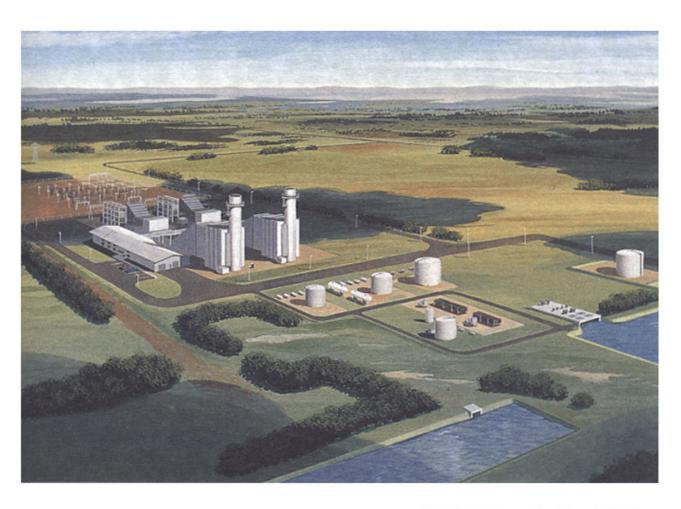
The Company has received approval from Pertamina to take-over the operation of the Bunyu methanol plant. An operating agreement is currently under negotiation. This agreement is expected to begin at the end of the third quarter 1995. The Bunyu plant, which is the only methanol plant in Indonesia, needs about 42 million cubic feet of gas a day to achieve its design capacity of 330,000 tonnes of methanol per year. This take-over will consolidate the Company's control over gas supplies from Tarakan and add value to the gas supply project.

Power Plant Project

The Company, in a fifty-fifty partnership with the US corporation, Enron Development Corporation, is in the final stage of negotiation with the Government for a BOO (Build, Own, Operate) contract for a 136 MW gas-fired combined-cycle power plant south-east of Samarinda, capital of East Kalimantan. The Power Purchase Agreement (PPA) to be executed this year will mark the Company's entry into Independent Power Production (IPP). Construction of the plant is projected to start in 1996 with the first phase, 68 MW to be operational in 1997, and the second in 1999.

Acknowledgement

The Senior Management of the Company, would like to extend their sincere gratitude to all employees for their committment and support throughout the year. We also express our appreciation to our shareholders and business partners who believe in our capabilities in each and every area in which we are operating.



Artist Impression of The MEDCO ENRON power plant in Samarinda, East Kalimantan

he oil industry in Indonesia during 1994 was influenced by the fixed OPEC production quota for the whole year. In complying with that quota, total oil production averages 1.33 million barrels per day. While condensate production was also constant at about 178 thousand barrels per day. While condensate production was produced mainly from the LNG producing gas field in Arun, which was not limited by OPEC's quota, but was dependent on the LNG sales. The sales volume for Arun LNG was about constant throughout the year 1994. Total average petroleum production in 1994 was therefore 1.51 million barrels per day or 551 million barrels for the whole year.

Gas production, however, rose significantly in 1994, mainly because of increased LNG exports from Bontang and domestic gas consumption for power generation. Total gas production was 8.1 billion standard cubic feet per day (bscfd), an increase of 10.5% over 1993 production. LNG exports from Bontang increased by almost 2.0 million tons of LNG, increasing gas requirements by 300 million standard cubic feet per day (mmscfd). Total gas requirements for over 26 million tons of LNG exports was 4.6 bscfd or about 56% of total gas production. Gas utilization for power generation also rose by 300 mmscfd to 365 mmscfd through the increased delivery from the ARCO fields in Kangean island, north of Bali to Gresik in East Java, and the new delivery from the ARCO offshore fields in North West Java to the Jakarta power generators.

Exploration activities declined somewhat. Total exploration wells drilled was 80 compared to 117 wells the year before. Seismic activity also declined slightly to 68 thousand kilometres from 77 thousand in 1993. One new PSC contract was signed. While a total of 3 Technical Assistance Contracts (TAC's) and Joint Operating Agreements (JOA's) were also signed.

The average Indonesian oil price in 1994 was \$ 15,97 per barrel resulting in an average LNG export price of \$ 2.45/mmbtu. Total export value of oil and LNG exports in 1994 rose by 1.3% to \$ 9.8 billion from an export value of about \$ 9.6 billion in 1993.

Expectations for 1995 and thereafter

Oil and condensate production for 1995 is expected to be more or less similar to 1994 production, as OPEC quotas for 1995 remain constant with 1994 quotas, while LNG sales from Arun, the prime condensate producer, are not expected to increase in 1995.

Oil export prices, however, are expected to rise slightly. While the average Indonesian crude price throughout 1994 was \$ 15.97 per barrel, the average price for the four months of 1995 was about \$ 17.67 per barrel. For Exspan, the average oil price in 1994 was \$ 16.16 per barrel, while the average price for the first four months of 1995 was \$ 18.09 per barrel.

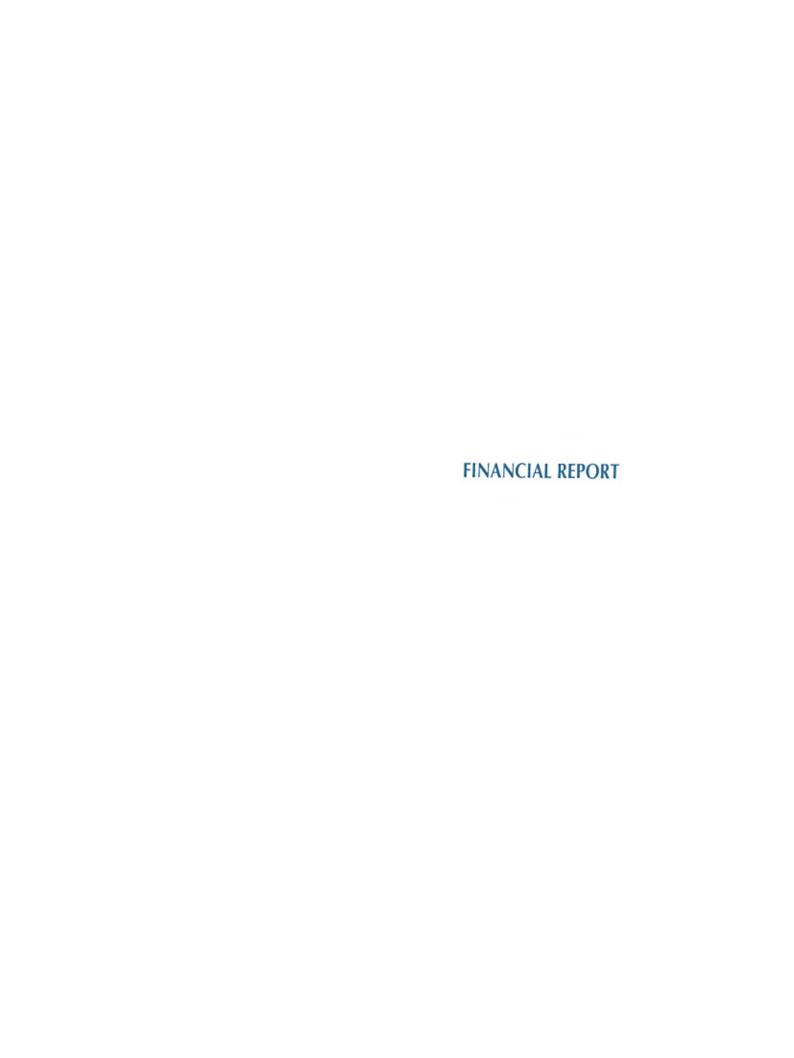
Gas production is again expected to increase because of the increases in LNG sales from Bontang. Domestic gas consumption for power generation is expected to increase by another 48% or 180 mmcfd, becoming 540 mmcfd.

Exploration activities are expected to remain the same as the year before. The incentives offered by the Government so far, although very encouraging, is under the current oil price scenario, not considered sufficient by the industry to expect a boost in new exploration activities. However, 20 contracts are still expected to be signed in 1995, consisting of 12 PSC's, and 8 TAC and JOA contracts. Because the expected location of the new finds are in the more remote areas and deeper waters, requiring longer lead-times, additional reserves may therefore be limited to additions from known leads in existing working areas or Secondary and Tertiary recoveries.

However, if current trends of oil prices continue, nearing the OPEC basket price, there is a good chance of a reversed situation. Indonesia with a potential of 45 billion barrels of possible recoverable oil, strategically located near the markets in the Far East, will again become an economic attractive prospect.

It is expected that in the course of the next 5 to 6 years, oil prices will remain firm, although some fluctuations may still occur. The market fundamentals will support that expectation as world oil demand will continue to grow, while unutilized existing production capacity may become smaller as time goes by. The main reason being the low oil prices of the recent past. Reduced exploration activities because of low oil prices is not only experienced by Indonesia, but also a phenomena in many other oil producing countries.

The future outlook of the Indonesian oil industry is therefore promising. Acquiring fields either through new contracts or acquisitions, would be a sound investment policy and a worthwhile risk to take, to increase future oil production capacity.







JAKARTA, SURABAYA, BANDUNG



Registered Public Accountants

HEAD OFFICE Wisma Antara 12th Floor JI. Medan Merdeka Selatan No.17 Jakarta 10110

Phone : 2312879 (Hunting), 2312955 (Hunting), 2312381 (Hunting)

Facsimile: 3840387, 2313325

Independent Auditors' Report

No.270495 MEC LA SAEC

The Stockholders, Board of Commissioners and Directors PT MEDCO ENERGI CORPORATION (formerly PT META EPSI PRIBUMI DRILLING COMPANY)

We have audited the accompanying consolidated balance sheets of PT MEDCO ENERGI CORPORATION (formerly PT META EPSI PRIBUMI DRILLING COMPANY) and its subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of PT Etaksatria Petrasanga and PT Eksita Pantranagari, 95.93% and 55% owned subsidiaries, respectively, in 1994 and 1993 which statements reflect total assets of Rp 17,200,466,000 and Rp 54,309,728,000, respectively, as of December 31, 1994 and 1993, and total revenues of Rp 1,747,750,000 and Rp 30,070,108,000, respectively, for the years then ended. Those statements were audited by other auditors whose reports No.95083E and No.95082E dated March 28, 1995, respectively, expressed an unqualified opinion, have been furnished to us, and our opinion, in so far as it relates to the amounts included for PT Etaksatria Petrasanga and PT Eksita Pantranagari, is based solely on the reports of such other auditors.

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

In our opinion, 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 PT MEDCO ENERGI CORPORATION and its subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

HANS TUANAKOTTA & MUSTOFA

Drs. Lukman Abdullah

Registered Accountant No.D-2728

April 27, 1995

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1994 AND 1993

ASSETS	Notes	1994 Rp'000	1993 Rp'000
CURRENT ASSETS			
Cash and cash equivalents	2f,3	37,448,797	18,693,529
Accounts receivable :			1010701027
Trade	2h,4,13,16,17	16,306,121	20.192,985
Affiliates	2e,5	6,224,724	19,635,615
Others		2,468,394	1,775,857
nventories	2i,6,16	24,767,454	24.433.268
Prepaid taxes	2p,22	1,434,316	679,860
Prepaid expenses		1,883,410	1,359,390
Advance payments for projects		-	2,453,015
Total Current Assets		90,533,216	89,223,519
PROPERTY AND EQUIPMENT	2k.7,13,16,17		
Cost and revaluation value		250,842,877	166,315,606
Accumulated depreciation		-73,504,893	-65,105,654
Net book Value		177,337,984	101,209,952
EASED ASSETS			
Cost	2m.8	757,300	140,000
ccumulated depreciation		-189,618	-70,000
let Book Value		567,682	70,000
DEVELOPMENT COSTS			
Capital costs	21,9	9,115,656	4,926,903
Non-capital costs	21,7	29,042,204	13,407,598
-			
Total		38,157,860	18.334.501
accumulated amortization		-9,329,760	-8,301,299
Net Book Value		28,828,100	10,033,202
OTHER ASSETS			
Security deposits	10	35,297,804	1,312,746
Development costs under construction	21,11	4,409,134	11,992,748
Deferred cost	20	6.314,384	-11,772,110
reoperating expenses - net	2n,12	547,759	607.788
	211, 12	-	224.180
dembership certicates		200, 200	-
Membership cerficates Others		226,328	
		46.795,409	14,137,462

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	1994 Rp'000	1993 Rp'000
CURRENT LIABILITIES			
Bank loans	4.7.13.16	21.080.198	51,356,339
Accounts payable :			
Trade	14,30	8.088.024	12,218,956
Affiliates	2e.5	112.775	-
Taxes payable	2p.22	3,823,233	3,412,597
Import duties payable	15	-	373,881
Advance payments from customers		_	1.219,400
Accrued expenses		924,265	1,884,478
Current maturities of long-term liabilities :			
Bank loans	4,6,7,13,16	1,920,000	12,780,000
Property and equipment purchase contract	4.7.17	25.917.951	12,153,600
Lease liabillities	2m,8	176,936	14,830
Total Current Liabilities		62,043,382	95,414,081
DEFERRED GAIN ON SALE-LEASEBACK TRANSACTION	2m,8	75,766	
LONG-TERM LIABILITIES - Net of current maturities :			
Bank loans	4.6.7.13.16	2	21,094,000
Property and equipment purchase contract	4.7.17	68,699,736	32,409,600
Lease liabilities	2m,8	211,854	-
Total Long-term Liabilities		68.911.590	53,503,600
EXCESS OF BOOK VALUE OVER COST OF INVESTMENT	Γ 2c,19	863.478	782,909
MINORITY INTEREST	2b,18	8,892,701	11,860,586
STOCKHOLDERS' EQUITY			
Capital stock - Rp 1,000 par value per share in 1994 and Rp 3,125,000 par value per share in 1993 Authorized capital Rp 200,000,000,000 in 1994 Rp 6,500,000,000 in 1993			•
Issued and paid-up capital 101,400,000 shares in 1994			
and 2,080 shares in 1993	20	101,400,000	6,500,000
Additional paid-in capital	21	73,700,000	0,000,000
Revaluation increment in property and equipment	2k	3.044.424	3,044,424
Foreign exchange translation adjustments		1,686,020	540,053
Retained earnings	2g	23,445,030	43,028,482
Total Stockholders' Equity		203,275,474	53.112.959
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		344,062,391	214,674,135

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993

	Notes	1994 Rp'000	1993 Rp'000
SALES AND OPERATING REVENUES	2d,23	109,006,079	112,598,342
DIRECT COSTS	2d,24	-61,697,702	-55,016,067
GROSS PROFIT OPERATING EXPENSES	2d,25	47,308,377	57,582,275
General and administrative expenses Marketing expenses	24,23	-24,552,788 -695,341	-24,561,813 -2,620,177
Total Operating Expenses		-25,248,129	-27,181,990
OPERATING INCOME		22,060,248	30,400,285
OTHER INCOME (EXPENSES)		0.0000.0000.000	
Interest expenses - net	3,13,16	-3,946,788	-8,105,229
Gain on disposal of property and equipment	7	7,384,125	72,437
Gain (loss) on foreign exchange - Net Others - Net	2f,13,16,17	-2,474,639 -318,365	-1,115,117 736,396
Total Other Income (Expenses)		644,333	-8,411,513
INCOME BEFORE INCOME TAX		22,704,581	21,988,772
PROVISION FOR INCOME TAX	2p,22	-2,355,916	-5,107,915
NET INCOME BEFORE MINORITY INTEREST		20,348,665	16,880,857
MINORITY INTEREST'S PORTION ON NET (PROFIT) LOSS OF SUBSIDIARIES	2b,18	-1,932,117	-3,464,273
NET INCOME		18,416,548	13,416,584
OPERATING INCOME PER SHARE (in full Rupiah)	2q	367.76	14,615,522
EARNINGS PER SHARE (in full Rupiah)	2q	307.02	6,450,281

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993

	Notes	1994 Rp'000	1993 Rp'000
RETAINED EARNINGS - BEGINNING :			
Before adjustment		43,028,482	28,556,771
Prior year's adjustment	29	- E	1,055,127
After adjustment		43,028,482	29,611,898
NET INCOME FOR THE YEAR		18,416,548	13,416,584
CASH DIVIDEND	20	-38,000,000	-
RETAINED EARNINGS - ENDING		23,445,030	43,028,482

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1994, AND 1993

	1994 Rp'000	1993 Rp'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	18,416,548	13,416,584
Adjustments to reconcile net income to net cash used in operating activities :		
Depreciation and amortization	16,810,385	13,462,324
Depreciation of leased assets	119,618	35,000
(Gain) on sales of property and equipment	-7,384,125	-72,437
Prior year adjustments	-	1.055,127
(Increase) decrease in accounts receivable :		-,,,,,
Trade	3,886,864	-3,052,604
Affiliates	13,410,891	-5,330,538
Others	-692,537	104.849
(Increase) decrease in inventories	-334,186	1.847.545
(Increase) decrease in prepaid taxes	-754,456	-31,428
(Increase) decrease in prepaid expense	-524,019	-819,196
(Increase) decrease in advance payments for projects	832,718	-2,453,015
Increase (decrease) in accounts payable :		
Trade	-4,130,932	-2,528,895
Affiliates	112,775	-
Increase (decrease) in taxes payable	410,636	-13,698
Increase (decrease) in import duties payable	-373,881	-174,254
Increase in advances payments from customers	-1,219,400	1,219,400
Increase (decrease) in accrued expenses	-960,213	1,884,478
Total adjustment	19,210,138	5,132,658
Net Cash Provided By Operations	37.626,686	18,549,242
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	8,857,125	72,437
Additions to property and equipment	-91,762,660	-12,981,464
Additions to leased assets	-617,300	-
(Increase) in development costs	-19,823,359	-2,479,964
Additions to development costs under construction	7,583,614	-4,534,239
(Increase) in deferred shares issuance cost	-6,314,384	-
Increase in deferred gain on sale-leaseback	75,766	-
(Increase) decrease in preoperating expenses	60,029	37,601
(Increase) in security deposits	-33,985,058	161,899

	1994 Rp'000	1993 Rp'000
Decrease in membership certificates	224,180	1.08 N 12
(Increase) decrease in other assets	-226,328	420,500
Increase in excess of book value over cost of investment	80,569	· -
Net Cash Used in Investing Activities	-135,847,806	-19,303,230
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to (payment of) bank loans	-30,276,141	37,590,344
Increase (decrease) in minority interest	-2,967,885	3,851,521
Increase in foreign exchange translation adjustments	1.145,967	357,999
Additions to (payment of) long-term bank loans	-31,954,000	-22,666,644
Additions to (payment of) property and equipment purchase	1	
contract	50,054,487	-13,713,009
Additions to (payment of) lease liabilities	373,960	-81,204
Increase in paid-up capital	94,900,000	-
Increase in paid in capital	73,700,000	_
Cash dividend	-38,000,000	-
Net Cash Provided By Financing Activities	116,976,388	5,339,007
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,755,268	4,585.019
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	18,693,529	14,108,510
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	37,448,797	18,693,529
NON-CASH FINANCING AND INVESTING ACTIVITIES		10
Reclassification of advance payment for project to property and equipment	1,620,297	-

PT MEDCO ENERGI CORPORATION (Formerly PT META EPSI PRIBUMI DRILLING COMPANY) AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1994 AND 1993

GENERAL

PT MEDCO ENERGI CORPORATION (formerly PT META EPSI PRIBUMI DRILLING COMPANY), hereinafter referred to as "the Company" was incorporated under the Domestic Investment Law No. 6, 1968 which was amended by Law No. 12, 1970 through deed No. 19 dated June 9, 1980 of Notary Imas Fatimah SH. The Company's articles of association were 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 were published in Supplement No. 1020 of the State Gazette of the Republic of Indonesia No. 102 dated December 22, 1981. The articles of association have been amended several times, and for the purposes of the public offer, the articles of association of the Company have been amended by deed No. 24 dated July 13, 1994 of Srie Sunarti Supranoto S.H. as amended by deed No. 1 dated September 1, 1994 of Achmad Bajumi S.H. both as substitute of Notary Imas Fatimah S.H. and were approved by the Minister of Justice of the Republic of Indonesia in his decision letter No.C2-13164 HT.01.04.Th.94 dated September 1, 1994.

On September 13, 1994, The Company obtained from the Chairman of Capital Market Supervisory Agency effective information letter No. S-1588/PM/1994 regarding Registration Statement on Stock issuance to execute its general offering of 22,000,000 shares of stock awith Rp 1,000 par value per share to the Public. And The Company has listed all its shares of stock at Jakarta Stock Exchange on October 12, 1994.

In accordance with article 2 of the Company's articles of association, the scope of the Company's activities comprises exploration, production and support services for oil and natural gas and other energy industries, including on-shore and off-shore drilling, and making investments both through the Company and subsidiaries.

The Company and its subsidiaries commenced commercial operations on the following dates: the Company, December 13, 1980; PT Meta Epsi Antareja Drilling Company, a subsidiary, December 5, 1982; PT Apexindo Pratama Duta, a subsidiary, May25,1992; PT Etaksatria Petrasanga and PT Eksita Pantranagari (together "Exspan") subsidiaries, May 1, 1992.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The financial statements of the Company and its subsidiaries are prepared on the basis of the historical cost concept, except for certain property and equipment which were revalued in accordance with Government Regulation No.45 dated October 2, 1986.

The financial statements of subsidiaries which are involved in the oil and natural gas industry were prepared on the basis of Accounting Standards for the Oil and Natural Gas Industry issued by the Indonesian Accountants' Institute and regulations stipulated under the Production Sharing and Technical Assistance Contracts.

The consolidated statements of cash flows were prepared using the indirect method. The Company considers all investments maturing within three months or less as cash equivalent.

b. Principles of Consolidation

Investments in shares of stock wherein the Company has an ownership interest of more than 50% are consolidated.

The consolidated financial statements include the financial statements of the following subsidiaries :

		Percentage of ownership	
		1994	1993 %
1)	PT Meta Epsi Antareja Drilling Company The main line of business is to provide on-shore drilling and other related service to oil and gas industries.	96	96
2)	PT Apexindo Pratama Duta The main line of business is to provide off-shore drilling and related services to oil and gas industries. The shares in the subsidiary were acquired on September 17, 1992 and December 17, 1992.	85	85
3)	PT Eksita Pantranagari The main line of business is to take over the right to explore crude oil and natural gas based on the Production Sharing Contract with Pertamina until the year 2002 which was formerly operated by Tesoro Tarakan Petroleum Co., a permanent establishment of Tesoro Petroleum Corporation, USA. On May 31, 1994, The Company's ownership in shares was increased from 55% to 95.93%	95.93	55
4)	PT Etaksatria Petrasanga The main line of business is to operate the Technical Assistance Contract with Pertamina until the year 2008 which was formerly operated by Tesoro Indonesia Petroleum Co., a permanent establishment of Tesoro Petroleum Corporation, USA. The Company's ownership in shares was		
	increased from 55% to 95.93%	95.93	55

The consolidated balance sheets were prepared by combining assets, liabilities and capital items of the Company and its subsidiaries and the consolidated statements of income were prepared by combining income and expenses of the Company and its subsidiaries.

Interrelated accounts and purchases and sales transactions, distributions of dividends and loan transactions among the group of consolidated companies were eliminated to reflect the financial position and results of operations of the Company and its subsidiaries as one business entity.

c. Excess of Book Value Over Cost of Investment

Excess book value over cost of investment of subsidiary arising from acquisition (negative goodwill) is presented as excess of book value over cost of investment. This excess of book value over cost of investment is not amortized.

d. Revenue and Expense Recognition

Revenues from drilling activities are recognized when services are rendered and the sales invoices are issued to the customers.

Revenues from subsidiaries which are involved in the oil and gas industry are recognized based on crude oil and gas produced and stored. The Company's portion of shareable oil and gas is determined by the relevant Production Sharing or Technical Assistance Contract. Under the Production Sharing Contract the Company's share of oil production, after tax, is 15%. This is applied after cost recovery for which there is no limit. Under the Technical Assistance Contract the Company's share amounts to 35%, after cost recovery up to a limit of 36.54%.

Expenses are recognized on an accrual basis.

e. Transactions With Affiliates

In accordance with decree No.1548/KMK.013/1990 of the Minister of Finance of the Republic of Indonesia dated December 4,1990 which was amended by his decree No.1199/KMK.010/1991 dated November 30, 1991, affliates are defined as those which have the following relationships:

- Family relationships by affinity and consanguinity up to the second degree, horizontally and vertically;
- Relations between a party and its employees, directors, or commissioners;
- Relations between a company and a party which directly or indirectly controls that company, is controlled by that company, or under common control with that company; or
- Relations between a company and its main stockholders.

All transactions with affiliates, whether or not conducted under normal terms and conditions, as if conducted with other parties, are disclosed in the financial statements.

f. Foreign Currency Transactions and Balances

The books of accounts of the Company are maintained in Indonesian Rupiah. Transactions during the year involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange prevailing at that date. The resulting gains or losses are credited or charged to current operations.

g. Translation of Foreign Currency Financial Statements

Assets and liabilities of subsidiaries which maintain their accounts in foreign currency are translated into Rupiah using the middle rates at the respective year-end exchange rates. Revenues and expenses are translated at the average exchange rate for the years concerned. Foreign exchange translation gains or losses are credited or charged directly to foreign exchange translation adjustment under the stockholders' equity account.

h. Allowance for Doubtful Accounts

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

Inventories

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

Inventory of crude oil is stated based on the Indonesian Crude Price (ICP) formula as of the balance sheet date.

j. Investments in Shares of Stock

Investments in shares of stock wherein the Company has an ownership interest of less than 20% are accounted for using the cost method. Investments in shares of stock wherein the Company has an ownership interest of 20% to 50% are accounted for using the equity method whereby the Company's proportionate share in the income of loss of the subsidiary is added to or deducted from the acquisition cost of the investments. Investments in shares of stock wherein the Company has an ownership interest of more than 50% are consolidated.

k. Property and Equipment

· The Company and PT Meta Epsi Antareja Drilling Company, a subsidiary

Property and equipment of the Company and PT Meta Epsi Antareja Drilling Company, a subsidiary, except for landrights acquired up to September 12, 1986 were revalued in accordance with Government Regulation No.45 dated October 2, 1986. Property and equipment purchased since that date are stated at cost. Depreciation is calculated based on the straight-line method over their estimated useful lives as follows:

	Years
Landrights	-
Buildings	10 - 20
Drilling rigs and equipment	8
Motor vehicles	3 - 4
Office and other equipment	3 - 4

Apexindo Pratama Duta

Off- Shore drilling rigs Drilling pipes Mud equipment Furniture and fixtures Office equipment	ears
Mud equipment Furniture and fixtures Office equipment	15
Furniture and fixtures Office equipment	4
Office equipment	5
	5
M. I.I.	5
Motor vehicles	5
Rig equipment	5

The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments includes rig reconditioning are capitalized. When property and equipment 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.

1. Development Costs

PT Eksita Pantranagari and PT Etaksatria Petrasanga adopted the successful efforts method. Under this method, all expenditure incurred in the exploration and development of producing wells was capitalized and recorded as development costs under construction. This account will be transferred to capital or non-capital costs when the exploration wells have a proven reserve and amortized using the unit of production method if the well proves productive. If the exploratory well proves to be dry, the accumulated drilling cost is charged to current operations. Before 1993, the subsidiaries used the double declining balance method. The effect of the change in amortization method is disclosed in Note 28.

m. Leases

Lease transactions and sales-leaseback are recorded as capital lease when the following criteria are met :

- The lesse 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.
- All periodic lease payments made by lessee plus residual value shall represent a return of the cost of leased assets and interest thereon as the profit of the lessor.
- Minimum lease period is two years

Leased assets and lease liabilities are recorded at the present value of all installment payments plus residual value (option price). Depreciation is computed using the same method and estimated useful lives used for property and equipment (see Note 2k).

Gains or losses on sale-leaseback transactions are deferred and amortized proportionally to the depreciation expenses of the related property and equipment.

n. Preoperating Expenses

Expenditure incurred prior to the commencement of commercial operations is capitalized and amortized over two to five years using the straight-line method upon the commencement of commercial operations.

o. Deferred Shares issuance Cost

Expenses incurred in connection with the issuance of the Company's shares to the public are deferred and amortized over 5 years using the straight-line method commencing from October 1994.

p. Income Tax

Provision for income tax is determined on the basis of taxable income for the year in according to applicable tax laws and regulations. No deferred tax is provided for the timing differences in the recognition of income and expenses for financial reporting and income tax purposes.

Especially for subsidiaries involved in the oil and gas industry, corporate income tax is computed based on the Production Sharing Contract of 45% on net profit after deducting gross oil revenue by all production and operating expenditure excluding interest expenses, and dividend tax of 20% is levied on the net income after corporate income tax. For the Technical Assistance Contract, corporate income tax is computed based on 35% of net profit after deducting gross oil revenue from all production and operating expenditure excluding interest expenses and dividend tax of 20% is levied on the net income after corporate income tax.

q. Earnings per Share

Operating income and earnings per share are computed based on the weighted average of the outstanding shares during the year.

3. CASH AND CASH EQUIVALENTS

	1994 Rp'000	1993 Rp'000
Cash on hand	39,068	34,814
Cash in banks	7,092,164	8,813,957
Time deposits:		
In Rupiah	27,835,133	5,739,501
In US Dollar	2,482,432	4,105,257
Total	37,448,797	18,693,529
Interest rate:		
Deposits in Rupiah	10% - 18%	11% - 13%
Deposits in US Dollars	3% - 4%	3% - 4%

Time deposits amounting to US\$ 200,000 are used as security for the Company's borrowings from BRI Finance, Ltd. (see Note 13).

4. ACCOUNTS RECEIVABLE - TRADE

	1994 Rp'000	1993 Rp'000
Pertamina	5.332,684	3,571,918
Virginia Oil Company	4,678,411	6,478,115
Atlantic Richfield Company Bali North Indonesia	68.780	5,462,555
Kufpec Indonesia	21,458	2,477,884
Total Indonesie	2,279,015	2,201,218
Perusahaan Listrik Negara	3,798,165	-
Others	127,608	1.295
Total	16,306,121	20.192.985

The directors believe that these receivables are fully collectible and, therefore, no provision for doubtful accounts is considered necessary.

Certain accounts receivable have been assigned as security for the Company's borrowings from several banks (see Notes 13, 16 and 17).

5. BALANCES AND TRANSACTIONS WITH AFFILIATES

	1994 Rp'000	1993 Rp'000
Accounts receivable - affiliates	14 to 15	
PT Meta Epsi Intidinamika Corporation	1,881,290	19,111,540
PT Meta Epsi Sarana Graha	4,343,434	2 -
PT Multifabrindo Gemilang	_	524.075
Total	6,224,724	19,635,615
Accounts payable - affiliates		
PT Meta Epsi Engineering	112,775	-
Total	112,775	-

The Company and its subsidiaries are affiliated with these companies due to the main stockholder of the Company also holds a controlling interest in these companies.

Transactions with affiliates

- a. The Company and its subsidiary PT Etaksatria Petrasanga entered into transactions with PT Meta Epsi Intidinamika Corporation in the form of a current account transactions. Current account transactions between the Company and its subsidiary, and PTMeta Epsi Intidinamika Corporation, bears interest, equal to that charged by The Company's and its subsidiary's creditors bank.
- b. The Company and its subsidiaries use the catering services of PT Andrawina Praja Sarana. Such services are provided on an arm's length basis.
- c. The Company and two of its subsidiaries, PT Meta Epsi Antareja Drilling Company and PT Apexindo Pratama Duta, rent their office space from PT Meta Epsi Intidinamika Corporation on an arm's length basis. In 1994, no rent was charged by PT Meta Epsi Intidinamika Corporation to The Company and two of its subsidiaries, PT Meta Epsi Antareja and PT Apexindo Pratama Duta.

In 1994, accounts receivable from PT Meta Epsi Intidinamika Corporation represents the balance of the current account transactions, accounts receivable from PT Meta Epsi Sarana Graha represent receivables from the sale of property and equipment of The Company and PT Meta Epsi Antareja Drilling Company a subsidiary. And accounts payable to PT Meta Epsi Engineering represent current account transactions. On March 1995, all receivables from affiliates had been fully collected.

In 1993, accounts receivable from PT Meta Epsi Intidinamika Corporation represent loans granted by PT Etaksatria Petrasanga, net receivables arising from sales of shares of PT Meta Archipelago Hotels, PT Meta Epsi Engineering and PT Citra Panji Manunggal and from the purchase of shares in PT Etaksatria Petrasanga and PT Apexindo Pratama Duta. The purchase and sale of shares transactions have been concluded at a price agreed by both parties.

6. INVENTORIES

	1994 Rp'000	1993 Rp'000
Spare parts, well supplies and others	22,166,250	19,165,063
Crude oil	1,677,624	1.232.671
Materials in-transit	923,580	4,035,534
Total	24,767,454	24,433,268

Certain inventories are used as security for the credit facilities obtained from several banks (see Note 16).

All inventories were adequately insured to cover possible losses.

7. PROPERTY AND EQUIPMENT

	1994 Rp'000	1993 Rp'000
Cost And Revaluation Value	ina a a L	7 -
Landrights and improvements	204,800	1,677,800
On shore and off shore drilling rigs and equipment	242,533,367	152,738,120
Motor vehicles	5,761,894	9,692,718
Office and other equipment	2,342,816	2,206,968
Total	250,842,877	166,315,606
Accumulated Depreciation		
On shore and off shore drilling rigs and equipment	66,479,693	54,701,422
Motor vehicles	5,149,929	8,841,746
Office and other equipment	1.875,271	1,562,486
Total	73.504,893	65,105,654
Book Value		
Landrights and improvements	204,800	1,677,800
On shore and off shore drilling rigs and equipment	176,053,674	98,036,698
Motor vehicles	611,965	850,972
Office and other equipment	467.545	644,482
Total	177.337.984	101.209,952

Depreciation charged to operations for the years ended December 31, 1994 and 1993 amounted to Rp 16,810,385,000, and Rp 13,462,324,000, respectively.

Landrights, buildings, drilling rigs and equipment are used as security for the loans obtained from several banks (see Notes 13 ,16 and 17).

In 1994, the Company sold certain landrights and motor vehicles (heavy equipment) to PT Meta Epsi Engineering and PT Meta Epsi Sarana Graha, affiliates, at a price agreed by both parties. The resulting gain from these transactions amounted to Rp 7,384,125,000.

All property and equipment, except landrights, were adequately insured to cover possible loss.

8. LEASED ASSETS AND LIABILITIES

The Company entered into lease and a sale-leaseback agreements covering certain of motor vehicles with options to purchase the assets at the end of the lease agreement.

The detalis of the leased assets and liabilities are as follows:

LEASED ASSETS

	1994 P=:000	1993 P=1000
	Rp*000	Rp'000
Cost	757,300	140,000
Accumulated depreciation	-189,618	-70,000
Net book value	567,682	70,000

Depreciation charged to operations for the years ended December 31, 1994 and 1993 amounted to Rp 119.618,000 and Rp 35,000,000, respectively.

The Company entered into a sale-leaseback transaction in respect of certain motor vehicles. The gain arising from this transaction amounting to Rp 93,250,000 was recorded as deferred gain on a sale-leaseback transaction and will be amortized over a period of 4 years. As of December 31, 1994 an amount of Rp 17,484,375 was amortized from deferred gain on a sale - leaseback transaction

LEASED LIABILITIES

9.

Payment due for following years : 1994 1995 1996		Rp'000
1994 1995		
1995	-	22,835
1996	277,794	-
	126,406	-
1997	26,367	-
Total minimum lease payments	430,567	22,835
Less interest	-41,777	-8,005
Present value of minimum lease payment	388,790	14,830
Less current maturities	-176,936	-14,830
Long-term lease liabilities	211,854	-
DEVELOPMENT COSTS		
	1994	1993
	Rp'000	Rp'000
Capital costs		
Building and camp facilities	347,662	57,603
Drilling equipment	4,383,097	2,545,643
Wells and facilities	3,054,847	1,078,892
Office equipment	485,050	434,333
Motor vehicles	845,000	810,432
Total capital costs	9,115,656	4,926,903
Non-capital costs		
Exploration and intangible development costs	29,042,204	13,407,598
Accumulated depreciation and amortization	-9,329,760	-8,301,299
Book value	28,828,100	10,033,202

The above amount does not include development costs belonging to previous contractors, TESORO INDONESIA PETROLEUM COMPANY (TESORO IPC) amounting to US\$ 32,602,615 which were fully depreciated.

Oil and Gas Reserve

Estimated remaining oil and gas reserves in Exspan's operating fields are as follows:

	Oil	Gas
	(In thousands of barrels)	(In billions of cubic feet)
Proved developed and undeveloped reserve		
Balance, December 31, 1992	72,022	358,720
Production during the year 1993	2,058	-
Balance. December 31, 1993	69,964	358,720
Production during the year 1994	1,967	-
Balance. March 31, 1994	67,997	358,720
Proved developed reserve		
Balance, December 31, 1993	24,639	13,230
Balance, December 31, 1994	22,524	13,230

The remaining oil reserves were estimated by Exspan. The reasonableness of Exspan's methodology in
calculating the oil reserves has been reviewed and verified by Pusat Penelitian dan Pengembangan Teknologi
Minyak dan Gas Bumi "LEMIGAS" (the Research and Development Center for Oil and Gas Technology of
Indonesia).

LEMIGAS in its letter dated May 24, 1994 concluded that the methodologies used by Exspan are acceptable.

Part of the gas reserve mentioned above, in particular the gas reserve located in the Tarakan Island contract
area, was certified by DeGolyer and MacNaughton an independent energy consultant from the United States,
in its report dated January 24, 1994.

10. SECURITY DEPOSIT

	1994 Rp'000	1993 Rp'000
Purchase of property and equipment	34,100,000	-
Others	1.197.804	1.312.746
	35,297,804	1.312,746

Security deposit for the purchase of property and equipment relating to the purchase of offshore drilling rig (Jackup Rig Rani Woro 201) from Nissho Iwai. Singapore amounted to US\$ 15.500,000 owned by PT Apexindo Pratama Duta, a subsidiary. This security deposit will be released when PT Apexindo Pratama Duta obtained drilling contract which was approved by State Minister Cordinator of Economy. Finance and Development Supervision. Other security deposits mostly represent marginal deposit relating to issuance of bank guarantee for the benefit of The Company's and its subsidiaries customers. This security deposit are to be released when the relevant bank guarantees expire.

11. DEVELOPMENT COSTS UNDER CONSTRUCTION

This account represent capitalized expenditures incurred in the exploration and development of producing wells, this account will be transferred to capital or non-capital cost when the exploration wells have a proven reserve.

12. PREOPERATING EXPENSES

This account represents preoperating expenses of PT Etaksatria Petrasanga, a subsidiary, which is involved in the oil and gas industry.

Amortization expenses for the years ended December 31, 1994 and 1993 amounted to Rp 60,029,000 and Rp 51,382,000, respectively.

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13. SHORT-TERM BANK LOANS

	Rp'000	Rp'000
Bank Bumi Daya, Tokyo Working capital (offshore loan),		-
maximum facility US\$ 4,165,000	9,163,000	8,788,150
PT Bank Dagang Negara, Working capital	7,517,198	12,261,689
BRI Finance, Ltd. Hongkong, Working capital		
(offshore loan), maximum facility US\$ 2,000,000	4,400,000	4,220,000
PT Bank Umum Nasional, Jakarta, Demand loan,		
maximum facility: US\$ 5,000,000	-	8,440,000
PT Bank Muamalat Indonesia, Working capital financing,		
maximum facility Rp 7,000,000,000	_	7,000,000
PT Bank Nusa International, Jakarta, Regular revolving		
loan, maximum facility US\$ 4,500,000	<u> -</u>	6,646,500
PT Bank Artha Graha, Working capital loan, maximum		
facility US\$ 2,000,000	1- <u>1-)-</u>	4,000,000
Total	21,080,198	51,356,339
Interest rate		
Loan in Rupiah	15% - 24%	21% - 24%
Loan in US Dollars	8% - 12%	6% - 12%

The short-term bank loan obtained from Bank Bumi Daya is secured by Drilling Rigs Nos.3 and 10 and accounts receivable arising from drilling services rendered by Rigs Nos.3 and 8 owned by PT Meta Epsi Antareja Drilling Company, a subsidiary (see Notes 4 and 7).

The short-term bank loan obtained by PT Etaksatria Petrasanga, a subsidiary, from PT Bank Dagang Negara is secured by the same securities as the long-term loan obtained from the same bank (see Note 16). In 1994, remaining balance from 1993 loans has been fully repaid.

The short-term loan from BRI Finance, Ltd. is secured by Drilling Rig No. 7 (see Note 7) and time deposits amounting to US\$ 200,000 (see Note 3).

The short-term loan from PT Bank Umum Nasional is secured by a bank guarantee issued by PT Bank Muamalat Indonesia amounting to Rp 10,500,000,000. In 1994, this loan has been fully repaid.

The short-term loan from PT Bank Muamalat Indonesia is payable in 12 monthly mark-up instalments of Rp 116,667,000 and the loan principal amounted to Rp 7,000,000,000 at maturity date. In 1994, this loan has been fully repaid.

Under the bank guarantee facility agreement with PT Bank Muamalat Indonesia, the Company assigned its receivables arising from drilling services of Rig No.9, in addition to the collateral given for the revolving loan of Rp 7,000,000,000.

The short-term loan from PT Bank Nusa International is secured by all the shares held by Ir. Arifin Panigoro in PT Meta Epsi Intidinamika Corporation, Drilling Rig No.9 owned by PT Meta Epsi Antareja Drilling Company, a subsidiary, accounts receivable from Atlantic Richfield Company and/or accounts receivable arising from drilling services rendered by Rig No. 7, Letter of Undertaking with respect to the Company's shares owned by Ir. Arifin Panigoro after the initial public offering and a personal guarantee from Ir. Arifin Panigoro (see Notes 4 and 7). In 1994, this loan has been fully repaid.

The short-term loan from PT Bank Artha Graha is secured by a personal guarantee from Ir. Arifin Panigoro. In 1994, this loan has been fully repaid.

14. ACCOUNTS PAYABLE - TRADE

	1994	1993
	Rp'000	Rp'000
PT Asamera South Sumatra/ TESORO (estimation of		
royalty claim)	3,752,274	3,598,772
PT Andrawina Praja Sarana (catering)	635,009	1,786,238
CV Tiga Putra Kalimantan (labor supply)	233,822	508,512
Levindo International (spare part)	231,314	-
Eastman Christensen (spare part)	106,757	-
CV Lima Pandawa (labor supply)	100,033	-
Indrill Supply (spare parts)	-	245,865
Pekalong Raya Adji (diesel fuel)	318.485	827,348
UD. Timur Jaya Tunggal (spare parts)	-	183,773
Oil service & trading. (spare parts)	-	142,861
Asia Jaya Manunggal (spare parts)		462,000
Other (under Rp 100 million)	2,710,330	4,463,587
Total	8,088,024	12,218,956

15. IMPORT DUTIES PAYABLE

Based on the letter of the Minister of Finance of the Republic of Indonesia dated June 4, 1992, PT Meta Epsi Antareja Drilling Company, a subsidiary, was levied import duties and sales tax in relation to the revocation of a tax holiday facility amounting to Rp 972,416,000 and Rp 526,172,000, respectively, which will be paid by instalment within 3 years.

In 1994, the remaining balance of import duties payable amounted to Rp 373,881,000 has been fully repaid

16. LONG-TERM BANK LOANS

1994 Rp'000	1993 Rp'000
1,920,000	20,756,000
-	13,118,000
1,920,000	33,874,000
1,920,000	12,780,000
-	21,094,000
15% - 24%	21% - 24%
8% - 12%	6% - 12%
	Rp'000 1,920,000

The long-term loan obtained by PT Meta Epsi Antareja Drilling Company, a subsidiary, from PT Bank Dagang Negara is payable in monthly installments of Rp 190,000,000 and Rp 97,500,000 for facilities amounting to Rp 3,800,000,000 and Rp 3,500,000,000, respectively. This loan is secured by Rigs Nos. 4 and 8 and accounts receivable generated by Rig No. 4. The long-term loan, obtained by PT Etaksatria Petrasanga from the same bank which is used for financing the acquisition of the Technical Assistance Contract from TESORO IPC, is payable in 20 quarterly installments of US\$ 400,000, 4 quarterly installments of US\$ 550,000 and 4 quarterly installments of US\$ 625,000. This loan together with the short-term loan is secured by all the assets of the said subsidiary, a personal guarantee from all stockholders and a pledge of all shares of the said subsidiary and PT Eksita Pantranagari and Corporate guarantee from the Company (see Notes 4, 7 and 13). In 1994, this loan has been fully repaid.

The long-term loans from PT Bank Duta are payable in monthly installments of US\$ 200,000, Rp 150,000,000 and Rp 100,000,000 until July 21, 1995, November 21,1995 and February 21, 1994, respectively for facilities amounting to US\$ 10,000,000, Rp 6,000,000,000 and Rp 2,000,000,000. These loans are secured by two plots of land with Hak Guna Bangunan No. 461 and 578, three plots of land with Hak Milik No. 51/Cilandak Timur, No. 300/Cilandak Timur and No.299/Cilandak Timur, all of the land ownership in the name of Ir. Arifin

Panigoro, Drilling Rigs No.2, 5 and 6 (Rig Nos. 5 and 6 are owned by PT Meta Epsi Antareja Drilling Company, a subsidiary), accounts receivable from third parties and a personal guarantee from Ir. Arifin Panigoro (see Notes 4,7 and 30). In 1994, this loan has been fully repaid.

17. PROPERTY AND EQUIPMENT PURCHASE CONTRACT

	1994 Rp'000	1993 Rp'000
Outstanding property and equipment purchase contract		
Firstco Limited, US\$ 15,360,000 and US\$ 21,120,000		
as of December 31, 1994 and 1993, respectively	33,792,000	44,563,200
Nisho Iwai, US\$ 31,316,600 December 31, 1994.	68,896,520	-
Less imputed interest on amount payable to Nissho lwai	-8,070,833	2
Total	94,617,687	44.563,200
Less current maturities	25,917,951	12,153,600
Long-term portion	68.699,736	32,409,600

As of October 30, 1991, PT Apexindo Pratama Duta, a subsidiary, entered into a purchase agreement for the submersible drillbarge - Maera-101 including its equipment with Firstco Limited. Hongkong for a total price of US\$ 35,000,000. This amount is payable on a monthly installment basis amounting to US\$ 480,000 until September30,1997. The submersible drillbarge including its equipment and all accounts receivable from Total Indonesie generated by this submersible drillbarge are used as security until this purchase contract is fully repaid (see notes Nos 4 and 7).

As of December 14, 1994, PT Apexindo Pratama Duta, a subsidiary, entered into a purchase agreement for the Jack-up rig Rani-Woro 201 including its equipment with Nissho Iwai, Singapore for a total price of US\$ 42,316,600, including imputed interest amounting to US\$ 3,668,560.36. This amount is payable on a monthly instalment basis amounting to US\$ 626,332 until August 1999. The Jack-up rig including its equipment and all accounts receivable from Total Indonesie generated by this jack-up rig and corporate guarantee from The Company are used as security. (See notes No. 7).

18. MINORITY INTEREST

This account represents minority interest on capital stock and retained earnings of the subsidiaries based on the percentage of paid-up capital with details as follows:

		1994	1993
		Rp'000	Rp'000
Capital stock :			(3)
PT Meta Epsi Antareja Drilling Company		520,000	520,000
PT Apexindo Pratama Duta		1,800,000	1,800,000
PT Eksita Pantranagari		320,000	90,000
PT Etaksatria Petrasanga		1,080,000	810,000
Total		3,720,000	3,220,000
Retained earnings :			
PT Meta Epsi Antareja Drilling Company		827,252	629,692
PT Apexindo Pratama Duta		4,119,109	2,532,918
PT Eksita Pantranagari		1,642,114	1,350,250
PT Etaksatria Petrasanga		3,979,985	4,123,485
Total		10,568,460	8,636,345
Revaluation increment in property and equipment	:		
PT Meta Epsi Antareja Drilling Company		4,241	4,241
Less dividend :			
PT Eksita Pantranagari		-1,350,000	-
PT Etaksatria Petrasanga		-4,050,000	-
Total		-5,400,000	-
Total minority interest		8.892.701	11,860,586

19. EXCESS OF BOOK VALUE OVER COST OF INVESTMENT

This account represent excess of book value over cost of investment in subsidiaries at the aquisition date as follows :

	1994 Rp'000	1993 Rp'000
PT Apexindo Pratama Duta	782,909	782,909
PT Eksita Pantranagari and PT Etaksatria Petrasanga	80,569	_
Total	863,478	782,909

The computation of excess of book value over cost of Exspan's shares which were acquired by The Company based on Exspan's financial statements as of May 31, 1994.

20. CAPITAL STOCK

Details of ownership of the Company's shares December 31,1994 and 1993 are as follows :

December 31, 1994

Number of shares	Percentage of ownership	Amount Rp'000	
63,987,500	63.10%	63,987,500	
5,562,500	5.49%	5.562,500	
3,780,000	3.73%	3,780,000	
2,225,000	2.19%	2.225,000	
2,225,000	2.19%	2,225,000	
1,120,000	1.10%	1,120,000	
500,000	0.49%	500,000	
22,000,000	21.70%	22,000,000	
101,400,000	100.00%	101,400,000	
	of shares 63,987,500 5,562,500 3,780,000 2,225,000 2,225,000 1,120,000 500,000 22,000,000	of shares of ownership 63,987,500 63.10% 5,562,500 5.49% 3,780,000 3.73% 2,225,000 2.19% 2,225,000 2.19% 1,120,000 1.10% 500,000 0.49% 22,000,000 21.70%	

_	_		
Dacam	har	21	1993

Stockholders	Number of shares	Percentage of ownership	Amount Rp'000	
Ir. Arifin Panigoro	1,508	72.5%	4,712,500	
H. Eddy Kowara Adiwinata	260	12.5%	812,500	
Ir. Siswono Yudohusodo	104	5.0%	325,000	
Ir. Nanen Lariza K.	208	10.0%	650,000	
Total	2,080	100.0%	6.500,000	

At the Extraordinary General Meeting of Stockholders which is recorded in deed No.80 dated January 27, 1994 of Notary Imas Fatimah S.H., the stockholders have agreed and decided as follows:

- a. To approve the sale of 104 of the Company's shares owned by Ir. Nanen Lariza K. to Ir. Arifin Panigoro.
- To approve the transfer by bequest/grant of 104 of the Company's shares owned by Ir. Siswono Yudohusodo to Ms. Mutiara.
- c. To approve the transfer of all the Company's shares owned by Ir. Arifin Panigoro to a limited liability company which will be determined in the future as his paid-up capital.
- d. To approve the transfer of all the Company's shares owned by H. Eddy Kowara Adiwinata to a limited liability company which will be determined in the future as his paid-up capital.
- e. To approve the transfer of all the Company's shares owned by Ir. Nanen Lariza K. to a limited liability company which will be determined in the future as her paid-up capital.

All the resolutions passed at the Extraordinary General Meeting of Stockholders mentioned above have been executed by the following deeds:

- a. Deed No.81 dated January 27, 1994 of Notary Imas Fatimah SH in relation to the sale of 104 of the Company's shares owned by Ir. Nanen Lariza K. to Ir. Arifin Panigoro.
- b. Deed No.92 dated January 31, 1994 of Notary Imas Fatimah SH in relation to the bequest/grant of 104 of the Company's shares owned by Ir. Siswono Yudohusodo to Ms. Mutiara.
- c. Deed No.82 dated January 27, 1994 of Notary Imas Fatimah SH in relation to the establishment of PT Meta Epsi Duta Corporation wherein its paid-up capital was contributed by the transfer of 1.612 of the Company's shares owned by Ir. Arifin Panigoro.
- d. Deed No.83 dated January 27, 1994 of Notary Imas Fatimah SH in relation to the establishment of PT Intipersada Multigraha wherein its paid-up capital was contributed by the transfer of 260 of the Company's shares owned by H. Eddy Kowara Adiwinata.
- e. Deed No.84 dated January 27, 1994 of Notary Imas Fatimah SH in relation to the establishment of PT Nuansa Grahacipta wherein its paid-up capital was contributed by transfer of 104 of the Company's shares owned by Ir. Nanen Lariza K.

At the Extraordinary General Meeting of Stockholders of the Company which is recorded in deed No.79 dated April 28, 1994 of Notary Imas Fatimah SH, and has been approved by the Minister of Justice of the Republic of Indonesia in his decision letter No.C2-7406HT.01.04.Th.94 dated May 9, 1994, the stockholders have agreed and decided as follows:

- a. To declare and distribute cash dividends amounting to Rp 38,000,000,000 proportionately to stockholders. Distribution of dividends was executed through the issuance of promissory notes to the respective stockholders due on May 30, 1994. These promissory notes were fully paid on the same date. The relevant dividends were reinjected by the respective stockholders through the issuance of promissory notes to the Company due on May 30, 1994 and these promissory notes were fully collected on the same date.
- To amend the name of the Company to PT MEDCO ENERGI CORPORATION.
- To amend the Company's purpose and objectives (see Note 1).
- d. To amend the par value of stock from Rp 3,125,000 to Rp 1.000 per share and increase the authorized capital stock from Rp 6,500,000,000 to Rp 200,000,000,000 divided into 200,000,000 shares with a par value of Rp 1,000 each. From the capital stock, issued and paid-up capital amounting to Rp 44,500,000,000 consists of initial paid-up capital amounting to Rp 6,500,000,000 and cash dividends distributed to the stockholders which were reinjected to the Company as their paid-up capital amounting to Rp 38,000,000,000.

At the General Meeting of Stockholders of the Company held on May 26, 1994, the stockholders agreed and decided, among others, to increase the Company's issued and paid-up capital from 44,500,000 shares with a par value of Rp 1,000 amounting to Rp 44,500,000,000 to 79,400,000 shares amounting to Rp 79,400,000,000. The additional issued capital amounting to Rp 34,900,000,000 was fully paid to the Company on May 30, 1994 as follows:

- PT Meta Epsi Duta Corporation totalling 29,500,000 shares amounting to Rp 29,500,000,000.
- PT Multifabrindo Gemilang totalling 500,000 shares amounting to Rp 500,000,000.
- PT Meta Energi Petrasanga totalling 3,780,000 shares amounting to Rp 3,780,000,000.
- PT Meta Energi Pantranagari totalling 1,120,000 shares amounting to Rp 1,120,000,000.

Based on the Extraordinary General Meeting of Stockholders which was recorded in deed No.24 dated July 13, 1994 of Srie Sunarti Supranoto S.H. as amended by deed No.1 of Achmad Bajumi S.H. dated September 1, 1994 both as substitute of Notary Imas Fatimah S.H., and which have been approved by the Minister of Juctice of the Republic of Indonesia in his decision letter No. C2-13164 HT.01.04.Th.94 dated September 1, 1994 the stockholders approved among others, as follows:

- The Company's plan to offer and sell its shares to the public through the capital market (go public).
- b. Listing of the entire issued capital stock of the Company on a stock exchange in Indonesia.
- To amend the entire articles of association of the Company.

21. ADDITIONAL PAID IN CAPITAL

This account represents excess of paid in capital over par value of 22,000,000 shares issued at initial public offering price of Rp 4,350 each share.

22. TAXATION

	1994 Rp'000	1993 Rp'000
Prepaid taxes consist of :	-	
The Company:		
Value added tax	173,499	45,064
Subsidiaries :		
Value added tax	442,916	337,626
Income tax		
Year 1994	817,901	-
Year 1993	_	250,220
Year 1992	-	46,950
Total	1,260,817	634,796
Total prepaid taxes	1,434,316	679,860
Taxes payable consist of :		
The Company:		
Income tax :		
Article 21	95,843	48,799
Article 25	-	86,441
Article 29		
Current year	11,791	287,269
Prior year	2,695	_
Tax assessment	-	59,892
Total	110,329	482,401
Subsidiaries :		
Income tax :		
Article 21	403,002	341,691
Article 23	166,580	37,796
Article 25	685,491	560,265
Article 26	286,088	157,931
Article 29	1,697,976	1,623,265
Value added tax	473,767	99,387
Sales tax - prior year		109,861
Total	3,712,904	2,930,196
Total taxes payable	3,823,233	3,412,597

The reconciliation between net income before income tax, based on the statements of income, and taxable income is as follows:

	1994 Rp'000	1993 Rp'000
Consolidated income before corporate income tax	22,704,581	21,988,772
Less:		
Consolidated subsidiaries' income		
before corporate income tax	14,278,881	20,330,462
Income before corporate income tax		
attributable to the Company	8,425,700	1,658,310
Fiscal corrections due to :		
Permanent differences	46,879	175,247
Timing differences	-7,586,342	486,209
Taxable income	886,237	2,319,766
Income tax and taxes payable is calculated as follows :		
	1994	1993
	Rp'000	Rp'000
Corporate income tax :		
15% x Rp 10,000,000	1,500	1,500
25% · Rp 40,000,000	10,000	10,000
35 Rp 836,237,000 in 1994 and		
p 2,269,766,000 in 1993	292,682	794,418
Provision for income tax	304,182	805,918
Less prepaid tax :		
article 22	22,122	0
article 25	270,269	518,649
Income tax payable	11,791	287,269

Income tax of the subsidiaries for the years ended December 31, 1994 and 1993 amounted to Rp 2,051,734,000 and Rp 4,301,997,000, respectively.

On September 2, 1994 the Company revised its annual tax return for the years 1993 and 1991.

23. SALES AND OPERATING REVENUES

	1994 Rp'000	1993 Rp'000
Drilling operations	69,309,779	70,214,339
Oil sales	31,817,858	37,946,513
Mobilization fees	6.661,776	2,614,327
Labor contracts	465,653	451,266
Other contracts	751,013	1,371,897
Total	109.006.079	112,598,342

24. DIRECT COSTS

	1994	1993
	Rp'000	Rp'000
Labor cost	20,921,312	16,526,894
Depreciation	15,872,698	12,704,597
Rig equipment	9,098,689	11,006,510
Repairs and maintenance	4,918,832	5,340,130
Subcontractor equipment	1,253,752	956,571
Catering	1,651,852	1,488,688
Handling	1,244,387	2,388,788
Insurance	1,518,226	1,486,273
Rental	3.240.730	582,768
Others	1,977,224	2,534,848
Total	61,697,702	55,016,067

25. OPERATING EXPENSES

	1994 Rp'000	1993 Rp'000
General and Administrative Expenses		
Employee costs	12,859,613	10,883,543
Repairs and maintenance	1.748,401	1,492,619
Rental	1,192,082	1,011,826
Bank charges	525,895	941,514
Utilities	1,157,149	1,218,098
Depreciation and amortization	937,687	757,727
Depreciation of leased assets	119,618	35,000
Professional fees	514,743	332,648
Social contribution	109,460	496,553
Insurance	265,874	49,784
Office supplies	319,259	112,048
Royalty	-	2,387,974
Others	4,803,007	4,842,479
Total	24,552,788	24,561,813
Marketing Expenses		
Salaries and allowance	472,806	920,202
Advertising and promotion	14,130	431,713
Entertainment	582	91,835
Travelling and transportation	207,823	1,176,427
Total	695.341	2,620,177
Total Operating Expenses	25,248.129	27.181.990

26. ASSETS AND LIABILITIES IN FOREIGN CURRENCY

	1994	1993
	US \$	US \$
Assets :		
Cash and Cash Equivalents	2,973,660	5,726,584
Accounts receivable - trade	3,256,268	9,570,135
Others	15,779,794	586,638
Total	22,009,722	15,883,357
Liabilities :		
Bank loans	6,165,000	23,526,227
Property and Equipment purchase contract	43,141,386	21,120,000
Accounts payable - trade	272,115	2,737,017
Others		68,824
Total	49,578,501	47,452,068
Total liabilities - net	27,568,779	31,568,711

27. BUSINESS SEGMENT INFORMATION

Sales and operating revenues

	1994 Rp'000	1993 Rp'000
PT Medco Energi Corporation	6,937,983	11,610,451
PT Meta Epsi Antareja Drilling Company	44,553,922	41,231,038
PT Apexindo Pratama Duta	33,867,384	22,865,340
PT Eksita Pantranagari	1,747,750	2,964,670
PT Etaksatria Petrasanga	30,070,108	34,981,843
Total	117,177,147	113,653,342
Elimination	-8,171,068	-1,055,000
Total after elimination	109,006,079	112,598,342

Operating income

operating mediae				
		1994		1993
	%	Rp'000	%	Rp'000
PT Medco Energi Corporation	7	1,981,131	5	2,804,627
PT Meta Epsi Antareja Drilling Company	34	9,643,303	28	8,813,134
PT Apexindo Pratama Duta	43	12,422,678	33	10,589,172
PT Eksita Pantranagari	5	1,379,318	7	2,266,609
PT Etaksatria Petrasanga	11	3,233,818	27	6,981,743
Total operating income	100	28,660,248	100	31,455,285
Elimination		-6,600,000		-1,055,000
Total after elimination	47	-22,060,248	1	30,400,285
Total assets				
		1994		1993
	%	Rp'000	%	Rp'000
PT Medco Energi Corporation	35	167,497,342	24	62,208,017
PT Meta Epsi Antareja Drilling Company	11	51,537,971	26	67,421,650
PT Apexindo Pratama Duta	39	187,515,350	28	73,994,563
PT Eksita Pantranagari	4	17,200,466	3	6,939,053
PT Etaksatria Petrasanga	11	54,309,728	20	53,646,517
Total	100	478,060,857	100	264,209,800
Elimination		-133,998,466		-49,535,665
Total after elimination		344,062,391		214,674,135

28. CHANGES IN ACCOUNTING POLICY

In 1993. PT Etaksatria Petrasanga and PT Eksita Pantranagari, subsidiaries, changed their accounting policy in computing depreciation and amortization from the double declining balance method to the unit of production method because the latter is more appropriate for the type of business of those subsidiaries. The result of the change in accounting policy amounted to Rp 567,969,000 (US\$ 280,064) and Rp 421,091,000 (US\$ 207,639), respectively, and in total amounted to Rp 989,060,000. 45% of the result of the change in accounting policy, amounting to Rp 255,586,000 and Rp 189,491,000, respectively, was attributable to minority interest. 55% of the result of the change in accounting policy affected consolidated retained earnings amounting to Rp 312,383,000 and Rp 231,600,000, respectively, or in total Rp 543,983,000 and was recorded as a prior year's adjustment (see Note 29).

29. PRIOR YEAR'S ADJUSTMENT

	1994 Rp'000	1993 Rp'000
Cancellation of provision for pension fund	7-	1,622,400
Adjustment for over provision of subsidiaries' income tax		185,623
Inventory adjustment	-	-881,533
Effect of a change in depreciation method (see Note 28)	-	989,060
Additional income tax in subsidiaries for the years before 1991		
Total adjustment	_	1,915,550
Less minority interest	_	860,423
Total	-	1,055,127

30. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

As of November 27, 1991, PT Apexindo Pratama Duta, a subsidiary, entered into a drilling contract with Total Indonesie for drilling operations in the area of East Kalimantan for a period of 5 years consisting of 3 years' operation commencing on May 15, 1992 and a 2 year' optional period, At the expiry of the option period, Total Indonesie has the option to purchase the submersible drillbarge at a cost of US\$ 25,000,000 after deducting depreciation of 10% for each full year of commercial operation.

Contingent liabilities

a. The Company and PT Meta Epsi Antareja Drilling Company, a subsidiary, had contingent corporate income tax liability relating to benefits in kind (catering) provided to its employees in remote areas which are not acceptable as tax deductible. If the said catering is not allowed as tax deductible, the Company had contingent corporate income tax amounting to Rp 691,000,000 until December 31, 1993 and additional amounting Rp 347,000,000 for the year ended December 31, 1994. As of December 31, 1994 total contigent liabilities amounting to Rp 1,038,000,000.

b. Litigation

The Company, PT Etaksatria Petrasanga and PT Eksita Pantranagari (Exspan) are currently being sued by TESORO TPC and TESORO IPC in respect of unpaid royalty claims of approximately US\$ 1,066,000 including interest accrued thereon. In relation to such unpaid royalty claim, PT Etaksatria Petrasanga, PT Eksita Pantranagari and the Company acted as guarantor and are also being sued for compensation for loss suffered by the plaintiffs amounting to US\$ 3,500,000.

As stated in the "Farm-out Agreement" between TESORO TPC/TESORO IPC and ASAMERA dated March 17, 1971 (before the Production Sharing Contract and Technical Assistance Contract were taken over by Exspan) TESORO TPC and TESORO IPC are to make payments for royalties on oil which is produced from the Tarakan oil area. In relation to the take over of the said contracts, Exspan agreed to assume responsibility for making royalty payments of 2% from total oil production.

The Company has not made such royalty payments since May 1, 1992 but has made provision for them and for payments due up to March 31, 1994 of US\$ 1,705,579 (see Note 14).

In its letters No. 01/sktr/Pan.Kp/1994/PNJS and No.02/sktr/Pan.Kp/1994/PNJS dated August 10, 1994, respectively, the South Jakarta District Court (Pengadilan Negeri Jakarta Selatan) notified the Company that the two law suits of TESORO had been rejected.

- c. The Company and its subsidiaries issued bank guarantees to the Directorate General of Custom and Duties and customers. As of December 31,1994, the outstanding bank guarantees amounted to US\$ 1,004,413 and Rp 6,822,763,000.
- d. The Company acted as a guarantor and gave cross collateral to several banks relating to loan facility obtained by an affiliate obtained by PT Meta Epsi Engineering amounting to Rp 7,000,000,000. This loan is secured with the same security as the long-term loan obtained by the Company from the same bank (see Note 16). As of March 31, 1995 outstanding loan amounting to Rp 4,100,000,000.

31. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 1993 consolidated financial statements have been reclassified to conform with the presentation of accounts in the consolidated financial statements as of December 31, 1994.

PT MEDCO ENERGI CORPORATION

Medco Building, 2nd floor Jl. Ampera Raya no 20 Jakarta 12560 - Indonesia

Telephone: (021) 7804766, 7802429, 7802439

Facsimile : (021) 7804666

PT META EPSI ANTAREJA DRILLING COMPANY

Medco Building, 2nd floor Jl. Ampera Raya no 20 Jakarta 12560 - Indonesia

Telephone: (021) 7804766, 7802429, 7802439

Facsimile : (021) 780 4666

PT APEXINDO PRATAMA DUTA

Medco Building, 3rd floor Jl. Ampera Raya No 20 Jakarta 12560 - Indonesia

Telephone : (021) 780 1586 Facsimile : (021) 780 1577

EXSPAN

Niaga Tower, 4th floor Jl. Jendral Sudirman Kav. 58 Jakarta 12190 - Indonesia

Telephone : (021) 250 5301 Facsimile : (021) 250 5309

Medco Building 2nd Floor Jalan Ampera Raya No. 20 Cilandak, Jakarta 12560 - Indonesia Tel. (021) 780 4766, 780 2429 (Hunting) Fax. (021) 780 4666