

# MEDCO CB FINANCE B.V.

*(a private company with limited liability incorporated under the laws of The Netherlands)*

**US\$176,900,000**

**Zero Coupon Guaranteed Convertible Bonds due 2011  
Unconditionally and irrevocably guaranteed by**



**MEDCOENERGI**

## **PT MEDCO ENERGI INTERNASIONAL TBK**

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

**Issue Price: 100 per cent.**

Guaranteed Convertible Bonds due 2011 in the aggregate principal amount of US\$176,900,000 (the "Bonds") will be issued by Medco CB Finance B.V. (the "Issuer"). PT Medco Energi Internasional Tbk (the "Guarantor" or "Medco Energi") will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds (the "Guarantee"). The Bonds are convertible into ordinary shares of Rp.100 each in the capital of the Guarantor (the "Shares") during the Conversion Period as described under "Terms and Conditions of the Bonds — Conversion".

Unless previously redeemed, purchased and cancelled or converted, the Bonds will be redeemed on May 12, 2011 (the "Maturity Date") at 142.77 per cent. of their principal amount. Holders of the Bonds will have the right to require the Issuer to redeem, in whole but not in part, the Bonds at their Early Redemption Amount (as defined in "Terms and Conditions of the Bonds") following a Delisting (as defined in "Terms and Conditions of the Bonds") of the Guarantor or a Change of Control (as defined in "Terms and Conditions of the Bonds") in the Guarantor. The Bonds may also be redeemed at the option of the Issuer at their Early Redemption Amount in whole or in part (at the Issuer's sole discretion), (i) on or at any time after May 12, 2009 but not less than 20 days prior to the Maturity Date, if the closing price of the Shares (translated into U.S. dollars at the Current Rate (as defined in "Terms and Conditions of the Bonds")), for each of the 25 consecutive Trading Dates immediately prior to the date upon which notice of such redemption is published is at least 130 per cent. of the applicable Early Redemption Amount divided by the Conversion Ratio (as defined in "Terms and Conditions of the Bonds"), (ii) if the aggregate principal amount of the Bonds is ten per cent. or less of the aggregate principal amount originally issued (including any Bonds issued pursuant to Condition 16) or (iii) at any time in the event of certain changes relating to taxation in The Netherlands or the Republic of Indonesia (as described in "Terms and Conditions of the Bonds"). Holders of the Bonds will have the right to require the Issuer to redeem all or some of the Bonds at 123.82 per cent. of their principal amount on May 12, 2009. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation".

**Investing in the Bonds involves risks. See "Risk Factors" beginning on page 17.**

Payments on the Bonds will be made in U.S. dollars without deduction for or on account of taxes imposed or levied to the extent described under "Terms and Conditions of the Bonds — Taxation".

The Bonds, the Guarantee and the Shares to be delivered upon conversion of the Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). The Conversion Rights attaching to the Bonds may not be exercised by any person located in the United States on by or on behalf of any U.S. person (as defined in Regulation S). The Bonds will be issued in registered form in the denomination of US\$100,000 each or integral multiples thereof and will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about May 12, 2006 (the "Closing Date") with a common depository for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, accounts at Euroclear and Clearstream, Luxembourg. Except as described herein, definitive certificates ("Definitive Certificates") evidencing holdings of Bonds will not be issued in exchange for beneficial interest in the Global Certificate. See "Summary of Provisions Relating to the Bonds while in Global Form".

Approval in principle has been received for listing the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). Such permission will be granted when the Bonds have been admitted to the official list of 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 of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, Medco Energi or the Bonds. Currently, there is no market for the Bonds.

**Joint Bookrunners and Joint Lead Managers**  
*(listed alphabetically)*

**Credit Suisse**

**Deutsche Bank**

The date of this Offering Circular is May 9, 2006.



The Issuer and the Guarantor, having made all reasonable enquiries, confirm that this Offering Circular contains all information with respect to the Issuer, the Guarantor and its Subsidiaries (as defined in the Subscription Agreement (as defined in "Subscription and Sale")) taken as a whole (the "Group"), the Bonds and the Guarantee which is material in the context of the issue and offering of the Bonds, the statements contained in this Offering Circular relating to the Issuer, the Guarantor and the Group are in all material respects true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading and all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements. The Issuer and the Guarantor accept responsibility accordingly.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Managers (as defined in "Subscription and Sale") or the Trustee to subscribe and/or purchase, any of the Bonds where the offer or sale of the Bonds is not permitted. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Managers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular, see "Subscription and Sale" below.

No person is authorized to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorized by or on behalf of the Issuer, the Guarantor, the Managers or the Trustee. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The Managers and the Trustee have not separately verified the information contained in this Offering Circular. Accordingly, no representation or warranty, express or implied, is made by the Managers, the Trustee or any of their respective affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Managers, the Trustee or their respective affiliates or advisers. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Managers or the Trustee to subscribe for or purchase, any of the Bonds and may not be used for the purpose of an offer to or a solicitation by anyone, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful.

Each person purchasing the Bonds from the Managers acknowledges that:

- it has been afforded an opportunity to request from the Guarantor and the Issuer, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein;
- it has not relied on the Managers or any person affiliated with the Managers in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Bonds other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorised by the Guarantor, the Issuer or the Managers.

The Bonds, the Guarantee and the Shares to be delivered upon conversion of the Bonds have not been and will not be registered with or approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this Offering Circular. The Bonds, the Guarantee and the Shares, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Conversion Rights attaching to the Bonds may not be exercised by or on behalf of any U.S. person (as defined in Regulation S).

In connection with this issue, Credit Suisse may, and to the extent permitted by applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Bonds at a

level higher than that which might otherwise prevail for a limited period after the Closing Date. However, there may be no obligation on Credit Suisse to do this. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Any such stabilizing shall be in compliance with all applicable laws, regulations and rules.

In addition, the Indonesian Capital Markets Supervisory Agency (Badan Pengawas Pasar Modal or "BAPEPAM") does not declare its approval or disapproval of these securities, nor does it declare the accuracy or adequacy of this Offering Circular. Any statement to the contrary is a violation of Indonesian law.

In making an investment decision, prospective investors must rely on their own examination of the Guarantor, the Issuer and the terms of the Bonds. The Guarantor, the Issuer, the Managers and the Trustee are not making any representation to any purchaser of Bonds regarding the legality of any investment in the Bonds by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person should consult its own counsel and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Bonds.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by each of the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale" and "Transfer Restrictions." No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

NEITHER THE BONDS NOR THE SHARES MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN INDONESIA OR TO ANY INDONESIAN CITIZEN OR CORPORATION (WHEREVER DOMICILED OR LOCATED) OR ANY RESIDENT OF INDONESIA IN A MANNER WHICH CONSTITUTES A PUBLIC OFFERING UNDER THE LAWS AND REGULATIONS OF INDONESIA.

### **CERTAIN TERMS AND CONVENTIONS**

Unless indicated otherwise in this Offering Circular, all references to (i) the "Issuer" are to Medco CB Finance B.V., (ii) "Medco Energi" or the "Guarantor" are to PT Medco Energi Internasional Tbk, (iii) the "Company" are to Medco Energi and its consolidated subsidiaries and (iv) "Novus" are to Novus Petroleum Limited, a wholly-owned subsidiary of the Company.

Certain terms used herein are defined in the "Glossary" contained elsewhere in this Offering Circular. All references herein to "Indonesia" are references to the Republic of Indonesia and references to the "Government" herein are references to the government of Indonesia. References to the "United States" or "U.S." are to the United States of America. References herein to "US\$", "\$" or "U.S. dollar" are to the currency of the United States of America and references to "Rupiah" or "Rp." are to the currency of the Republic of Indonesia. Unless otherwise specified, all translations of Rupiah into U.S. dollar amounts were made at the middle exchange rate for Rupiah against U.S. dollar announced by Bank Indonesia on December 31, 2005, which was Rp.9,830 to US\$1.00. These translations were made for the sole purpose of the reader's convenience. No representation is made that the Rupiah or U.S. dollar amounts referred to herein could have been or could be converted into Rupiah or U.S. dollars, as the case may be, at any particular rate or at all. See "Exchange Rates". 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 Company's consolidated financial statements are prepared using accounting principles and practices generally accepted in Indonesia ("Indonesian GAAP") and are not intended to present the Company's consolidated financial condition, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in Indonesia, including the countries in the European Union. The material differences between Indonesian GAAP and International Financial Reporting Standards ("IFRS") as applicable to the Company are discussed under the caption "Summary of Certain Differences between Accounting Principles Gener-

ally Accepted in Indonesia and International Financial Reporting Standards". The Company maintains its books and prepares and reports its consolidated financial statements using the U.S. dollar. Effective January 1, 2002, the Company changed its reporting currency from Rupiah to U.S. dollars following the requirements of the Indonesian Statement of Financial Accounting Standards ("SFAS") 52, "Reporting Currency" ("SFAS 52"), which establishes the accounting standards for companies in Indonesia that use a currency other than Rupiah as their reporting and recording currency. The Company has elected to use the U.S. dollar as its functional currency based on the sales price, cash flows and expense indicators required by SFAS 52. Accordingly, effective January 1, 2002, the Company maintains its books of accounts and presents its consolidated financial statements in U.S. dollars. This change has been approved by the Minister of Finance of Indonesia in Decree No. MEI-641/PJ.42/2001 dated October 19, 2001.

Unless otherwise specified, all references herein to "production capacity" of a facility means the maximum amount that can, or is expected to be able to, be contained by such facility based on current designs. No representation is made that the amount of production (if any) from such facility is or will or is expected to be equal to the production capacity of a facility.

Unless otherwise specified, all references herein to ownership interests and effective interests are as of December 31, 2005.

Gross production represents the sum of the oil and gas production from each of the Company's blocks multiplied by the Company's effective interest in such block. Gross production is then shared between the Company and the Government pursuant to the terms of the relevant production sharing arrangement. The Company's net entitlement in a given year represents its share of gross production after deducting the share payable to the Government pursuant to the terms of the relevant production sharing arrangement. For a more complete description of the mechanism for sharing gross production between the Company and the Government, refer to "Indonesian Oil and Gas Regulatory Framework".

All references herein to the "Oil and Gas Law" are references to the oil and gas law enacted by the Government on November 23, 2001. References to "Pertamina" are references to the Indonesian state-owned oil and gas company, PT Pertamina (Persero) (Perusahaan Pertambangan Minyak dan Gas Bumi Negara), and references to "BPMigas" are references to the Executive Agency for Upstream Oil and Gas Activity (Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi), a non-profit Government-owned legal entity. All references to "PSCs" are references to Production Sharing Contracts, all references to "TACs" are references to Technical Assistance Contracts and all references to "JOBS" are references to Joint Operating Bodies. For more information see "Indonesian Oil and Gas Regulatory Framework".

The information on the Company's historical natural gas and oil reserves presented in this Offering Circular is based on estimates of such reserves underlying the properties in which the Company has an interest under production sharing arrangements. "Proved reserves" are those quantities of hydrocarbon 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. "Proved plus probable reserves" are proved reserves plus those reserves that are unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. "Gross reserves" are reserves attributable to the Company's effective interest prior to deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement. "Net reserves" are reserves attributable to the Company's effective interest, after deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement. In each case, the Company's effective interest is given after taking into account any dilution due to ownership through subsidiaries which are less than wholly-owned, directly or indirectly, by Medco Energi. All BPMigas and Pertamina interests shown herein, other than working interests, income and revenue taxes and DMO (as defined herein), are considered to be Government take. Unless otherwise indicated or in the case of oil prices, references to "crude oil" or "oil" include condensate. Natural gas equivalents and crude oil equivalents are determined using the ratio of 5.85 Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Unless otherwise indicated, and subject to the immediately succeeding paragraph, oil and gas reserve data of the Company included herein (excluding the reserves of the Kakap, Brantas and Tuban blocks, the Senoro gas field of the Senoro-Toili block and the Singa gas field of the Lematang block, as well as the Company's U.S. and Libyan assets) has been derived from the reserve certifications



(together, the "GCA Report") of Gaffney, Cline & Associates (Consultants) Pte Ltd ("GCA"), independent petroleum engineering consultants. GCA completed the January 1, 2004 GCA Report on behalf of PT Exspan Nusantara and the January 1, 2005 and 2006 GCA Reports on behalf of Medco Energi. The January 1, 2006 GCA Report, which supercedes any prior GCA Reports to the extent pertaining to the fields covered in the January 1, 2006 GCA Report, is contained elsewhere in this Offering Circular.

Certain other reserves information contained in this Offering Circular, which amounts to approximately 15.3% of the Company's gross proved oil and gas reserves and 60.0% of the Company's gross proved and probable oil and gas reserves, is not certified by the GCA Report, but constitutes the Company's estimates, in some cases based upon certifications of other independent petroleum engineering or other similar consultants for third parties and in some cases based on estimates of other operators, which are not current and from which production (if any) at the relevant block since the date of such certification has been deducted, and in some cases based on the Company's own investigations. Certain reserves information contained in this Offering Circular consists of estimates of third parties and have not been independently verified by the Company. In addition, certain reserves information contained in this Offering Circular was prepared without utilizing generally accepted petroleum engineering principles and definitions applicable to the proved and probable reserve categories and sub-classifications promulgated by the Society of Petroleum Engineers ("SPE") and/or does not meet the disclosure requirements of the SEC. See "Risk Factors — Risks Relating to the Company — The oil and gas reserve data in this Offering Circular are only estimates and the Company's actual recoverable reserves, production, revenue and expenditure with respect to its reserves may differ from such estimates".

#### **ENFORCEMENT OF CIVIL LIABILITIES**

The Issuer of the Bonds is established under the laws of The Netherlands. As a result, it may be difficult for investors to enforce against the Issuer judgments obtained in non-Dutch courts.

As Indonesia and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitral awards) in civil and commercial matters, a final judgment for the payment of money rendered by any courts in Indonesia based on civil liability, would not be enforceable in The Netherlands. However, if the party in whose favour such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to a Dutch court the final judgment that has been rendered in Indonesia. If the Dutch court finds that the jurisdiction of any courts in Indonesia has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, uphold such final judgment and regard it as conclusive evidence, without substantive re-examination or re-litigation on the merits of the subject matter thereof, unless such judgment contravenes public order in The Netherlands.

The agreements entered into with respect to the issue of the Bonds are governed by the laws of England. In respect of a judgment of an English court, against the Issuer, the following applies. A judgment rendered by an English court will be recognized and enforced in The Netherlands subject to the provisions of the EC Regulation on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters, of December 22, 2000, as amended from time to time. The enforcement in The Netherlands of the judgment of an English court will be subject to the rules of civil procedure as applied by Dutch courts. Specific performance may not always be available under Dutch law. It is uncertain under Dutch law whether upon the enforcement of a money judgment expressed in a foreign currency against property situated in The Netherlands by way of a foreclosure sale (*executoriale verkoop*), proceeds can be obtained in such foreign currency.

#### **ENFORCEMENT OF GUARANTEES IN INDONESIA**

The Guarantor will guarantee payment of amounts due under the Bonds through the Guarantee in the Trust Deed (as defined in "Terms and Conditions of the Bonds"). Under Presidential Decree No. 59/1972, as amended, Indonesian resident borrowers are required to report particulars of offshore borrowings with the Minister of Finance of the Republic of Indonesia and Bank Indonesia, on the acceptance, implementation, and repayment of principal and interest. Ministry of Finance Decree No. KEP-261/MK/IV/5/73 (as supplemented), as the implementing regulation of this Presidential Decree No. 59/1972, further sets out the requirements to submit periodic reports to the Minister of Finance of the Republic of Indonesia and Bank Indonesia on the effective date of the contract and for each

subsequent three-month period. Further, under Presidential Decree No. 39/1991, all offshore commercial borrowers must submit periodic reports to the Team of Offshore Commercial Borrowing (“PKLN Team”) on the implementation of their offshore commercial borrowing. Presidential Decree No. 39/1991 stipulates neither the time frame nor the format and the content of the periodic reports that must be submitted. According to Bank Indonesia Regulation No. 2/22/PBI/2000 and Circular Letter of the Directors of Bank Indonesia No. 6/51/DLN/2004, as amended, any corporation which obtains an offshore commercial loan or issues debt securities with a tenor of at least three months or a value of at least US\$200,000 or its equivalent in any other currency must submit reports to Bank Indonesia. The reports consist of the main data report and the realization data report. The main data report must be submitted to Bank Indonesia no later than ten Bank Indonesia working days after the signing of the loan agreement or the issuance of the debt securities. Further, a monthly realization data report must be submitted to Bank Indonesia no later than the 10th day of each month, until the offshore commercial borrowing has been repaid in full. Medco Energi has been advised by its Indonesian counsel that the reporting and filing requirements set out above are applicable in the case of contingent liabilities under guarantees. Further, Medco Energi has been advised by its Indonesian counsel that any failure to submit the required reports will subject Medco Energi to certain administrative sanctions in the form of fines, but should not invalidate Medco Energi’s obligations under the Guarantee. However, the outcome of specific cases in the Indonesian legal system is subject to considerable discretion and uncertainty.

Under the Indonesian civil code, a guarantor may waive its right to require the obligee to exhaust its legal remedies against the obligor’s assets on a guaranteed obligation prior to the obligee exercising its rights under the related guarantee. The Guarantee contains a waiver of such right. Medco Energi has been advised by its Indonesian counsel that such a waiver is enforceable under Indonesian law, but that, because of uncertainty in the outcome of specific legal cases in Indonesia, there is no assurance that in the future an Indonesian court will not impose an obligation on holders of the Bonds to pursue all legal remedies against the Issuer if it were to default on its obligations before Bondholders can exercise their rights under the Guarantee, even though Medco Energi has expressly waived its right under the Guarantee.

## FORWARD-LOOKING STATEMENTS

This Offering Circular includes “forward-looking statements”, as defined in Section 27A of the Securities Act, and Section 21E of the U.S. Securities and Exchange Act of 1934 (the “Exchange Act”), including statements regarding the Company’s expectations and projections for future operating performance and business prospects. The words “believe”, “plan”, “expect”, “anticipate”, “estimate”, “project” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular are forward-looking statements. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Specifically, statements under the captions “Offering Circular Summary — The Company”, “Factors Affecting the Guarantor’s Financial Condition and Results of Operations”, “Risk Factors” and “Business” relating to the following matters may include forward looking statements:

- the Company’s reserve estimates and classification of reserves and its ability to extract oil and gas;
- the Company’s plans and targets for commencement of oil and gas production, as well as its planned production capacity and the performance of certain facilities, wells and geological formations;
- the Company’s development plans for its exploration, development and production blocks;
- the Company’s future and budgeted capital expenditures and investments in general and expected production capacity of facilities to be constructed or acquired as part of the Company’s capital expenditure plans;
- the expected results of the Company’s exploration, development, production and drilling activities and other related capital expenditures and investments;
- the anticipated demand and selling prices for petroleum products, gas products and petrochemicals, drilling activities and power;

- sales to existing and potential customers, whether under sales contract or not, and generation of future receivables;
- the ability of the Company to be and remain competitive;
- the Company's financial position, business strategy and budgets, projected financial and operating data and plans and objectives of management for future operations; and
- environmental compliance and remediation.

Such statements are subject to certain risks and uncertainties, including:

- economic, social and political conditions in Indonesia and other countries in which the Company operates and transacts business;
- increases in regulatory burdens in Indonesia and such countries, including environmental regulations and compliance costs;
- changes in the Company's relationship with the Government, BPMigas, Pertamina and/or regional government authorities in Indonesia;
- changes in terms and conditions of production sharing arrangements; and
- changes in import or export controls, duties, levies or taxes, either in international markets or in Indonesia.

The expectations of the management of the Company with respect to exploration, development and production activities, whether conducted by any subsidiary or affiliate of the Company, or any of their suppliers, are also subject to risks arising from the inherent difficulty of predicting the presence, yield or quality of oil and gas deposits, as well as unknown or unforeseen difficulties in extracting, transporting or processing any oil and gas found, or doing so on an economical basis.

The Company's ability to maintain and grow its revenues, net income and cash flows depends upon continued capital expenditure. In addition, the Company's capital expenditure and investment plans are subject to a number of risks, contingencies and other factors, such as oil and gas prices, market demand, geological factors, acquisition opportunities and the success of the Company's drilling program, some of which are beyond the Company's control. The Company adjusts its capital expenditure and investment budget periodically, based on factors deemed relevant by the Company. The Company's ability to obtain adequate financing to satisfy its capital expenditure and investment budget and debt service requirements may be limited by its financial condition, results of operations, legal and regulatory issues and the liquidity of international and domestic financial markets. The Company may make additional capital expenditures and investments as opportunities or needs arise. The Company may increase, reduce or suspend its planned capital expenditures or investments or change the timing and use of its capital expenditures from what is currently planned in response to market conditions, drilling results, production trends or for other reasons.

For the foregoing reasons, the Company's actual future capital expenditures and investments are likely to be different from its current budgeted capital expenditure and investment amounts, and such differences may be significant.

Should one or more of these uncertainties or risks, among others, materialize, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in production, capacity or performance might not be fully realized or realized at all. Although the Company believes that the expectations of its management as reflected by such forward-looking statements are reasonably based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, prospective purchasers are cautioned not to place undue reliance on forward-looking statements. In any event, these statements speak only as of their dates, and the Company undertakes no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

See "Risk Factors — Risks Relating to the Company — The Company's business is capital intensive and no assurance can be given that the Company will be able to obtain required funding".



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## OFFERING CIRCULAR SUMMARY

*The following summary is qualified in its entirety by the more detailed information and the consolidated financial statements of the Company appearing elsewhere in this Offering Circular. Certain oil and gas and other terms are defined under "Glossary". Prospective purchasers should carefully consider the information set forth in "Risk Factors" prior to making an investment decision with respect to the Bonds.*

### The Company

The Company is the largest publicly-listed oil and gas exploration and production company in Indonesia, with additional operations in contract drilling, gas-fed methanol production and gas-fired power plants. As of January 1, 2006, the Company's estimated gross proved reserves of 173.0 MMBOE consisted of 117.0 MMBbls of oil and condensate and 327.6 Bcf of natural gas. As of January 1, 2006, the Company's estimated gross proved plus probable reserves of 532.2 MMBOE consisted of 183.7 MMBbls of oil and condensate and 2,039.2 Bcf of natural gas. The Company produced approximately 20.3 and 19.8 MMBbls of oil and condensate and approximately 74.4 and 61.0 Bcf of natural gas in the years 2004 and 2005, respectively. The Company was a top five crude oil producer by volume in Indonesia in 2004 and 2005.

For the years ended December 31, 2004 and 2005, the Company had total sales and other operating revenues of US\$550.1 million and US\$620.2 million, respectively, and EBITDA of US\$254.8 million and US\$328.2 million, respectively. Net oil and gas sales accounted for 66.8% and 69.7% of the Company's total sales and other operating revenues in 2004 and 2005, respectively. For a reconciliation of EBITDA to income from operations, see "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Non-GAAP Accounting Items".

The Company has the right to explore for and produce oil and gas in over 42,769 square kilometers of property in Indonesia under 18 different production sharing arrangements with BPMigas, Indonesia's national upstream oil and gas regulator, and in some cases, with Pertamina, Indonesia's state-owned national oil and gas company. Under these production sharing arrangements, the Company is entitled to recover its costs and earn an agreed after-tax profit share out of production once the relevant block is declared commercially exploitable by BPMigas or Pertamina, as the case may be. See "Indonesian Oil and Gas Regulatory Framework". As of December 31, 2005, the Company produced crude oil and natural gas from 679 wells in eleven contract areas located in Sumatra, Java, Sulawesi, Kalimantan and Natuna in Indonesia, and had six exploration contract areas in Indonesia. The Company has a 22.5% economic interest in the Jeruk field in the Sampang PSC and stakes in three U.S. blocks as well as one exploration block in Libya. In 2006, the Company has acquired a development block in Indonesia and has recently entered into a contract to provide exploration and development services for a producing block in Oman.

Contract drilling operations accounted for 17.2% and 14.4% of the Company's total sales and other operating revenues in 2004 and 2005, respectively. The Company offers onshore and offshore contract drilling services through its 52.4%-owned subsidiary, PT Apexindo Pratama Duta Tbk ("Apexindo") and owns a fleet of nine onshore drilling rigs and five offshore drilling rigs, consisting of four submersible swamp barge rigs and one jack-up rig. A second jack-up rig is under construction and is scheduled to commence operations in early 2007. Apexindo's shares were listed on the Jakarta Stock Exchange ("JSX") in July 2002.

As part of the Company's strategy of developing new markets for its natural gas reserves, the Company leased the operation of the Bunyu methanol plant in East Kalimantan in 1997 from Pertamina and entered into a gas sales agreement ("GSA") with Pertamina to sell gas from its adjacent Tarakan field as feedstock to the plant through 2007. Sales of methanol accounted for 10.1% and 7.2% of the Company's total sales and other operating revenues in 2004 and 2005, respectively. To position itself for future gas sales to the power sector, in 2003 the Company acquired two small stakes in gas-fired power plants, which accounted for 0.3% and 1.3% of its total sales and other operating revenues in 2004 and 2005, respectively.

## Business Strengths

The Company believes its key business strengths are as follows:

- *Leading regional exploration and production company.* The Company is the largest publicly-listed exploration and production company in Indonesia, and is one of the largest independent exploration and production companies in South East Asia, in terms of reserves and production. It is also the largest oil producer amongst publicly-listed oil and gas companies in South East Asia. The Company believes its large portfolio of blocks offers a diversification of reserve, production and exploration opportunities and risk across a broader group of assets and geological formations.
- *Large undeveloped reserve base for production growth.* The Company has sizeable undeveloped proved plus probable reserves of over 378 MMBOE of oil and gas, which is equivalent to 71% of its gross proved plus probable reserves as of January 1, 2006. The key gas projects currently under various stages of development include the large Senoro gas field, consisting of 1,291.5 Bcf of gross probable reserves (as of January 1, 2006), and the strategically located South Sumatra Extension PSC and Lematang PSC gas fields in South Sumatra.
- *Focused and balanced reserve growth strategy.* The Company has successfully grown its operations through a focused and balanced strategy of exploration and acquisition. Of its existing reserve portfolio as of January 1, 2006, the Company believes that over 55.0% of proved reserves were discovered by the Company, with the remainder acquired by the Company. The Company has demonstrated its competitive ability to acquire exploration acreage, reserve assets and even a publicly-listed exploration and development company. Since January 2000, the Company has acquired interests in 21 Indonesian blocks, eleven of which are currently producing, with the remainder under exploration and development.
- *Experienced management team.* Members of the Company's senior management team average over 20 years of experience in oil and gas exploration, production and contract drilling in Indonesia. Since the Company's initial public offering ("IPO") in 1994, the Company's management has demonstrated their ability to expand the Company's operations through a combination of acquisition, exploration and development, increasing production from 25.7 MBOE/d in 1996 to 82.7 MBOE/d in 2005. Over the past five years, the Company has been awarded several management awards from international organizations as well as from the Government.
- *Competitive cost structure.* The Company believes that it has a competitive cost structure, and has one of the lowest lifting costs among oil producers in Indonesia and the Asia-Pacific region. For the year ended December 31, 2005, the Company's lifting cost was US\$2.88 per BOE for all of its oil and gas assets. The Company's average lifting cost for the three-year period ended December 31, 2005 was US\$2.78 per BOE.
- *Strategic location of oil reserves to Asian markets and gas reserves to key gas markets.* With demand for oil and gas in Asia fueled by substantial economic growth in China and India and the strong petroleum import demand of Japan and South Korea, the Company believes that it is well-situated in a growing market. The strategic location of the Company in Indonesia offers convenient, lower cost product delivery to offtakers in Asia, including the regional petroleum trading center of Singapore. In addition, many of the Company's natural gas fields are located close to growing domestic gas markets of West Java, East Java and South Sumatra, as well as the developed gas market of Singapore.

## **Business Strategy**

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

- Replace and add reserves through exploration and acquisitions.
- Replace and increase production volumes through the development of reserves.
- Develop new markets for uncommitted natural gas.
- Maintain financial flexibility with a prudent financial structure and cost control.
- Build strategic alliances with international operators in the oil and gas industry.
- Ensure support from local community.
- Focus on maintaining high corporate governance standards.

See also "Business — Business Strategy".

Medco Energi's registered and principal executive office is located at 16th Floor, Graha Niaga, Jl. Jend. Sudirman Kav. 58, Jakarta 12190, Indonesia.



## THE OFFERING

*The following summary does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Offering Circular and related documents referred to herein. Reference to a “Condition” is to a numbered condition of “Terms and Conditions of the Bonds”. Phrases used in the summary and not otherwise defined shall have the meanings given to them in the Terms and Conditions of the Bonds.*

Issuer .....	Medco CB Finance B.V.
Guarantor .....	PT Medco Energi Internasional Tbk.
Bonds .....	US\$176,900,000 zero coupon Guaranteed Convertible Bonds due 2011. The Bonds are convertible into the Shares.
Shares .....	Ordinary shares of Rp.100 each in the capital of the Guarantor.
Issue Date .....	May 12, 2006.
Issue price .....	100 per cent.
Initial Conversion Price .....	Rp.6,923.75.
Interest .....	No interest shall be payable on the Bonds.
The Offering .....	The Bonds and the Shares are being offered by the Managers outside the United States to non-U.S. persons in accordance with Regulation S under the Securities Act.
Status of the Bonds and the Guarantee .....	The Bonds and the Guarantee constitute direct, un-subordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and the Guarantor, respectively, and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves.
The Guarantee .....	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums, including principal and premium and interest and of any additional amounts expressed to be payable by the Issuer under the Trust Deed and the Bonds and the due and punctual performance of all the Issuer’s obligations under the Trust Deed and the Bonds.
Form and Denomination .....	<p>The Bonds are issued in registered form in the denomination of US\$100,000 each or integral multiples thereof.</p> <p>Upon issue, the Bonds will be represented by a Global Certificate deposited with a common depository for, and representing Bonds registered in the name of a common nominee of, Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate.</p> <p>Definitive Certificates in respect of the Bonds will not be issued in exchange for the Global Certificate, except in the limited circumstances described herein (see “Summary of Provisions Relating to the Bonds while in Global Form — Exchange”).</p>
Loan .....	<p>The Issuer and the Guarantor will enter into an intercompany loan agreement to be dated on or about May 12, 2006 (the “<b>Loan</b>”) under which, <i>inter alia</i>:</p> <p>(a) the Issuer agrees to lend the proceeds of the issue of the Bonds to the Guarantor;</p>

(b) the Guarantor agrees to pay to the Issuer amounts of principal and other amounts on the Loan equivalent to all amounts payable by the Issuer under the Bonds, including (but not limited to) payments of principal;

(c) upon early redemption of the Bonds, the Guarantor agrees to pay to the Issuer an amount equal to the amount payable by the Issuer on the Bonds on the date fixed for redemption thereof, whereupon the Loan shall be deemed to be repaid accordingly in full or in part; and

(d) upon scheduled redemption of the Bonds, the Guarantor agrees to pay to the Issuer an amount equal to the amount payable by the Issuer on the Bonds on the Maturity Date, whereupon the Loan shall be deemed to be repaid in full.

Treasury Shares ..... The Guarantor has represented and undertaken *inter alia* that:

(a) as at the Issue Date it has at least 223,597,000 Shares held as treasury stock;

(b) so long as any Bond remains outstanding and to the extent that Shares held as treasury stock have not been delivered to Bondholders upon exercise of their Conversion Rights (as defined in "Terms and Conditions of the Bonds"), it will hold such Shares through PT Mandiri Sekuritas, as custodian;

(c) so long as any Bond remains outstanding, it will not assign, sell, transfer, settle upon trust or otherwise dispose of, or grant or permit to exist any option over, any interest in the Shares held as treasury stock by it pursuant to (i) above or any document of title relating thereto or purport to do so, or permit any person to be registered as the holder of any such Shares, other than in each case in accordance with the Trust Deed; nor grant any third party any interest in or rights in respect of such Shares which are inconsistent with the Trust Deed; and

(d) it will not make any offer, issue or distribution or take any action the effect of which would be to reduce the Conversion Price below the minimum price at which the Shares held as treasury stock deliverable upon conversion of the Bonds may be resold under prevailing Indonesia laws or regulations, provided always that the Guarantor shall not be prohibited from purchasing its Shares to the extent permitted by law.

No Security ..... The Bonds are not secured and there is no security interest relating to the Shares held as treasury stock.

Conversion Period ..... The Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 41 days from the Closing Date up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) 30 days prior to the Maturity Date (but, except as provided in Condition 6.1.4, in no event thereafter) or if such Bond shall have been called for redemption before May 12, 2011, then up to the close of business (at the place aforesaid) on a date no later than 10 Business Days (at the place aforesaid) prior to the date fixed for redemption thereof (the "Conversion Period").

Conversion Price ..... The price at which Shares will be delivered upon conversion, as adjusted from time to time (the "**Conversion Price**") will initially be Rp.6,923.75 per Share but will be subject to adjustment in the manner provided in Condition 6.3. The "**Conver-**

**sion Ratio**” as at any date is equal to the principal amount of the Bonds divided by the then Conversion Price in effect on such date translated into U.S. dollars at the Exchange Rate (as defined in Condition 6.1.1).

Final Maturity ..... Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 142.77 per cent. of its principal amount on May 12, 2011 (the “**Maturity Date**”).

Redemption at the Option of the Issuer ..... On or at any time after May 12, 2009 but not less than 20 days prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders, the Trustee and the Principal Agent (which notice will be irrevocable), redeem the Bonds in whole or in part (at the Issuer’s sole discretion) at their Early Redemption Amount, provided that no such redemption may be made unless the closing price of the Shares (translated into U.S. dollars at the Current Rate), for each of 25 consecutive Trading Days immediately prior to the date upon which notice of such redemption is published is at least 130 per cent. of the applicable Early Redemption Amount (as defined in Condition 8.12) divided by the Conversion Ratio. If at any time the aggregate principal amount of the Bonds outstanding is ten per cent. or less of the aggregate principal amount originally issued (including any Bonds issued pursuant to Condition 16), the Issuer shall have the option to redeem such outstanding Bonds in whole but not in part at their Early Redemption Amount. The Issuer will give at least 30 days’ but not more than 60 days’ prior notice to the Bondholders, the Trustee and the Principal Paying Agent for such redemption.

Redemption for Taxation ..... At any time the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders, the Trustee and the Principal Paying Agent (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at their Early Redemption Amount, if:

(a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer or, if the Guarantee were called, the Guarantor has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of The Netherlands or the Republic of Indonesia (or any political subdivision or any authority thereof or therein having power to tax), or any change in the position regarding the application, administration or any new or different interpretation of such laws, treaties, regulations or rulings, which change, amendment, application or interpretation becomes effective on or after the Issue Date, PROVIDED that where any such additional amounts due in accordance with Condition 9 are in consequence of laws and treaties of the Republic of Indonesia, Condition 8 shall only have effect to permit the Bonds to be redeemed in the event that the rate of withholding or deduction required by such law or treaty is in excess of 20% (“**Minimum Withholding Level**”), and

(b) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided 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, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Bonds or the Guarantee, as the case may be, then due.

Early Redemption at the Option of the Bondholders .....

The Issuer will, at the option of the holder of any Bond, redeem all or some of that holder's Bonds on May 12, 2009 (the "**Put Option Date**"), at 123.82 per cent. of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice (the "**Put Option Notice**") together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 20 days prior to the Put Option Date.

Redemption for Change of Control ..

Following the occurrence of a Change of Control in the Guarantor (as defined in Condition 8.5) the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem in whole but not in part such holder's Bonds on the Change of Control Put Date at their Early Redemption Amount.

Delisting .....

In the event the Shares are not listed or admitted to trading on the JSX, and are not listed on an Alternative Stock Exchange or, if applicable, an Alternative Stock Exchange (a "**Delisting**"), each Bondholder shall have the right (the "**Delisting Put Right**"), at such Bondholder's option, to require the Issuer to redeem all (but not less than all) of such Bondholder's Bonds on the 20th Business Day after notice has been given to Bondholders regarding the Delisting referred to under Condition 8.6.2 below or, if such notice is not given, the 20th Business Day after the Delisting (the "**Delisting Put Date**") at their Early Redemption Amount (the "**Delisting Put Price**").

Taxation.....

All payments of principal, premium or interest made by the Issuer or, as the case may be, the Guarantor will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or the Republic of Indonesia or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bonds in certain circumstances. See "Terms and Conditions of the Bonds — Taxation".

Cross Default .....

The Bonds will contain a cross default provision as further described in "Terms and Conditions of the Bonds — Events of Default".

Other Events of Default .....

For a description of certain other events that will permit acceleration of the Bonds, see "Terms and Conditions of the Bonds — Events of Default". The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per

cent. in principal amount of the Bonds then outstanding (as defined in the Trust Deed) or, if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders, shall (subject to being indemnified and/or been provided with security by the Bondholders to its satisfaction) give notice to the Issuer that the Bonds are, and they shall accordingly thereby become, immediately due and repayable (as provided in Condition 10.1), at their Early Redemption Amount in accordance with Condition 6.

Negative Pledge ..... So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will create or permit to subsist, and each of the Issuer and the Guarantor will procure that none of their respective Subsidiaries will create or permit to subsist, any Security (other than Permitted Security), to secure any International Investment Securities (as defined in Condition 4.2) or to secure any guarantee of or indemnity in respect of any International Investment Securities unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Deed or, as the case may be, the Guarantor's obligations under the Guarantee (a) are secured equally and rateably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

Permitted Security shall include Security over assets securing International Investment Securities issued to finance the exploration and development of the Senoro-Toili Joint Operating Body and oil and gas assets outside Indonesia, and any asset acquired or investment made after the Issue Date. See Condition 4.2.2.

Yield Step Up ..... In the event the rating of the High Yield Notes (as defined in Condition 8.7) falls below B+ (in the case of the rating issued by Standard & Poor's) or B2 (in the case of the rating issued by Moody's), the redemption prices for the Bonds shall be increased from the date of such rating downgrade to provide Bondholders with a higher gross per annum yield effective only from the date of such increase. In the event the High Yield Notes are redeemed or mature, and no yield step-up as described above has taken place, the Guarantor will use reasonable efforts to procure a rating for the Bonds instead. If a rating is not obtained within 60 days or the rating for the Bonds falls below B+ (in the case of a rating issued by Standard & Poor's) or B2 (in the case of the rating issued by Moody's), the redemption prices for the Bonds shall be correspondingly increased. See Condition 8.7.

The High Yield Notes have been assigned a rating of B+ by Standard & Poor's and B2 by Moody's. The Company has also been informed by Standard & Poor's that the Bonds are to be rated B+. For more information regarding such ratings and the ratings outlook for the Company, see "Risk Factors — Risk Relating to the Bonds — The ratings assigned to the High Yield Notes and the Bonds may be lowered or withdrawn entirely in the future".

Anti-dilution Provisions ..... The Bonds will contain provisions for the adjustment of the Conversion Price in the event of the occurrence of certain



dilutive events, including, among others, bonus issues, alterations to the nominal value of the Shares, rights issues and capital distributions and Extraordinary Cash Dividends (as defined in Condition 6.4.7).

Mandatory Cash Settlement . . . . .	To the extent the Guarantor does not have sufficient Shares held as treasury stock and is unable to deliver Shares which are freely transferable in Indonesia to satisfy the Conversion Right in respect of a Conversion Notice, the Issuer shall be required to pay to the relevant Bondholder an amount of cash in U.S. dollars equal to the Mandatory Cash Settlement Amount (as defined in Condition 6.1.6) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares).
Cash Settlement Option . . . . .	Notwithstanding the Conversion Right of each Bondholder in respect of each Bond, at any time when the delivery of Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a Conversion Notice, the Issuer shall have the option to pay to the relevant Bondholder an amount of cash in U.S. dollars equal to the Cash Settlement Option Amount (as defined in Condition 6.2.4) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares).
Governing law . . . . .	The Bonds, the Trust Deed and the Agency Agreement will be governed by English law. The Loan Agreement will be governed by Dutch law.
Trustee . . . . .	DB Trustees (Hong Kong) Limited.
Listing . . . . .	Approval in-principle has been received for listing the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Bonds are listed on the SGX-ST. The Shares are listed on the Main Board of the JSX.
Clearing . . . . .	The Bonds have been accepted for clearance by Euroclear and Clearstream, Luxembourg under the following common code and ISIN:  Common code: 025424689  ISIN: XS0254246894
Use of proceeds . . . . .	The net proceeds from the issue of the Bonds will be used for on-lending purposes, to which effect the Issuer will enter into an Intercompany Loan Agreement with the Guarantor in respect of the Loan. Furthermore, the net proceeds will be used to fund the Company's working capital requirements and for general corporate purposes.

## Summary Consolidated Financial, Operating and Reserve Data

### Summary Consolidated Financial Data

The following tables set forth certain summary historical consolidated financial data of the Company as of the dates and for each of the periods indicated. The summary historical consolidated financial data as of and for the years ended December 31, 2004 and 2005 are derived from the Company's audited consolidated financial statements as of and for the years ended December 31, 2004 and 2005 audited by Purwantono, Sarwoko & Sandjaja (formerly Prasetio, Sarwoko & Sandjaja), independent auditors, a member of Ernst & Young Global ("E&Y"). The Company's consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differ in certain respects from IFRS. See "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and International Financial Reporting Standards" and "Risk Factors — Risks Relating to the Company — Indonesian corporate and other disclosure and accounting standards differ from those of other jurisdictions, such as countries in the European Union". The following information should be read in conjunction with the consolidated financial statements of the Company, the related notes thereto and other financial information included elsewhere in this Offering Circular.

	For the Year Ended December 31,	
	2004	2005
	(Restated) <sup>(1)</sup> (US\$ in thousands, except where otherwise indicated)	
<b>Consolidated Statement of Income Data</b>		
Sales and Other Operating Revenues:		
Net oil and gas sales .....	367,367.6	432,361.4
Revenue from drilling operations and related services .....	94,438.6	89,026.1
Net methanol sales .....	55,490.3	44,954.3
Share of profits of joint ventures .....	19,733.5	19,781.6
Electric power sales .....	1,534.5	8,204.8
Revenues from other contracts .....	<u>11,551.0</u>	<u>25,825.2</u>
Total Sales and Other Operating Revenues .....	550,115.4	620,153.4
Production and Lifting Costs .....	77,774.2	74,608.8
Depreciation and Amortization .....	74,623.6	87,481.6
Drilling Operations Costs .....	72,625.3	68,228.8
Cost of Methanol Sales .....	42,666.1	32,246.3
Exploration Expenses .....	23,847.1	19,043.4
Cost of Crude Oil Purchase .....	5,033.9	4,208.6
Cost of Power Sales .....	<u>72.9</u>	<u>4,923.5</u>
Gross Profit .....	253,472.2	329,412.4
Operating Expenses .....	<u>74,208.1</u>	<u>90,072.9</u>
Income from Operations .....	179,264.1	239,339.5
Other Charges — Net .....	(49,148.3)	(58,227.7)
Tax Expense — Net .....	<u>(55,138.8)</u>	<u>(103,493.0)</u>
Income Before Minority Interests in Net Earnings of Consolidated Subsidiaries .....	74,977.1	77,618.8
Minority Interests in Net Earnings of Consolidated Subsidiaries .....	<u>(1,127.0)</u>	<u>(2,921.6)</u>
Net Income .....	<u>73,850.1</u>	<u>74,697.3</u>
Basic Earnings per Share .....	0.0238	0.0240
<b>Other Financial Data</b>		
EBITDA <sup>(2)(4)</sup> .....	254,778.6	328,158.7
Adjusted EBITDA <sup>(3)(4)</sup> .....	280,561.0	350,026.9
EBITDAX <sup>(2)(4)</sup> .....	278,625.7	347,202.2
Adjusted EBITDAX <sup>(3)(4)</sup> .....	307,032.2	369,415.7

	As of December 31,	
	2004	2005
	(Restated) <sup>(1)</sup> (US\$ in thousands, except where otherwise indicated)	
<b>Consolidated Balance Sheet Data</b>		
Assets:		
Cash and cash equivalents .....	215,302.0	152,108.2
Other current assets .....	<u>416,823.2</u>	<u>317,154.8</u>
Total Current Assets .....	632,125.2	469,263.0
Total Non-Current Assets .....	<u>840,121.8</u>	<u>1,073,669.9</u>
Total Assets .....	<u><u>1,472,247.1</u></u>	<u><u>1,542,932.9</u></u>
Liabilities and Equity:		
Short-term debt (including current maturities of long-term bank loans and obligations) .....	180,863.1	16,633.4
Other current liabilities .....	<u>116,240.8</u>	<u>221,096.6</u>
Total Current Liabilities .....	297,103.9	237,730.0
Long-term debt — net of current maturities .....	518,435.1	499,002.7
Other non-current liabilities .....	<u>118,908.1</u>	<u>176,918.8</u>
Total Non-Current Liabilities .....	637,343.2	675,921.5
Negative Goodwill — Net .....	1,798.8	953.5
Minority Interests in Net Assets of Subsidiaries .....	35,925.8	95,157.2
Equity — Net .....	<u>500,075.3</u>	<u>533,170.8</u>
Total Liabilities and Equity .....	<u><u>1,472,247.1</u></u>	<u><u>1,542,932.9</u></u>

	For the Year Ended December 31,	
	2004	2005
	(Restated) <sup>(1)</sup> (US\$ in thousands, except where otherwise indicated)	
<b>Consolidated Statement of Cash Flows Data</b>		
Net Cash Provided by Operating Activities .....	136,273.9	186,895.1
Net Cash Used in Investing Activities .....	(322,484.0)	(82,304.5)
Net Cash Provided by (Used in) Financing Activities .....	267,142.5	(167,784.5)

Notes:

- (1) The consolidated financial statements as of and for the year ended December 31, 2004 have been restated to reflect the retroactive effects of the applications of the revised Statements of Financial Accounting Standards in Indonesia. The retroactive effects of such changes in the consolidated financial statements as of and for the year ended December 31, 2004 are described in note 42 to the Company's consolidated financial statements. The cumulative effect of such adjustments had a net effect of decreasing net income by US\$694,336 and increasing equity by US\$1,273,836 in 2004.
- (2) EBITDA means earnings before interest, taxes, depreciation, amortization, gain or loss on foreign exchange and other income or charges as calculated under Indonesian GAAP. EBITDAX means EBITDA adding back exploration expenses as calculated under Indonesian GAAP.
- (3) Adjusted EBITDA adjusts for earnings before interest, taxes, depreciation, amortization, gain or loss on foreign exchange and other income or charges attributable to the Company's non-operated fields, which would otherwise be reported on a proportionate net income basis under "share of profit of joint ventures" in the Company's consolidated financial statements. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Revenues from Company-Operated and Non-Company-Operated Fields". Adjusted EBITDAX means Adjusted EBITDA adding back exploration expenses as calculated under Indonesian GAAP.

(4) The Company has included EBITDA, EBITDAX, Adjusted EBITDA and Adjusted EBITDAX because management believes it is a financial measure commonly used in the oil and gas industry as a useful supplement to cash flow data as a measure of the Company's performance and its ability to generate cash from operations to cover debt service and taxes. These measures should not be considered in isolation or construed as an alternative to cash flows, earnings or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. These measures do not account for certain items such as taxes, interest expense and other non-operating cash expenses. In evaluating these measures, the Company believes that investors should consider, among other things, the components of these measures such as revenues and operating expenses and the amount by which these measures exceed capital expenditures and other charges. These measures presented herein may not be comparable to similarly titled measures presented by other companies. For a reconciliation of EBITDA and EBITDAX as well as Adjusted EBITDA and Adjusted EBITDAX, see "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Non-GAAP Accounting Items".

### Summary Operating and Reserve Data

The table below sets forth the Company's gross production, net entitlement and certain other operating data for the years ended December 31, 2004 and 2005.

	For the Year Ended December 31,	
	2004	2005
<b>Gross production:</b> <sup>(1)(2)</sup>		
Oil and condensate (MBbls/d) .....	55.6	54.1
Natural gas (Mcf/d) .....	203.4	167.2
Total (MBOE/d) .....	90.3	82.7
Total (excluding Langsa block) (MMBOE) <sup>(3)</sup> .....	33.0	29.7
<b>Net entitlement:</b> <sup>(4)</sup>		
Oil and condensate (MBbls/d) .....	21.2	16.9
Natural gas (Mcf/d) .....	93.6	74.2
Total (MBOE/d) .....	37.2	29.6
<b>Lifting cost:</b> <sup>(5)</sup>		
Oil, condensate and natural gas (US\$ per BOE) .....	2.91	2.88
<b>Three-year average finding and development cost:</b> <sup>(6)</sup>		
Oil, condensate and natural gas (US\$ per BOE) .....	7.54	6.89
<b>Three-year average finding, development and acquisition cost:</b> <sup>(7)</sup>		
Oil, condensate and natural gas (US\$ per BOE) .....	5.38	5.39
<b>Average realized sales price:</b> <sup>(8)</sup>		
Oil and condensate (US\$ per Bbl) .....	36.93	53.68
Natural gas (US\$ per Mcf) .....	2.26	2.45
Liquefied petroleum gas (LPG) (US\$ per MT) .....	360	329

Notes:

- (1) Gross production represents the sum of the oil and gas production from each of the Company's blocks multiplied by the Company's effective interest in such block. Gross production is then shared between the Company and the Government pursuant to the terms of the relevant production sharing arrangement. Gross production for 2004 does not include production from divested blocks in Australia. Gross production in 2004 and 2005 includes production from divested blocks in the Middle East and the United States up to the date of their disposition in 2005.
- (2) Gross production for the year ended December 31, 2004 has been revised to reflect additional associated gas production as described in the January 1, 2006 GCA Report.
- (3) The Company's total gross production (excluding the Langsa block and the divested Australian blocks) for the year ended December 31, 2004 was 32,981,564 BOE. The Company's total gross production (including production from divested Indonesian, Middle East and United States blocks

only up to the date of their disposition, but excluding the Langsa block) for the year ended December 31, 2005 was 29,736,790 BOE.

- (4) The Company's net entitlement in a given year represents its share of gross production after deducting the share payable to the Government pursuant to the terms of the relevant production sharing arrangement. For a more complete description of the mechanism for sharing gross production between the Company and the Government, refer to "Indonesian Oil and Gas Regulatory Framework". The Company's net entitlement includes only field production from the GCA Report. Approximately 15.3% of the Company's gross proved reserves for the year ended December 31, 2005 have not been certified by GCA as of January 1, 2006 and, as a result, these fields are also excluded from the net entitled volume estimates.
- (5) Production and lifting cost of operated and non-operated blocks per BOE, divided by production for that period. 2004 and 2005 excludes the production and lifting cost and gross production related to the Langsa block and the divested Australian blocks.
- (6) Total costs incurred for exploration and development in the relevant year plus the costs incurred in the previous two years, divided by the sum of gross proved reserve additions, extensions and revisions for all three years.
- (7) Total costs incurred for exploration, development and acquisitions in the relevant year plus the costs incurred in the previous two years, divided by the sum of gross proved reserve additions, extensions, revisions and acquisitions for all three years.
- (8) Represents revenues for the period divided by aggregate net entitlement for the period.

The following table summarizes the Company's gross and net proved, and gross proved and probable, oil and gas reserves as of the dates indicated. This reserve data has been derived from the estimates of the Company's gross and net proved and gross probable reserves as of January 1, 2004, 2005 and 2006 included in the January 1, 2006 GCA Report, as well as from the estimates certified by other independent petroleum engineering consultants or estimated by the Company. For a more complete description, see "Business — Reserves".

	As of January 1,		
	2004	2005	2006
<b>Gross proved reserves:</b>			
Oil and condensate (MMBbls) .....	113.9	94.3	117.0
Natural gas (Bcf) .....	<u>271.0</u>	<u>382.3</u>	<u>327.6</u>
Total (MMBOE) <sup>(1)</sup> .....	160.3	159.7	173.0
<b>Net proved reserves:</b>			
Oil and condensate (MMBbls) .....	44.9	34.4	42.4
Natural gas (Bcf) .....	<u>106.3</u>	<u>154.0</u>	<u>173.0</u>
Total (MMBOE) <sup>(2)</sup> .....	63.1	60.7	72.0
<b>Gross proved plus probable reserves:</b>			
Oil and condensate (MMBbls) .....	236.5	201.2	183.7
Natural gas (Bcf) .....	<u>1,986.9</u>	<u>2,180.7</u>	<u>2,039.2</u>
Total (MMBOE) <sup>(3)</sup> .....	576.1	574.0	532.2
<b>Net proved reserves developed (%):<sup>(4)</sup></b>			
Oil and condensate .....	97%	92%	69%
Natural gas .....	89%	88%	81%
<b>Proved reserve life index (in years)<sup>(5)</sup> .....</b>	6.4	5.9	6.7
<b>Proved plus probable reserve life index (in years)<sup>(6)</sup> .....</b>	20.3	18.7	18.6

Notes:

- (1) Approximately 26.4 MMBOE, or 15.3%, of the Company's gross proved reserves, have not been certified by the GCA Report as of January 1, 2006.
- (2) Approximately 26.4 MMBOE, or 15.3%, of the Company's gross proved reserves have not been reviewed by the GCA Report as of January 1, 2006 and are excluded from net proved reserves because the Company does not produce in-house estimates for net proved reserves.



- (3) Approximately 319.6 MMBOE, or 60.0%, of the Company's gross proved plus probable reserves have not been certified by the GCA Report as of January 1, 2006.
- (4) Based solely on reserve estimates that have been certified by GCA for the respective periods.
- (5) Prior year-end gross proved reserves divided by prior year gross production.
- (6) Prior year-end gross proved plus probable reserves divided by prior year gross production.

See "Risk Factors — Risks Relating to the Company — The oil and gas reserve data in this Offering Circular are only estimates and the Company's actual production, revenue and expenditure with respect to its reserves may differ from such estimates" and "Risk Factors — Risks Relating to the Company — Probable reserve estimates in this Offering Circular are generally considered of a higher risk than proved reserve estimates and are generally believed to be less likely to be recovered than proved reserves" and "Business — Reserves" and "Business — Description of the Properties".

#### ***Additional Information on Reserve Estimates***

In connection with the section entitled "Supplementary Information (Unaudited) — Reserve Estimation" attached to the Company's audited consolidated financial statements as of and for the year ended December 31, 2005 (see pages F-185 to F-187), investors should note the following:

- In the table of estimated proved developed and undeveloped gas reserves for Tuban, Brantas and the Senoro gas field as of December 31, 2005 included as part of the "Supplementary Information (Unaudited) — Reserve Estimation" on page F-186, gas reserves for the Senoro gas field have been included in determining the Company's gross proved developed and undeveloped gas reserves as of December 31, 2005. The basis for this was the technical classification of the Senoro gas field reserves as proved reserves ("1P") in a report filed with BPMigas by JOB Pertamina-Medco E&P Tomori Sulawesi.

For purposes of preparing management estimates of the Company's consolidated reserves that are disclosed to investors, management, consistent with industry practice, uses the standards set by the Society of Petroleum Engineers ("SPE") for classifying oil and gas reserves as either proved or probable. Based on the latest available third-party certification for the Senoro gas field prepared by GCA dated January 17, 2003, under SPE standards, management estimates reserves for the Senoro gas field to be classified as proved and probable reserves ("2P"), which is of lesser certainty than 1P reserves. This is because as of December 31, 2005, there were no commercial contracts of gas sales agreements in place to demonstrate the commercial status of the Senoro gas field. This has been previously disclosed to investors as a probable reserve.

Further, the same table does not include 2P gas reserves for the Singa gas field of the Lematang block. However, management estimates regarding the Company's consolidated reserves that have been disclosed to investors include gas reserves for the Singa gas field as 2P reserves. This is based on reserve data for the Singa gas field as of December 31, 2000, as certified by another independent petroleum engineering consultant. (There has been no material production from the Singa gas field since the date of this report.) Based on this report, management estimates the Singa gas field to have 2P reserves (using SPE standards) of approximately 182 Bcf.

In addition, 1P and 2P crude oil and gas reserves for the Brantas block included in this same table were derived from crude oil and gas reserve estimates prepared by Novus Petroleum Limited and dated as of December 31, 2003, as adjusted by the production in the Brantas block during the years ended December 31, 2004 and 2005. For purposes of this and future disclosures to investors and the Company's shareholders regarding the 1P and 2P crude oil and gas reserve estimates for the Brantas block, the Company's management uses information provided by Lapindo Brantas Inc. ("Lapindo"), operator of the Brantas block. The latest information provided by such operator regarding 1P crude oil and gas reserves consists of a reserve report filed with BPMigas by Lapindo. The latest information provided by such operator for 2P crude oil and gas reserves consists of 2P crude oil and gas reserve estimates as of September 30, 2005 as certified by an independent third party petroleum engineering consultant.

The differences in (a) classifying the Senoro gas field reserves as 1P reserves (as set out in the section entitled "Supplementary Information (Unaudited) — Reserve Estimations" on pages F-185 to F-187) and as 2P reserves (as used in management estimates disclosed to

investors), (b) the 2P reserves for the same areas but including the Singa gas field (as used in management estimates disclosed to investors) and (c) the adjustment of the 1P and 2P crude oil and gas reserves for the Brantas block as described above, are illustrated as follows:

<b>Company's Estimates</b>					
<b>Supplement to Financial Statements</b>			<b>Disclosure to Investors</b>		
<b>Oil</b>	<b>Gas</b>	<b>Total</b>	<b>Oil</b>	<b>Gas</b>	<b>Total</b>
<b>MMBbls</b>	<b>Bcf</b>	<b>MMBOE</b>	<b>MMBbls</b>	<b>Bcf</b>	<b>MMBOE</b>
(Unaudited)					

**Company Non Operated & Indonesian Inhouse**

Proved and Probable (2P) . . . . .	8.3	1,159.2	206.4	38.5	1,507.8	296.2
Proved Developed and undeveloped (1P) . . . . .	7.9	1,145.9	203.8	8.4	15.8	11.1

- The total estimated proved developed and undeveloped crude oil and gas reserves for Sumatera, Kalimantan, Tarakan and Sulawesi blocks set out in “Supplementary Information (Unaudited) — Reserve Estimation” on pages F-185 and F-187 is approximately 1.7% higher than the 1P crude oil and gas reserves for these blocks certified by GCA in its most recent reserve report. The principal reason for the difference is that for financial reporting purposes, the Company used a working interest percentage for the Rimau block of 100%, because it receives 100% of the crude oil entitlement under the Rimau block PSC, whereas GCA, in preparing its 1P crude oil reserve certification, uses a 95% working interest as this is the percentage pertaining to the Company under the terms of the Rimau block PSC. The difference of 5% relates to the local government share of the crude oil entitlement under the Rimau block PSC.

In addition, 1P crude oil reserves for the Langsa block in Sumatera were disclosed separately in the section entitled “Supplementary Information (Unaudited) — Reserve Estimations” because the crude oil entitlement for the Langsa block is owned by a non-consolidated entity. However, GCA, consistent with SPE standards, includes crude oil reserves from the Langsa block as part of the Company’s 1P crude oil reserves because the Company, through its non-consolidated associate entity, is the operator of this block.

In preparing management estimates of the Company’s consolidated 1P crude oil and gas reserves for the Sumatera, Kalimantan, Tarakan and Sulawesi blocks for disclosure to investors, management uses the 1P crude oil reserve numbers certified by GCA, including the 1P crude oil reserves from the Langsa block.

The difference in the classification of the Rimau block and Langsa block crude oil and gas reserves discussed above, is illustrated as follows:

<b>Company's Estimates</b>					
<b>Supplement to Financial Statements</b>			<b>Disclosure to Investors</b>		
<b>Oil</b>	<b>Gas</b>	<b>Total</b>	<b>Oil</b>	<b>Gas</b>	<b>Total</b>
<b>MMBbls</b>	<b>Bcf</b>	<b>MMBOE</b>	<b>MMBbls</b>	<b>Bcf</b>	<b>MMBOE</b>
(Unaudited)					

**GCA Certified**

Proved and Probable (2P) . . . . .	144.6	418.3	216.1	139.0	430.8	212.7
Proved Developed and undeveloped (1P) . . . . .	110.0	228.1	149.0	105.4	240.9	146.6

- Previous reserve estimate disclosures by the Company of the 1P crude oil and gas reserves in the Kakap block, including the reserve estimates included in the section entitled “Supplementary Information (Unaudited) — Reserve Estimation” on page F-186 were derived from reserve estimates prepared by Novus Petroleum Limited and dated as of December 31, 2003, adjusted by the productions in the Kakap block during the years ended December 31, 2004 and 2005. For purposes of this and future disclosures to investors and the Company’s shareholders regarding 1P crude oil and gas reserve estimates for the Kakap block, the Company’s management bases its estimates on the latest information provided by Star Energy (Kakap) Ltd. (“Star Energy”), the operator of the Kakap block, which consists of a reserve report filed by Star Energy with BPMigas.

The adjustment of the 1P crude oil and gas reserve estimates for the Kakap block as described above, is illustrated as follows:

	Company's Estimate					
	Supplement to Financial Statements			Disclosed to Investors		
	Oil MMBbls	Gas Bcf (Unaudited)	Total MMBOE	Oil MMBbls	Gas Bcf	Total MMBOE
<b>Novus Companies</b>						
Proved and Probable (2P) .....	6.4	104.9	24.4	6.2	100.6	23.4
Proved Developed and undeveloped (1P) .....	2.6	70.5	14.6	3.2	70.8	15.3

## RISK FACTORS

*Prior to making an investment decision in relation to the Bonds, prospective investors in the Bonds should carefully consider all the information set forth in this Offering Circular, including the risk factors set out below. The risk factors set out below do not purport to be complete or comprehensive in terms of all the risk factors that may arise in connection with in the businesses of the Issue or, the Company and its subsidiaries or any decision to purchase, own or dispose of the Bonds or the Shares. The risks and risk factors set forth below are not an exhaustive list of the challenges currently facing the Company and its subsidiaries or that may develop in the future. Additional risks, whether known or unknown, may in the future have a material adverse effect on the Issuer, the Company and its subsidiaries, the Bonds or the Shares.*

### **Risks Relating to Indonesia**

The Company is headquartered in Jakarta, the capital city of Indonesia. The Company has field operating offices dispersed at each of its main production areas. All of the Company's directors and officers are Indonesians based in Indonesia and substantially all of the Company's assets and operations are located in Indonesia. In common with other companies which have substantially all of their businesses in Indonesia, the Company could be adversely affected by changes in Government policies, social instability or other political, economic, legal, regulatory or international developments in or affecting Indonesia which are not within the control of the Company, examples of which are described below. These could, in turn, have an adverse effect on the Issuer's ability to pay interest and additional amounts, if any, on, and repay the principal of, the Bonds.

#### ***Political instability in Indonesia could adversely affect the economy, which in turn could affect the Company's business***

Indonesia is a Republic with a President, a Vice President and a Parliamentary form of government. From its independence in 1945 until 1998, there have been only two Presidents in Indonesia. At the end of the term of each of these Presidents, Indonesia experienced political instability and many cities in Indonesia, including Jakarta, experienced rioting, unrest and destruction of property.

Political instability led to the resignation of the then President Suharto in May 1998. Promptly thereafter, Vice President Baharuddin Jusuf Habibie was sworn in as President and called for reforms and parliamentary elections to be held in October 1999. Prior to and during the presidential and parliamentary elections, there was significant social unrest that resulted in additional rioting, unrest and destruction of property. Following the elections, the People's Consultative Assembly (Majelis Permusyawaratan Rakyat, or MPR), selected Abdurrahman Wahid as President and Megawati Sukarnoputri as Vice President. In February 2001, a committee of the Indonesian parliament, the People's Representative Council (Dewan Perwakilan Rakyat, or DPR), alleged that the then President Wahid was involved in instances of corruption. In July 2001, the MPR impeached Wahid and elected Megawati Sukarnoputri in his place.

The first direct presidential elections in the history of Indonesia were held in Indonesia on July 5, 2004 and September 20, 2004. In the second round, former coordinating minister for politics and security, Susilo Bambang Yudhoyono, defeated incumbent President Megawati Sukarnoputri. President Yudhoyono was inaugurated on October 20, 2004. Since taking office in October 2004, President Yudhoyono has appointed a new cabinet, announced plans to improve economic conditions and has generally received positive support both domestically and internationally. However, political instability in the past has had an adverse effect on investor confidence in the Indonesian economy.

In addition, changes in the Government and Government policies may have a direct impact on the Company's business and the market price of the Shares. The Company's business is affected by various actions that may be undertaken by the Government, including, without limitation, a change in crude oil or natural gas pricing policy, responses to war and terrorist acts, renegotiation or nullification of existing concessions and contracts, a change in taxation, the imposition of foreign exchange restrictions and responses to international developments.

Political and related social developments in Indonesia have been unpredictable in the past, and there can be no assurance that social and civil disturbances will not occur in the future, or that any such disturbances will not, directly or indirectly, have a material adverse effect on the Company.

***Terrorist activities in Indonesia could destabilize Indonesia, which could adversely affect the Company's business and the trading price of the Bonds and the Shares***

In the last five years, there have been various bombing incidents directed against the Government and public and commercial buildings frequented by foreigners, including the JSX Building and the departure lounge of Jakarta's Soekarno-Hatta International Airport. On October 12, 2002, over 200 people were killed in a bombing at a tourist area in Bali. On August 5, 2003, a bomb exploded at the JW Marriott Hotel in Jakarta, killing at least 13 people and injuring 149 others. On September 9, 2004, a car bomb exploded at the Australian Embassy in Jakarta, killing 11 people. Indonesian, Australian and U.S. governmental officials have indicated that these bombings may be linked to an international terrorist organization. Demonstrations have also taken place in Indonesia in response to plans for and subsequent to U.S., British and Australian military action in Iraq. On May 28, 2005, two bombs exploded in a crowded market in the eastern Indonesian town of Tentena, on the island of Sulawesi, killing more than 20 people and wounding more than 50 people. Most recently, on October 1, 2005, bombs exploded in three restaurants in Bali, killing at least 23 people and wounding more than 100 people.

There can be no assurance that further terrorist acts will not occur in the future. Following the commencement of hostilities in Iraq, a number of governments have issued warnings to their citizens in relation to a perceived increase in the possibility of terrorist activities in Indonesia targeting foreign, particularly U.S., interests. Such terrorist acts could destabilize Indonesia and increase internal divisions within the Government as it evaluates responses to that instability and unrest. Violent acts arising from, and leading to, instability and unrest have in the past had, and may continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy, which could have a material adverse effect on the Group's businesses, financial condition, results of operations and prospects, and on the Issuer's ability to pay interest and additional amounts, if any, on, and repay the principal of, the Bonds. In addition, although such terrorist acts have not in the past targeted the Indonesian oil industry or the Company's assets or those of the Company's customers, there can be no assurance that they will not do so in the future. The Company's current insurance policies do not cover for terrorist attacks. Any terrorist attack including damage to the Company's infrastructure or that of the Company's customers could cause interruption to parts of the Company's business and materially and adversely affect the Company's financial condition and results of operations, as well as investors' confidence in Indonesia.

***Social instability and increasing regional autonomy in Indonesia could adversely affect the Company's business***

Indonesia has experienced frequent social and civil unrest arising from economic issues which has, on occasion, escalated into riots and violence. In June 2001, demonstrations and strikes affected at least 19 cities after the Government mandated a 30% increase in fuel prices. Similar demonstrations occurred in January 2003 when the Government tried to increase fuel prices, as well as electricity and telephone charges. In both instances, the Government was forced to repeal, defer or substantially reduce such proposed increases. In March 2005, the Government implemented a 29% increase in fuel prices. On October 1, 2005, the Government raised the price of premium gasoline by 87.5% to Rp.4,500 (US\$0.44) per liter, the price of regular gasoline and diesel fuel by 104.8% to Rp.4,300 (US\$0.42) per liter, and the price of kerosene by 185.7% to Rp.2,000 (US\$0.19) per liter, which resulted in public demonstrations. Similar fuel subsidy cuts contributed to the political instability that led to the resignation of then-President Suharto in 1998, which had adverse effects on businesses in Indonesia. There can be no assurance that the recent cuts in fuel subsidies, or further cuts in the future, will not result in political and social instability. To date, there have been large street demonstrations by those opposed to the increases in domestic price of fuel. According to the media, due to near-record high crude oil prices there is currently a political debate in Indonesia over whether to continue reducing fuel subsidies or whether to roll back the increase in fuel prices. Further, the Company has in the past experienced and may in the future continue to experience organized local opposition and petty vandalism relating to its onshore exploration and production activities.

Separatist movements and clashes between religious and ethnic groups have also resulted in social and civil unrest in parts of Indonesia. In the provinces of Aceh and Papua (formerly Irian Jaya), there have been numerous clashes between supporters of those separatist movements and the Indonesian military. In the provinces of Maluku and West Kalimantan, clashes between religious groups and ethnic groups have produced thousands of casualties and refugees over the past several years. The Government has attempted to resolve problems in these troubled regions with limited success. On



August 15, 2005, the Government and the Free Aceh Movement (Gerakan Aceh Merdeka, or GAM) signed a memorandum of understanding (“MOU”) providing for Acehese political autonomy, the setting up of local political parties, the disarmament of GAM, the grant of amnesty to imprisoned members of GAM and the eventual withdrawal of the Government military presence in Aceh. However, there can be no guarantee that the peace agreement will bring about a cessation of hostilities, or that separatist-related unrest will not occur in the future.

In response to a rise in demands for and assertion of autonomy in local governments in Indonesia, the Government has recently devolved some autonomy to local governments, allowing the imposition by such local governments of taxes and other charges on operators, notwithstanding the terms of production sharing arrangements which disallow such local taxes and charges. In addition, local governments have requested from operators working interests in production sharing arrangements. For instance, in the course of negotiating the extension of the Rimau PSC, the Company agreed to offer up to a 10% working interest to an Indonesian participant. In addition, the local government has expressed its interest in acquiring a 10% working interest in the Rimau PSC. In lieu of Indonesian participation, the Company has granted to the local government a 5% free carry working interest which does not require the owner of such interest to contribute towards capital expenditures. The Rimau PSC currently covers 1,577 square kilometers and contributed 59.8% of the Company’s total oil production and 33% of the Company’s total sales and operating revenues for the year ended December 31, 2005. While the Company expects to make sales for consideration that may be less than fair market value of working interests to local governments in lieu of Indonesian participation in the future with respect to producing blocks, there is uncertainty as to whether such local government participation discharges the Company’s obligations to sell interests to Indonesian participants under its production sharing arrangements.

Social and civil conditions have had and could have a material adverse effect on the Company’s business and an adverse impact on the confidence in the Indonesian economy. There can be no assurance that social and civil disturbances will not occur in the future. Future disturbances could lead to further political and economic instability, increased internal divisions within the Government and loss of confidence in the Indonesian economy and could adversely affect the Company’s business.

***Labor activism could adversely affect the Company, the Company’s customers and Indonesian companies in general, which in turn could affect the Company’s business***

Laws permitting the formation of labor unions combined with weak economic conditions, have resulted, and may in the future result, in labor unrest and activism in Indonesia. In 2000, the Government issued a labor regulation increasing the amount of severance, service and compensation payments payable to terminated employees. Employees who resign during a change of control of their employer are also entitled, under the regulation, to service and compensation payments, provided that such employees have worked for their employer for at least three years. A new labor law took effect on March 25, 2003 that permits employees to form unions without intervention from their employers. In April and May 2006, thousands of workers across Indonesia protested against proposed parliamentary revisions to the March 2003 law which, if implemented, would curb the ability of workers to strike and soften regulations on severance payment for dismissed workers, among other changes. In response to these protests, President Yudhoyono has called upon Government officials and representatives of labor unions and employers to meet and agree on mutually acceptable revisions to the proposed law. However, there can be no assurance that any revisions to the March 2003 labor law will be passed into law. In the absence of any changes to the labor laws and regulations currently in effect, businesses in Indonesia, including the Company, will be limited in their ability to maintain flexible labor policies. Furthermore, there can be no assurance that labor unrest and activism in Indonesia will not occur in the future, or that any such unrest or activism will not have a material adverse effect on investment and confidence in, and the performance of the Indonesian economy, and in turn the Company.

In February 2001, the Company’s employees formed five location specific labor unions at the encouragement of the Company. The Company and its employees have a corporate labor agreement and its two-year term will expire on May 31, 2006. As of December 31, 2005, the union has approximately 1,200 members, or 59.3% of the Company’s permanent workforce in the aggregate. See “Business — Employees”. The Company’s relationship with the labor unions has been good to date and the Company has never experienced any work stoppage or other labor disturbances that have interrupted its operations in the past as a result of labor disagreements. However, there is no assurance that the Company’s good relationship with the labor unions will continue. The labor unions may have



significant bargaining power and may cause modification or delay in the implementation of policies that the union determines may adversely impact the interests of its members. No assurances can be given that additional unions will not be formed by the Company's employees or that the formation of such unions or activities of the current union will not adversely affect the Company's business.

***The inability or failure of the Government to implement reforms necessary to receive financial assistance from multi-lateral agencies could adversely affect the Indonesian economy and the Company***

The 1997 Asian economic crisis had a significant adverse impact on Indonesia, causing, among other adverse changes, a significant depreciation in the value of the Rupiah against the U.S. dollar and other currencies and depletion of Indonesia's foreign currency reserves. The crisis caused the Government to request financial assistance from the International Monetary Fund (the "IMF"). In October 1997, the IMF agreed to provide relief contingent upon the implementation of economic reforms, such as the Government undertaking asset sales and abolishing subsidies for commodities and other consumer products. The Government did not renew its program with the IMF when it expired at the end of 2003. In addition to the IMF, the World Bank has been an important source of funding for the Government which has received assistance from the World Bank since late 1997. The World Bank's 2001 base target for lending in Indonesia was US\$1.3 billion, but this amount was subsequently reduced due to the slow pace of institutional reforms in Indonesia as well as concern that the Government's decentralization plan, and particularly empowerment of provincial governments to borrow, could adversely affect the Government's ability to service its debts. In December 2003 the World Bank approved an Indonesian lending program from 2004 to 2007 ranging from US\$450 million to US\$850 million per year. Total external indebtedness of the Government and private sector companies in Indonesia amounted to US\$133.5 billion as of December 31, 2005, which was approximately 47.5% of Indonesia's gross domestic product, or GDP, for that year. If the Government is not able to generate a fiscal budget surplus or secure alternative funding, it may default on its debts, which in turn is likely to have a material adverse impact on the Company's business.

The members of the Paris Club, the Consultative Group on Indonesia ("CGI") and the Intergovernmental Group on Indonesia ("IGGI") are all important sources of funding for the Government. The Paris Club is an informal voluntary group of 19 creditor countries that seeks to coordinate solutions for payment difficulties experienced by debtor nations. CGI is a group of 19 donor countries and 13 international organizations that meets annually to coordinate donor assistance to Indonesia. IGGI is an international group of lenders established in 1967 by The Netherlands to coordinate multi-lateral aid to Indonesia. Other members of IGGI include the Asian Development Bank, IMF, the United Nations Development Program, the World Bank, Australia, Belgium, Britain, Canada, France, Germany, Italy, Japan, New Zealand, Switzerland and the United States. In April 2002, the Paris Club decided to reschedule the Government's approximately US\$5.4 billion of principal and interest that is due to certain creditors between April 2002 and December 2003 by extending the Government's payment period. In determining whether to reschedule the debt, the Paris Club reviewed the economic reform program carried out by the Government with support from the IMF. The Government has several times successfully rescheduled its foreign debt. However, from 2004, the Paris Club publicly stated that it would no longer reschedule payments of debt owed to its members or to other creditors by the Government, as a result of the Government's decision to end the IMF program. CGI and IGGI may also elect not to extend further aid should the Government depart from the precepts of the IMF program. Following the tsunami disaster that devastated portions of Indonesia on December 26, 2004, the Paris Club, CGI and IGGI announced that they would consider rescheduling the Government's debt repayments in order to allow funds to be channeled to relieve and rebuild communities affected by the disaster. As of the date hereof, however, no definitive debt rescheduling programs have been announced.

In the absence of funding from the IMF or the World Bank or similar agencies or creditor support for debt rescheduling, the Government may not be able to secure alternative funding and may default on its debts, resulting in an economic crisis which may in turn have a material adverse impact on the Company. Funding restrictions might also mean the Government is unable to fund subsidies for staples such as food and fuel which, in turn, could have serious social, economic and political consequences and could have a material adverse effect on the Company or its business. The Government may, in connection with future agreements with the World Bank or other lenders, undertake additional economic or structural initiatives, the effects of which are presently unknown.

***Downgrades of credit ratings of Indonesia and Indonesian companies could adversely affect the Company's business***

Beginning in 1997, certain international credit rating agencies, including Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch"), downgraded Indonesia's sovereign rating and the credit ratings of various credit instruments of the Government and a large number of Indonesian banks and other companies. Currently, Indonesia's sovereign foreign currency long-term debt is rated "B2" by Moody's, "B+" by S&P and "BB-" by Fitch, and its sovereign foreign currency short-term debt is rated "NP" by Moody's, "B" by S&P and "B" by Fitch. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due. No assurance can be given that Moody's, S&P, Fitch or any other international credit rating agency will not further downgrade the credit ratings of Indonesia or Indonesian companies, including the Company. Any such downgrade could have an adverse impact on liquidity in the Indonesian financial markets, the ability of the Government and Indonesian companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. In such an event, the interest rates on the Company's floating rate debt would also likely increase.

***Domestic, regional or global economic changes may adversely affect the Company's business***

The economic crisis which affected South East Asia, including Indonesia, from mid-1997 was characterized in Indonesia by, among other effects, currency depreciation, negative economic growth, high interest rates, social unrest and extraordinary political developments. These conditions had a material adverse effect on Indonesian businesses. The economic crisis resulted in the failure of many Indonesian companies, through inability or otherwise, to repay their debts when due. Many Indonesian companies have not fully recovered from the economic crisis, and many such companies are still in the process of restructuring their debt obligations or are engaged in disputes arising from defaults under their debt obligations. Another economic downturn in Indonesia could lead to additional defaults by Indonesian borrowers and could have a material adverse effect on the Company's business, financial condition, results of operations and prospects, and on the Issuer's ability to pay interest and additional amounts, if any, on, and repay the principal of, the Bonds.

A loss of investor confidence in the financial systems of emerging and other markets, or other factors, may cause increased volatility in the Indonesian financial markets and a slowdown in economic growth or negative economic growth in Indonesia. Any such increased volatility or slowdown or negative growth could have a material adverse effect on the Company's business, financial condition, results of operations and prospects, and on the Issuer's ability to pay interest and additional amounts, if any, on, and repay the principal amount of, the Bonds.

***Indonesia is located in an earthquake zone and is subject to significant geological risk that could lead to social and economic unrest***

The Indonesian archipelago is one of the most volcanically active regions in the world. Because it is located in the convergence zone of three major lithospheric plates, it is subject to significant seismic activity that can lead to destructive earthquakes and tsunamis, or tidal waves. On December 26, 2004, an underwater earthquake off the coast of Sumatra released a tsunami that devastated coastal communities in Indonesia, Thailand and Sri Lanka. In Indonesia, more than 220,000 died or became missing in the disaster. Aftershocks from the December 2004 tsunami have also claimed casualties, particularly on Nias island as well as nearby Simeleue and the Banyak islands, where an aftershock measuring 8.7 on the Richter Scale left more than 140,000 people homeless and killed approximately 650 people on March 28, 2005. Smaller aftershocks have also been felt since that date.

While the December 2004 tsunami did not have a significant economic impact on the Indonesian capital markets, the Government has had to spend significant amounts on emergency aid and resettlement efforts. Most of these costs have been underwritten by foreign governments and international aid agencies. However, there can be no assurance that such aid will continue to be forthcoming, or that it will be delivered to recipients on a timely basis. If the Government is unable to timely deliver foreign aid to affected communities, political and social unrest could result. Additionally, recovery and relief efforts are likely to continue to impose a strain on the Government's finances, and may affect its ability to meet its obligations on its sovereign debt. Any such failure on the part of the Government, or declaration by it

of a moratorium on its sovereign debt, could trigger an event of default under numerous private-sector borrowings including those of the Company, thereby materially and adversely affecting the Company.

In addition, there can be no assurance that future geological occurrences will not have more of an impact on the Indonesian economy. A significant earthquake or other geological disturbance in any of Indonesia's more populated cities and financial centers could severely disrupt the Indonesian economy and undermine investor confidence, thereby materially and adversely affecting the Company's business, financial condition, results of operations and prospects.

***Outbreak of an infectious disease or any other serious public health concerns in Asia (including Indonesia) and elsewhere could adversely impact the Company's business, results of operations and financial conditions***

The outbreak of an infectious disease in Asia (including Indonesia) and elsewhere, together with any resulting restrictions on travel or quarantines imposed, could have a negative impact on the economy, and business activity in Indonesia and thereby adversely impact the Company's revenue. Examples are the outbreak in 2003 of Severe Acute Respiratory Syndrome, or SARS, in Asia and the outbreak in 2004 of Avian influenza, or bird flu, in Asia. There can be no assurance that any precautionary measures taken against infectious diseases would be effective. A future outbreak of an infectious disease or any other serious public health concern in Indonesia could seriously harm the business of the Company.

**Risks Relating to the Energy Industry**

The Company is subject to similar industry risks as other oil and gas operating companies and drilling contract companies in Indonesia. The Company's ability to maintain and develop its business and revenues will be affected by, among other things, the prevailing world price of oil and Indonesian domestic energy prices for gas and other factors, including those set forth below.

***The volatility of prices for crude oil, condensate, natural gas and methanol, and the cyclical nature of the oil and gas industry could adversely affect the Company's financial condition and results of operations***

Future revenues of the Company will be highly dependent upon the prices of, and demand for, oil and natural gas. The Company's profitability is determined in large part by the difference between the prices received for the oil and gas it produces and the costs of exploring for, developing, producing and selling these products. The Company currently sells substantially all of its oil at prices based on the Indonesian Crude Price-Sumatra Light Crude Minas (the "ICP-SLC"). Currently, natural gas is sold by the Company under long-term fixed-price contracts and the Company's revenues from natural gas sales is therefore not subject to the same extent of price volatility as sales of oil.

There have recently been significant fluctuations in the prices of crude oil. According to West Texas Intermediate, the monthly average price of crude oil increased from US\$32.12 per barrel in December 2003 to US\$59.41 in December 2005 and was US\$71.75 per barrel as of April 21, 2006. The market prices of crude oil have been and are expected to continue to be volatile and are subject to a variety of factors beyond the Company's control. These factors, among others, include:

- international events and circumstances, as well as political developments and instability in petroleum producing regions, such as the Middle East (particularly the Persian Gulf, Iraq and Iran), Latin America and Western Africa;
- the ability of the Organization of Petroleum Exporting Countries ("OPEC") and other petroleum-producing nations to set and maintain production levels and therefore influence market prices;
- market prices and supply levels of substitute energy sources, such as coal;
- domestic and foreign government regulations with respect to oil and energy industries in general;
- the level and scope of activity of oil speculators;

- weather conditions and seasonality; and
- overall domestic and regional economic conditions.

There is no assurance that the recent increases in the price of crude oil will continue or be sustained. Any future declines in oil and gas prices would have an adverse effect on the Company's reserves and adversely affect the Company's revenues, net income and cash flow.

In the event of a significantly lower and sustained oil price environment, the Company is likely to attempt to maintain the same level of oil production notwithstanding the decrease in the oil prices but reduce its cost of oil production. However, in the event that the price of oil falls below its cost of production, the Company is likely to reduce its oil production to a level where it can produce oil economically. This will lead to further decreases in the Company's revenues, net income and cash flows. In addition, there can be no assurance that the Government will not adopt an oil or natural gas pricing policy. Volatility and any significant decreases in the price of oil and gas could have a material adverse effect on the Company's financial condition and results of operations.

***Oil and gas operations are subject to significant operating hazards, against which the Company may not be fully insured***

The Company's oil and gas exploration, development and production operations are subject to significant risks normally associated with such activities, including drilling blowouts, pipeline ruptures, explosions, oil spills and fires. Any of these risks could result in environmental pollution, damage to or destruction of wells, production facilities or other property, or injury to persons. While the Company is prepared and its personnel are trained to deal with such emergencies, if the Company is unable to quickly fix the damage resulting from such accidents, the Company's financial condition and results of operation will be materially and adversely impacted. In addition, drilling hazards or environmental damage could increase the cost of operations, and various field operating conditions may adversely affect the Company's production levels from successful wells. These conditions include delays in obtaining Government approvals or consents, shut-in of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Production delays and declines from normal field operating conditions cannot be eliminated and can be expected to materially and adversely affect revenue and cash flow to varying degrees.

The Company is not fully insured against these operating and natural 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.

***Competition for oil and gas reserves and production sharing arrangements may limit the Company's ability to sustain and grow its business***

The Indonesian oil and gas industry is highly competitive. Many of Company's competitors have greater financial and personnel resources available to them than the Company. Certain of the Company's customers and potential customers (including Pertamina, which could be a strong domestic competitor) are themselves exploring for oil and natural gas in Indonesia. Pertamina's size, infrastructure, wide-ranging experience and close relationship with the Government may provide it with competitive advantages over other oil and gas companies operating in Indonesia, including the Company. Pertamina's role under the Oil and Gas Law is divested, and there can be no assurance that its role going forward will be consistent with its obligations to the Company under existing oil and gas agreements. 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".

***The interpretation and application of Indonesia's Oil and Gas Law is uncertain and may adversely affect the Company's business, financial condition and results of operations***

Indonesia's Oil and Gas Law came into force on November 23, 2001. See "Indonesian Oil and Gas Regulatory Framework". The law sets forth general principles to be further implemented through a series of Government regulations, presidential decrees and ministerial decrees, some of which have not



yet been promulgated. A number of implementing regulations to the Oil and Gas Law have been enacted, relating to the formation of BPMigas (the Upstream Implementing Body) and BPHMigas (the Downstream Regulatory Body), the conversion of Pertamina into a limited liability state-owned company (Persero), and the upstream and downstream industries (including matters with respect to business licensing). Implementing regulations have also been issued to elaborate the regulatory rules in respect of, among others, domestic market obligations (“DMO”), field development and reserve production, guidance, procedures, contract terms, designation and tender of working areas, contract amendment and renewal, contractual structures for selling the Government’s share of oil and gas and relinquishment of working areas. These regulations are new and subject to interpretation by the regulatory authorities. Pending clear instances of the application of such regulations, it is uncertain how such regulations will affect the Company. In some instances, the implementing regulations conflict with the terms of the Oil and Gas Law, as well as with the terms of the existing forms of production sharing contracts. Such inconsistencies may involve fundamental issues, including the calculations of the amount of tax payable under the production sharing contracts and the Government authority who is entitled to sell oil and gas reserves, and may result in increased uncertainty and bureaucratic delays in project planning until these inconsistencies can be satisfactorily resolved. For all these reasons, the impact of the Oil and Gas Law on the Company’s existing production sharing arrangements, opportunities to renew or enter into new production sharing arrangements, business activities, business opportunities and licenses, along with other key regulatory issues affecting the Company, remains only partially known.

Under the Oil and Gas Law, existing production sharing arrangements were transferred from Pertamina to BPMigas, which has assumed Pertamina’s role of upstream regulator. Based on the provisions of the Oil and Gas Law, management believes that the Oil and Gas Law will not materially alter the terms of the Company’s existing production sharing arrangements, which will continue in effect until their expiration. There can be no assurance, however, that BPMigas or other regulatory or Government bodies will not seek to reinterpret or amend terms of existing production sharing arrangements or conduct their performance under such production sharing arrangements to the Company’s detriment. See “Indonesian Oil and Gas Regulatory Framework”.

The uncertainty surrounding the Oil and Gas Law has increased the risks, and may increase the costs, of conducting an oil and gas business in Indonesia. For example, under the Upstream Regulations, upon presentation of a report on the economics of a gas field, the Government has 15 months to decide whether it will be developed for the domestic market or for export. In addition, on December 21, 2004, Indonesia’s Constitutional Court (the “Constitutional Court”) declared that a fixed rate of 25% would be applicable for DMO, instead of a maximum of 25%. Another example is the Indonesian interest participation, which is now offered with priority to regionally based enterprises which have sufficient financial capability and on condition that the participating interest must be made on an “arms-length” basis. As a result, the old method of payment out of production may no longer be applicable for future contracts, and the obligation to offer to Indonesian entity and may adversely affect the ability of the Company to negotiate favorable renewals of its existing PSCs. See also “Indonesian Oil and Gas Regulatory Framework”.

Under the Oil and Gas Law, new production sharing arrangements are subject to a broader Government approval process. Negotiation of production sharing arrangement terms with potential contractors is handled primarily by the Ministry of Energy and Mineral Resources (the “Ministry”). The relevant work area is awarded by either competitive tender or direct award, and the Indonesian Parliament must be notified of the production sharing arrangements entered into. In practice, the Government may from time to time implement policies regarding oil and gas exploration and production that differ from previous policies.

The Company may not be able to renew production sharing arrangements or successfully tender for new production sharing arrangements on terms comparable to existing production sharing arrangements. BPMigas and the Ministry or Parliament may seek specific concessions or may seek to fundamentally alter production sharing arrangement economics before renewing existing production sharing arrangements. New production sharing arrangements may affect the prices of DMO for oil and gas. There can be no assurance that the Company will be able to renew its existing production sharing arrangements or tender for new production sharing arrangements that incorporate customary terms with respect to, among other things, production bonuses, taxes and cost recovery. Moreover, the production sharing arrangement form may be replaced by an entirely different type of cooperation contract.

Existing contractors have been relying on the terms of their production sharing arrangements and certain tax regulations for relief from certain indirect taxes. Certain amendments to tax laws are also pending, which could raise issues concerning the continuing availability of the relief afforded by the existing regulations. There exist cost recovery and reimbursement provisions under the production sharing arrangements, but there have been transitional problems encountered in their implementation. In particular, the ability of PSC contractors to recover value added taxes, customs duties and import taxes on a timely basis remains uncertain. A number of these uncertainties have been resolved to date, but there can be no assurance that any of these remaining issues will be resolved or that those that have already been resolved will be satisfactorily implemented.

In addition, the Oil and Gas Law calls for prior consultation by the central Government with the relevant regional governments with respect to the opening of new areas for prospecting and the initial development plans for new areas. It is uncertain what effect this consultative process will have as this is a new requirement that did not exist under the prior oil and gas legislation. The Oil and Gas Law does not address issues raised by the advent of regional autonomy and the delegation of powers to provincial and regional governments in Indonesia. Local governments may seek to impose new taxes and retributions (such as the imposition of levies or imposts or the provision of public services and amenities by local governments) on the Company. The Company's production sharing arrangements are generally silent about local taxes and retributions, and there can be no assurance that such taxes and retributions will be recoverable under the cost recovery provisions of the Company's existing production sharing arrangements. Under the Oil and Gas Law, the Company is entitled to elect to lock-in prevailing Government tax rates for the entire term of a new production sharing arrangement at the time the arrangement commences. There can be no assurance, however, that such an election would apply to the renewal of an existing production sharing arrangement, or would extend to local tax retributions, or would be honored by local governments.

Not all of the implementing regulations to the Oil and Gas Law have been issued. In addition, it is unclear what the impact is of the Constitutional Court's decision of December 21, 2004 on DMO under the oil and gas regulations. Accordingly, the full impact of the Oil and Gas Law and the absence of related implementing regulations on the Company's financial and operational status cannot be determined at this time. To the extent such regulations or their implementation or interpretation by Indonesian regulatory authorities, courts or BPMigas are adverse to the Company, the Company's business, financial condition and results of operations could be materially and adversely affected.

***Increased scope of regulation by Government agencies may have a material adverse effect on the Company's business***

The enactment of Oil and Gas Law, has allowed other Government agencies to increase their roles in administering and regulating the oil and gas industry in Indonesia, as well as in the management and control of production sharing arrangements. In particular, the Indonesian tax authorities have recently initiated additional tax audits, implemented measures to increase tax revenues from the oil and gas industry and have raised questions concerning the deferral of value added taxes on exploration expenditures. Further, the treatment of taxation under the new tax laws may conflict with the approach currently adopted for PSCs. See "—The interpretation and application of Indonesia's Oil and Gas Law is uncertain and may adversely affect the Company's business, financial condition and results of operations." Continued expansion of the role of these governmental agencies may have a material adverse effect on companies operating in the oil and gas industry, including the Company.

***The Company's business operations may be adversely affected by current and future environmental regulations***

The Company's business is subject to certain Indonesian laws and regulations on environmental and safety matters relating to the exploration for, and development and production of, oil and natural gas, which may have a material adverse effect on the Company's financial conditions and results of operations. 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 and pay penalties or fines. For example, the fields in the Sembakung block, which the Company acquired in September 2005, had a "black" environmental rating at the time of the acquisition, which indicates that these fields have outstanding environmental issues that require remedial action. Such remedial action may involve the Company incurring significant costs. Any change in Indonesian laws and regulations applicable to the Company, including environmental laws and regulations and increased governmental enforcement



of environmental laws or other similar developments in the future may require that the Company make additional capital expenditures or incur additional operating expenses in order to maintain its current production, development, exploration and other operating activities, curtail its production activities or take other actions that could materially and adversely affect the Company. See “Business — Environmental Matters”.

***The contract drilling business is highly volatile, competitive and cyclical, and is also subject to serious operational hazards***

The contract drilling industry is, and historically has been, highly volatile, competitive and cyclical, with periods of low demand, excess rig supply and depressed rig dayrates. The contract drilling business is influenced by many factors beyond the control of 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. There can be no assurance as to the duration of prevailing utilization and dayrates, and a decline in utilization and dayrates may have a material adverse effect on the Company. While many of the Company’s drilling operations are targeted at niche markets, decline of utilization rates in the short term may have a negative impact on the gross margins attributable to the Company’s drilling operations as rigs are generally maintained in a ready-to-operate state with a full crew. It is only after continued non-utilization that the rig is put into an idle “stacked mode”.

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’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 could be materially and adversely affected. The Company’s contracts with its customers are often cancelable 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.

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. A gas blowout occurred on March 1, 2002 on one of the Company’s offshore rigs in East Kalimantan. There were no injuries but the Company’s rig was damaged by fire and was withdrawn from service for 13 months for repairs and refurbishment. Loss of or serious damage to the Company’s equipment, even if adequately covered by insurance, can materially reduce the Company’s revenues and operating profit. The Company’s insurance coverage does not cover all types of losses (e.g., war, internal disturbances, business interruption or loss of revenue) 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.

Recent improvements in the economic environment has generally increased offshore contract drilling activity leading to increased rig construction and enhancement programs by industry participants. Also, new entrants may enter the market. Increased rig construction, movement or reactivation, or a decrease in drilling activity in any major market, could depress rig dayrates and rig utilization. Revenues from drilling operations and related services accounted for 14.4% of the Company’s total sales and other operating revenues in 2005, which was a decrease from 17.2% in 2004. Any decrease in utilization rates or dayrates will likely have an adverse affect on the Company’s financial condition and results of operation.

***Market prices for power in some markets have been volatile and depressed in recent years***

The Company has recently invested in power plants as part of its strategic investment in gas related downstream projects for diversification and the opportunity to add value to its oil and gas production. In recent years, power markets throughout the world have been characterized by new market entrants, regulatory changes and other factors which have contributed to market prices for power that are volatile and sometimes uneconomical. The Company believes the primary cause for these low prices is oversupply. Accordingly, the Company may experience difficulty charging prices that provide those projects with sufficient cash to service debt and make distributions to it until such time as that oversupply is rectified. Furthermore, to the extent that market prices continue to be uneconomical,

this may have an adverse effect on the Company's business performance in the relevant markets and may, in certain circumstances, require the Company to write down the value of its existing and future assets in those markets. In order to decide whether to acquire power assets or invest in a new power project, the Company makes certain assumptions about the price at which it can sell its output in order to assess whether it will be able to recover the incurred cost of such activities. The Company cannot give any assurance that sales prices achieved through power purchase agreements it manages to negotiate will be sufficient to enable it to recover the incurred costs of acquiring or developing power plants.

### **Risks Relating to the Company**

#### ***The Company is highly dependent on its ability to develop existing reserves, replace existing reserves and develop additional reserves***

The Company must continually find, acquire, explore for and develop new hydrocarbon reserves to replace those produced and sold. The Company must develop its probable reserves and explore, develop and produce additional reserves from existing blocks or new acquisitions in order to maintain or grow production at current levels. In recent years, the Company has been challenged to sustain production growth due to the maturation and depletion of its principal oil properties and proven reserves. In particular, oil production from the Rimau PSC, which contributed 31% and 33% of the Company's total sales and other operating revenues for the years ended December 31, 2004 and 2005, respectively, has begun to decline as the Rimau PSC enters a mature stage of production. The success of presently contemplated exploration, development and production activities cannot be assured. Drilling activities are subject to numerous risks, including the risk that no commercially viable oil or natural gas accumulations will be encountered. The decision to explore or develop a property will depend in part on geophysical and geological analyses and engineering studies, the results of which may be inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain. Drilling may be curtailed, delayed or cancelled as a result of many factors, including weather conditions, Government requirements and contractual conditions, shortages of or delays in obtaining equipment, reductions in product prices or limitations in the market for products. Wells may be shut in for, among other things, lack of a market or due to inadequacy or unavailability of pipeline or storage capacity. Geological uncertainties and unusual or unexpected formations and pressures may result in dry holes. The Company's exploration and production activities may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient 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, the Company faces substantial competition in the search for and acquisition of reserves and such searches and acquisitions require substantial investment. The possibility of finding or being able to acquire such additional reserves is uncertain. If the Company is unable to find or acquire additional reserves, the Company would not be able to sustain its production and grow its business, and this would have a material adverse effect on the financial condition and results of operation of the Company.

#### ***Failure or delay by BPMigas or the Company to comply with the terms of production sharing arrangements could adversely affect the Company***

Under the Oil and Gas Law, BPMigas regulates Indonesia's petroleum resources on behalf of the Government. BPMigas enters into production sharing agreements and other forms of cooperation contracts with private sector energy companies, such as the Company (or in respect of pre-existing production sharing agreements, as the Government contract counterparty of private sector energy companies) whereby such companies explore, develop and market oil and gas in specified areas in exchange for a percentage interest in the production from the blocks in the applicable contract area.

All the Company's reserves in Indonesia are attributable to production sharing arrangements. The production sharing arrangements to which the Company is a party contain requirements regarding quality of service, capital expenditures, legal status of the contractors, restrictions on transfer and encumbrance of assets and other restrictions. Any failure to comply with the terms of these production sharing arrangements could result, under certain circumstances, in the revocation of a production sharing arrangement. Such an action by BPMigas or Pertamina could have a material adverse effect on the Company. Furthermore, BPMigas or Pertamina may fail to comply with the terms of production sharing arrangements. In addition, operators of PSCs, such as the Company, must obtain approval from BPMigas for substantially all material activities undertaken with respect to PSCs, including exploration,

development, production, drilling and other operations, sale of oil or natural gas and the hiring or termination of personnel, while Pertamina holds a similar approval right over activities under TACs. The failure to obtain such approvals or delays in obtaining such approvals or condition imposed in connection with the grant of such approvals could have an adverse impact on the Company. As part of these production sharing arrangements, the Company and its partners finance such activities and facilities and equipment and recover their costs from the sales of the production, if there is successful production, in accordance with the terms of the production sharing arrangements. The Company's business and results of operations are substantially dependant on its relationship with BPMigas and Pertamina, and any adverse change to these relationships may have a material adverse effect on the Company.

The unpredictability of the effect of the Oil and Gas Law may also pose difficulties for the Company in determining how to comply with its legal obligations in the context of its various production sharing arrangements. See “— Risks Relating to the Oil and Gas Industry — The interpretation and application of Indonesia's Oil and Gas Law is uncertain and may adversely affect the Company's business, financial condition and results of operations”.

In addition, TACs are production sharing arrangements with Pertamina, and not BPMigas. Under the Oil and Gas Law, BPMigas has made it clear that the existing TACs will not be extended when they expire. Instead, operators of the TACs will have to either terminate their activities at the block or enter into negotiations with BPMigas to administer the blocks as new PSCs which will be regulated by the PSC structure prescribed under the Oil and Gas Law. To date, at least one operator of an expiring TAC has failed to negotiate a replacement PSC with BPMigas, and has been required to abandon the block upon the expiry of its TAC. There can be no assurance that the Company will be able to negotiate new PSCs with BPMigas when its existing TACs expire, or that any such new PSCs would be on terms that are satisfactory to the Company. Failure to successfully negotiate any such PSCs on favorable terms or at all would result in loss of the ability to carry out activities on the applicable blocks and could have an adverse effect on the Company's financial condition or results of operations.

***The oil and gas reserve data in this Offering Circular are only estimates and the Company's actual recoverable reserves, production, revenue and expenditure with respect to its reserves may differ from such estimates***

This Offering Circular includes reserve estimates certified by independent petroleum engineering consultants of certain of the Company's gross and net proved and gross proved plus probable oil and gas. Certain other reserve information contained in this Offering Circular, which amounts to approximately 15.3% of the Company's gross proved oil and gas reserves and 60.0% of the Company's gross proved and probable oil and gas reserves, is not certified by GCA as of January 1, 2006, but constitutes the Company's estimates, in some cases based upon certifications of other independent petroleum engineering or other similar consultants for third parties and in some cases based on estimates of other operators, which are not current and from which production (if any) at the relevant block since the date of such certification has been deducted, and in some cases based on the Company's own investigations. Certain reserves information consists of estimates of third parties and have not been independently verified by the Company. In addition, certain reserves information contained in this Offering Circular was prepared without utilizing generally accepted petroleum engineering principles and definitions applicable to the proved and probable reserve categories and sub-classifications promulgated by the SPE and/or does not meet the disclosure requirements of the SEC.

Determination of reserve estimates is an inexact interpretative activity generally based upon the SPE guidelines and definitions. There often exist various professional interpretive differences of SPE guidelines and reserve classification between companies, other independent petroleum engineering consultants (such as GCA) and operators. This is often evidenced by different reported reserves between consortium members of the same exploration or producing block. Such differences may include assigning volumes to proved, probable or possible reserve categories or to contingent resources, based on interpretation of guidelines or on views of the commercial viability of a given oil or gas reserve or resource, at a particular point in time. There is no assurance that the Company, other independent petroleum engineering consultants or other operators will not change their views of interpretation of such guidelines or change their interpretation on the commercial viability of a given reserve or resource, and thus causing such resources or reserves to be reclassified into another category under SPE or other similar guidelines.

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 determined by the independent petroleum engineering consultant or the Company according to industry practice. In general, estimates of economically recoverable oil and natural gas reserves are based upon a number of variable factors and assumptions, such as geological and geophysical characteristics of the reservoirs, historical production performance from the properties, the quality and quantity of technical and economic data, prevailing oil and gas prices applicable to a company's production, extensive engineering judgments, forward commercial and market assumptions, the assumed effects of regulation by Government agencies and future operating costs. All such estimates involve uncertainties, and classifications of reserves are only attempts to define the degree of likelihood that the reserves will result in revenue for the Company. 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. In addition, such estimates can be and will be subsequently revised as additional pertinent data becomes available prompting revision. Actual recoverable reserves may vary significantly from such estimates. To the extent actual recoverable reserves are significantly less than the Company's estimates, the Company's financial conditions and results of operations are likely to be materially and adversely impacted.

The estimates of net reserves reflect reserves attributable to the Company's interest after deduction of applicable Government take payable to the Government as owner of the reserves under the applicable contractual arrangement. Because of, among other things, the cost recovery provisions that affect the determination of the Government take, estimates of net reserves are significantly affected by sales prices, production rates and capital and operating expenses prevailing as of the time such reserves are determined. Such estimates may change materially from period to period even in the absence of any new geological information. See "Business — Reserves".

***Probable reserve estimates in this Offering Circular are generally considered of a higher risk than proved reserve estimates and are generally believed to be less likely to be recovered than proved reserves***

Probable reserves of the Company presented in this Offering Circular may not be disclosed in filings with the SEC, except as required by foreign regulations. The SEC has not promulgated a definition of probable reserves. While certain of the Company's probable gas reserves would be categorized as proved reserves if there had been sales contract for such probable reserves or approved projects for development of such probable reserves, probable reserves are generally of a higher risk and are generally believed to be less likely to be recovered than proved reserves. While the Company is disclosing an independent petroleum engineering consultant's estimates of the Company's gross probable reserves, the Company is not disclosing net probable reserve estimates. Because some of the probable reserves are certain uncommitted oil and gas volumes which have not yet been scheduled for development, it is not possible to accurately construct an economic model for probable reserves and therefore no net probable reserves have been calculated. There can be no assurance that net probable reserves, if disclosed, would bear the same relationship to gross probable reserves that net proved reserves bear to gross proved reserves.

***The Company may not be able to consummate future acquisitions and certain consequences of acquisitions which it does complete may adversely affect the Company***

The Company plans to continue to pursue strategic acquisitions that will expand its oil and gas business and its activity in the oil and gas industry generally. The Company may not be able to identify or complete additional acquisitions or if it does and they are consummated, the Company may not realize any anticipated benefits from such acquisitions. The Company may pursue additional acquisitions in areas of the oil and gas sector outside its core business where its knowledge and expertise may be lower and its experience may be limited. It may not be able to obtain acquisition financing and, depending on the terms of additional acquisitions, any financing could be restricted by the terms of its existing secured senior funding agreement and the indenture governing previously issued notes. For international acquisitions, the Company may face new and different regulatory regimes, environmental requirements and other regulations with which it needs to comply. In addition, the Company is required to comply with the covenants under its existing secured senior funding agreement to be permitted to make acquisitions and if it cannot comply with these covenants, or obtain the consents required under



its existing secured senior funding agreement, it may not be able to make a particular acquisition. In addition, various financing arrangements of the controlling shareholders of Medco Energi contain certain restrictive covenants and events of default. See also “— The interests of Medco Energi’s controlling shareholders may differ from those of the Company”. The process of integrating acquired operations into the Company’s existing operations may result in unforeseen difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of the Company’s existing operations. Future acquisitions could result in the incurrence of additional debt, contingent liabilities and amortization expenses related to goodwill and other intangible assets and increased capital expenditures, interest and other costs, any of which could have a material adverse effect on the Company’s financial condition and operating results by reducing its net profit or increasing its total liabilities, or both.

***The Company may experience difficulties in expanding into new businesses and non-Indonesian production areas, which may adversely affect the Company***

The Company has already expanded, and plans to further expand, its operations into new businesses related to its oil and gas exploration and production operations. For instance, in April 2004 the Company acquired a 54% interest in the operation of a 55MW power plant in Batam and in December 2004 the Company purchased a 5% interest in the operator of Sengkang Electricity Power Plant located in Sengkang, South Sulawesi. In July 2004, the Company acquired assets and operations in the United States and the Middle East, and the Company has recently acquired interests for oil exploration and development in Libya and entered into a contract to provide exploration and development services in Oman, all of which are areas where the Company has limited investment or operational experience. The Company has limited experience in these areas and there can be no assurance that the Company will be successful in operating in such areas or that such activities will not detract the financial and personnel resources from the Company’s core business. Furthermore, these new projects would likely have significant capital requirements and would expose the Company to additional risks, such as, approvals from regulatory authorities other than those regulating the oil and gas sector in Indonesia and political, economic and legal risks associated with operating projects in other countries. There can be no assurance that commencing such future projects would not have a material adverse effect on the Company.

***A majority of the Company’s assets and operations is concentrated in two PSC areas, which geographically exposes the Company to risks and hazards in those areas***

As of January 1, 2006, approximately 64.0% of the Company’s total gross proved crude oil reserves were located in the Rimau PSC contract area. In 2005, approximately 59.8% of the Company’s total oil production came from the Rimau PSC area. The concentration of the Company’s crude oil reserves in the Rimau PSC area exposes the Company 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. In addition, approximately 16.7% of gross crude oil production and 42.1% of gross natural gas production for 2005 were attributable to fields in the South Sumatra Extension and the Central Sumatra Kampar blocks, or the Extension/Kampar PSC area. Adverse developments with respect to one or more of these contract areas could have a material adverse effect on the Company.

***Due to the limited natural gas transmission and distribution infrastructure, failure by the Company to develop markets for the sale of its natural gas would have an adverse effect on the Company’s results of operations***

The Company’s proposed expansion of its natural gas production is currently constrained by the limited natural gas transmission and distribution infrastructure and an underdeveloped natural gas market. The limited natural gas transmission and distribution infrastructure within Indonesia and between Indonesia and other countries, including Singapore, has restricted consumption of Indonesian natural gas. There can be no assurance as to when or if a significant natural gas transmission and distribution system will be constructed. Construction of transmission and distribution pipelines and other infrastructure depends on many factors, many of which are beyond the Company’s control, such as Government funding, costs of land acquisition, national and local government approvals and timely completion of construction.

Due to the limited natural gas delivery infrastructure, the Company must sell its natural gas to offtakers who are within close geographical proximity to the Company's operations. The Company must seek to maximize utilization of its natural gas reserves by entering into working alliances as a gas supplier to obtain and secure long-term gas contracts with power plants and industrial users, among others, as new users of natural gas, or by investing interests in or acquiring power plants. See "Business — Gas Related Downstream Projects". The Company's ability to sustain the planned expansion of its natural gas exploration and production business by continuously finding, developing and maintaining markets for the sale of its natural gas will be subject to many factors, including the ability to obtain funding, regulatory approvals, competition from other regional and international gas producers, downstream market reforms such as reductions of fuel subsidies that could trigger public opposition, environmental regulations, and other operating or commercial risks, some of which are beyond the Company's control. Failure by the Company to find, develop and maintain markets for the sale of its natural gas would have a material adverse effect on the natural gas business of the Company and its financial condition and results of operations.

***The loss of the Company's leading customer for contract drilling services could have an adverse effect on the Company's contract drilling business and results of operations***

For the years ended December 31, 2004 and 2005, Total E&P Indonesia accounted for 54.8% and 58.9%, respectively, of Apexindo's revenues. The loss of Total E&P Indonesia or any other significant customer could have a material adverse effect on the Company's results of operations. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Liquidity and Capital Resources". For a discussion of the Company's plans with respect to its drilling operations, see "Factors Affecting the Guarantor's Financial Condition and Results of Operation — Drilling Operations and Related Services".

***The Company's business is capital intensive and no assurance can be given that the Company will be able to obtain required funding***

The Company requires, and will continue to require, substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves as well as to build and construct more rigs for its drilling operations. If certain oil and gas projects currently under development do not increase production as quickly as expected or, if, following such increases, revenues subsequently decline, the Company may be constrained in its ability to secure 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 the Company's requirements or, if debt or equity financing or loans are available, that it will be on terms acceptable to the Company. Any inability of the Company to access sufficient capital for its operations and capital expenditure requirements could have a material adverse effect on the Company. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Liquidity and Capital Resources".

***The Company relies on the production and delivery infrastructure provided by third parties***

As an oil and gas exploration and production company, most of the infrastructure that the Company uses to transport oil and gas to its customers is not owned by the Company. Such infrastructure, which includes pipelines and storage tanks, is leased from third-party providers and the Company has no control over the quality and availability of this infrastructure.

As part of its business, the Company also has to assume some of the risk of damage or loss of the construction services and equipment provided to it by third-party contractors (such as drilling rigs, seismic acquisition vessels, service boats, tankers and floating storage and offloading vessels), together with operational, geophysical, financial and regulatory risks. The Company's development projects have in the past also required it to commit to long-term lease and other financial arrangements.

In addition, the Company competes with other oil and gas companies for equipment and human resources such as oil and gas drilling rigs, which are a limited resource given the competitive market in the Indonesian oil and gas sector. The increased demand for such equipment and people has resulted in increases in the prices that the Company has had to pay in order to secure its access to such equipment. The recent trend of record high oil prices has resulted in even more competition and higher prices as companies compete for availability and capacity for oil and gas equipment and services in order to take advantage of such high oil prices. If the Company is unable to obtain the equipment that it



needs to carry out its development plans with respect to its production assets, it may have to delay or restructure its development plans, which may have an adverse effect on the Company's ability to commercialize its oil and gas reserves on a timely basis. Further, depending on the complexity of its development projects, the competitive dynamics of the market, movements in prices of raw materials such as steel, and the availability and prices of its contractors and equipment, the Company may have to pay significantly more than it currently anticipates in order to implement its development plans for its blocks.

From time to time, the Company may face interruptions in the functioning of its production and delivery infrastructure due to logistical complications outside its control. In the event of a disruption or delay in the availability of this infrastructure, the Company would be unable to sell its products until the problem is corrected or until it finds alternative means to deliver its products to its customers. Such alternative means, if available, would likely result in increased costs to the Company, and could have a material adverse effect on the Company's business, financial condition and results of operations.

***The interests of Medco Energi's controlling shareholders may differ from those of the Company***

Encore International Limited ("Encore") currently owns 50.7% of the Shares through its wholly-owned subsidiaries, Densico Energy Resources Pte Limited and Aman Energy Resources Pte Limited. As a result, Encore has the power to appoint a majority of Medco Energi's commissioners and directors and to direct the management and policies of the Company. Encore is a corporation incorporated in the British Virgin Islands and 100% owned by Mr. Hilmi Panigoro, a member of the Panigoro family and the President Director and Chief Executive Officer of Medco Energi. Under Indonesian regulations, transactions between the Company and any of its controlling shareholders are, in certain circumstances, subject to the approval of Medco Energi's independent shareholders. The interests of Medco Energi's controlling shareholders may differ from those of the Company, and resulting transactions may be adverse to the Company. To the extent that the Company enters into such transactions without independent shareholder approval, the Company may be subject to limited fines under BAPEPAM regulations. In addition, Encore is subject to certain covenants and restrictions with respect to its shareholding in Medco Energi pursuant to financing arrangements with its lenders, including having to provide a pledge over Encore's shares in Medco Energi held through Densico Energy Resources Pte Limited and Aman Energy Resources Pte Limited. The interests of Encore's lenders may also differ from those of the Company and the exercise of certain rights by these lenders may be adverse to the Company and the other holders of Shares. See "Principal Shareholders of the Guarantor".

***The Company is dependent on key personnel as well as the availability of qualified technical personnel***

The Company is dependent on certain key senior management employees. If the Company loses the services of any of its key executive officers, it could be very difficult to find, relocate and integrate adequate replacement personnel into the Company's operations, which could seriously harm its operations and the growth of its business. The Company is also dependent on attracting qualified technical employees to provide services in relation to certain of its oil and gas operations. The media has reported that there are few people in Indonesia who have the education and training to perform jobs in oil fields and refineries in Indonesia. Even if the Company is able to attract, integrate and retain new qualified technical personnel, it may be on uneconomic terms. If the Company is unable to retain its current workforce or hire qualified technical personnel in the future, it could have a material adverse effect on the Company's operations.

***Indonesian corporate and other disclosure and accounting standards differ from those in other jurisdictions, such as countries in the European Union***

The consolidated financial statements of the Company are prepared in accordance with Indonesian GAAP, which differs from IFRS. As a result, the Company's consolidated financial statements and reported earnings could be significantly different from those which would be reported under IFRS. This Offering Circular does not contain a reconciliation of the Company's consolidated financial statements to IFRS, and there is no assurance that such a reconciliation would not reveal material differences. See "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and International Financial Reporting Standards".

***The Company's results of operations have been and may continue to be adversely affected by the accounting treatment of certain of its swap transactions***

In 2005, the Company recorded an unrealized loss of US\$34.7 million from certain of its interest rate swap transactions. This loss was primarily because certain of the Company's interest rate swap transactions did not meet the criteria for "hedging transactions" under International Accounting Standards, specifically IAS No. 39, and Indonesian accounting standards, specifically SFAS No. 55, "Accounting for Derivative Instruments and Hedging Activities". IAS No 39 and SFAS No. 55 establish the accounting and reporting standards which requires that every derivative instrument (including embedded derivatives) be recorded in the balance sheet as either an asset or liability, measured at its fair value. IAS No. 39 and SFAS No. 55 also require that changes in the fair value (on a mark-to-market basis) of derivatives be reflected in a company's statement of income unless the fair value of the swap transactions provide coverage for 80% to 120% of the underlying transaction. IAS No. 39 and SFAS No. 55 further require that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. Because certain of the Company's interest rate swap transactions failed to meet the foregoing qualifications, the Company was required to record losses on these transactions (on a mark-to-market basis) in its statement of income. Although certain of these transactions have been terminated, the Company expects that mark-to-market gains or losses on its remaining interest rate swap transactions may continue to have a material effect on its results of operations and financial condition.

***The Company's future consolidated financial statements may not be comparable to its existing consolidated financial statements***

The Company currently classifies its revenues and expenses from exploration and production of oil and gas primarily on the basis of whether the fields are operated directly by the Company or by third parties. Revenues and expenses from fields operated directly by the Company are presented under the respective income and expense accounts, including net oil and gas sales, depreciation and amortization, production and lifting costs, exploration expenses and operating expenses. Revenue and expenses for the non-Company operated fields or blocks are presented under a single line item, "share of profits of joint ventures" which represents the Company's net income derived from the non-Company operated fields, net of depreciation and amortization, production and lifting costs, exploration expenses, and operating and other expenses specifically related to such non-Company-operated blocks.

The Company adopted this account presentation following the acquisition of Novus in June 2004 because certain information which is required to be presented in more detail in the consolidated financial statements of the Company was not readily available in the audited financial statements of the non-Company operated blocks held by Novus. Such information was not presented in the previous reports of Novus due to the different standards of disclosure required by the Australian and Indonesian securities regulatory authorities. As a result of the adoption of this presentation, certain of the revenue and expense items on the statements of income of the Company were understated. Going forward, the Company intends to change this account presentation to include revenues and expenses from both operated and non-operated fields in their respective revenue and expense line items. This change is expected to take effect in the Company's consolidated financial statements as of and for the year ended December 31, 2006. However, there can be no assurance that the change will take place by then and, accordingly, certain revenues and expenses of the Company may continue to be understated. Furthermore, as a result of such expected change, the Company's consolidated financial statements as of and for the years ended December 31, 2004 and 2005 may not be comparable to the Company's future consolidated financial statements relating to similar periods. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Revenues from Company-Operated and Non-Company-Operated Fields".

**Risks Relating to the Bonds and the Shares**

***The market value of an investor's investment in the Bonds or the Shares may fluctuate due to the volatility of the Indonesian securities market***

Indonesian securities markets are more volatile than the securities markets in certain countries which are members of the Organization for Economic Cooperation and Development, or OECD. Indonesian stock exchanges have, in the past, experienced substantial fluctuations in the prices of listed securities. Indonesian stock exchanges have experienced problems which, if such or similar problems

were to continue or recur, could affect the market price and liquidity of the securities of Indonesian companies, including the Shares. These problems have included temporary exchange closures, broker defaults, settlement delays, strikes by brokers and the bombing of the JSX Building. In addition, the governing bodies of Indonesian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. There is also a lower level of regulation and monitoring of the Indonesian securities markets and the activities of investors, brokers and other participants than in certain OECD countries. There may be less publicly available information about Indonesian companies than is regularly made available by public companies in certain OECD countries. Any of these factors could adversely affect the trading price of the Bonds or of the Shares.

***Fluctuations in the exchange rate between the Rupiah and the U.S. dollar may have a material adverse effect on the value of the Bonds or the Shares in U.S. dollar terms***

Investors purchasing Bonds will be required to pay for them in U.S. dollars. The Shares into which the Bonds are convertible are denominated in Rupiah. Fluctuations in the exchange rate between the Rupiah and the U.S. dollar will affect, among other things, the U.S. dollar value of the proceeds which a holder receives upon a sale in Indonesia of Shares received upon surrender conversion of the Bonds, the secondary market price of the Bonds and the U.S. dollar value of dividends received on the Shares. See “Exchange Rates”.

***Future issuances or sales of Shares could significantly affect the trading price of the Shares and the Bonds***

The future issuance of Shares by the Company or the disposal of Shares by any of the Company’s major shareholders or the perception that such issuance or sales may occur may significantly affect the trading price of the Shares and the Company’s major shareholders have also pledged their Shares in Medco Energi. Subject to certain exceptions, the Company and certain of its shareholders have agreed with the Managers that for a period of 90 days after the Closing Date they will not, without the written consent of the representatives of the Managers, offer, sell or otherwise dispose of any securities convertible into or exchangeable for securities of the same class as the Shares. See “Subscription and Sale”. Except for such restrictions, there is no restriction on the Company’s ability to issue Shares or the ability of any of the Company’s shareholders to dispose of, encumber or pledge, its Shares, and there can be no assurance that the Company will not issue Shares or that such shareholders will not dispose of, encumber or pledge, its Shares.

***Through purchase of the Bonds, the Bondholders may be exposed to a legal system subject to considerable discretion and uncertainty and the Bondholders may have difficulty pursuing claims against Medco Energi***

Medco Energi is established in Indonesia as a public limited liability company and a substantial part of the Company’s operations and assets are located in Indonesia. In addition, all of the Commissioners and Directors of Medco Energi reside in Indonesia and a substantial portion of the assets of such persons are located in Indonesia. As a result, it may be difficult for investors to effect service of process, including judgments, on Medco Energi or such persons outside Indonesia, or to enforce against Medco Energi or such persons judgments obtained in non-Indonesian, including English, courts.

Indonesian legal principles relating to the rights of debtors and creditors, or their practical implementation by Indonesian courts, differ materially from those that would apply within the European Union. Neither the rights of debtors nor the rights of creditors under Indonesian law are as clearly established or recognized as under legislation or judicial precedent in most European Union jurisdictions. In addition, under Indonesian law, debtors may have rights and defenses to actions filed by creditors that these debtors would not have in jurisdictions such as the European Union member states.

Indonesia’s legal system is a civil law system based on written statutes; judicial and administrative decisions do not constitute binding precedent and are not systematically published. Many of Indonesia’s commercial and civil laws and rules on judicial process are based on Dutch law as in effect prior to Indonesia’s independence in 1945, and have not been revised to reflect the complexities of modern financial transactions and instruments. Indonesian courts may be unfamiliar with sophisticated commercial or financial transactions, leading in practice to uncertainty and inconsistency in the interpretation and application of Indonesian legal principles. The application of many Indonesian laws depends, in a

large part, upon subjective criteria such as the good faith of the parties to the transaction and principles of public policy, the practical effect of which is difficult or impossible to predict. Indonesian judges operate in an inquisitorial legal system and have very broad fact-finding powers and a high level of discretion in relation to the manner in which those powers are exercised. In practice, Indonesian court decisions may omit, or may not be decided upon, a legal and factual analysis of the issues presented in a case. As a result, the administration and enforcement of laws and regulations by Indonesian courts and Indonesian governmental agencies may be subject to considerable discretion and uncertainty and inconsistency. Furthermore, corruption in the court system in Indonesia has been widely reported in publicly available sources. See for example, U.S. Department of State, Indonesia: Country Reports on Human Rights Practices (2003); World Bank, Raising Investment in Indonesia: A Second Generation of Reforms (2005) and Transparency International, International Corruption Perception Index (2003).

The enforcement of guarantees in Indonesia is also subject to uncertainties. The Guarantor will guarantee payment of amounts due under the Bonds through the Guarantee in the Trust Deed. Under Presidential Decree No. 59/1972, as amended, Indonesian resident borrowers are required to report particulars of offshore borrowings with the Minister of Finance of the Republic of Indonesia and Bank Indonesia, on the acceptance, implementation, and repayment of principal and interest. Ministry of Finance Decree No. KEP-261/MK/IV/5/73 (as supplemented), as the implementing regulation of this Presidential Decree No. 59/1972, further sets out the requirements to submit periodic reports to the Minister of Finance of the Republic of Indonesia and Bank Indonesia on the effective date of the contract for and each subsequent three-month period. Further, under Presidential Decree No. 39/1991, all offshore commercial borrowers must submit periodic reports to the PKLN Team on the implementation of their offshore commercial borrowing. Presidential Decree No. 39/1991 stipulates neither the time frame nor the format and the content of the periodic reports that must be submitted. According to Bank Indonesia Regulation No. 2/22/PBI/2000 and Circular Letter of the Directors of Bank Indonesia No. 6/51/DLN/2004, as amended, any corporation which obtains offshore commercial loans or issues debt securities with a tenor of at least three months or a value of at least US\$200,000 or its equivalent in any currency other than the Rupiah must report to Bank Indonesia. The reports consist of the main data report and the realization data report. The main data report must be submitted to Bank Indonesia no later than ten Bank Indonesia working days after the signing of the loan agreement or the issuance of the debt securities. Further, a monthly realization data report must be submitted to Bank Indonesia no later than the 10th day of each month, until the offshore commercial borrowing has been repaid in full. Medco Energi has been advised by its Indonesian counsel that the reporting and filing requirements set out above are applicable in the case of contingent liabilities under guarantees. Further, Medco Energi has been advised by its Indonesian counsel that that any failure to submit the required reports will subject Medco Energi to certain administrative sanctions in the form of fines, but should not invalidate Medco Energi's obligations under the Guarantee. However, the outcome of specific cases in the Indonesian legal system is subject to considerable discretion and uncertainty.

In addition, under the Indonesian Civil Code, although a guarantor may ostensibly waive its right to require the obligee to exhaust its legal remedies against the obligor's assets prior to the obligee exercising its rights under the related guarantee, a guarantor may be able to argue successfully that the guarantor can require the obligee to show exhaustion of such remedies before acting against the guarantor, despite such waiver. No assurance can be given that an Indonesian court would not side with Medco Energi on this matter in connection with its Guarantee, despite the express waiver by Medco Energi of this requirement in its Guarantee.

In any proceedings before the Indonesian courts, the parties' choice of English law for certain transaction documents may not be recognized in the absence of substantial contacts between the chosen law and the parties or performance of the obligations under the relevant transaction documents. In the event that an Indonesian court did not recognize the choice of law in proceedings before it in relation to any of the transaction documents, it should retain jurisdiction and determine the dispute under Indonesian law or such other law as it deems proper to the relevant transaction document. As a result, the Indonesian courts may not give effect to the intentions of the parties to the Bonds and the other transaction documents.

Medco Energi has also been advised by its Indonesian legal counsel that a judgment of a foreign (non-Indonesian) court would not be enforceable by the courts of Indonesia, because there is no bilateral treaty on the execution of foreign judgments exists between Indonesia and the United Kingdom, although such a judgment could be admissible as non-conclusive evidence in a proceeding on the underlying claim in an Indonesian court. In order to be enforceable in an Indonesian court, the



proceeding would have to be commenced anew in an Indonesian court, which, assuming the court accepts jurisdiction over the matter, may attribute such weight to the foreign judgment as it deems appropriate.

As a result, it may be impossible for Bondholders to pursue a claim against the Issuer or Medco Energi in Indonesia, which may adversely affect or eliminate entirely Bondholders' ability to obtain and enforce a judgment against Medco Energi in Indonesia in connection with Medco Energi's Guarantee or increase Bondholders' costs of pursuing, and the time required to pursue, claims against Medco Energi in connection with its Guarantee.

See "Enforcement of Civil Liabilities".

***Indonesian companies have filed suits in Indonesian courts to invalidate transactions with structures similar to the Bonds and the Guarantee and have successfully brought legal action against lenders and other transaction participants. Moreover, such legal action has resulted in judgments against such defendants invalidating all obligations under the bonds and in further affirmative recoveries in excess of the amounts borrowed***

In several cases pending in Indonesian courts of first instance (at least one of which is under appeal), Indonesian companies which had defaulted on the notes and other debt incurred through offshore financing entities using structures similar to that of the Bonds and the Guarantee have successfully sued lenders and other transaction participants obtaining, among other relief:

- a declaration that the entire debt obligation is null and void;
- disgorgement of prior payments made to holders of the bonds;
- damages from lenders and other transaction participants in amounts exceeding the original proceeds of the debt issued; and
- injunctions prohibiting holders of bonds from enforcing (in Indonesia and elsewhere) rights under the transaction documents and trading in the bonds.

Published reports do not provide a clear factual basis or legal rationale for these judgments. In so doing, the courts have ignored provisions in the transaction documents, including the submission of the borrowers or other participants to the jurisdiction of non-Indonesian courts and the selection of non-Indonesian law as the governing rules of decision. These courts have also barred the exercise of any remedies available to the investors anywhere in the world. Accordingly, if a similar litigation were brought here, lenders (as well as other participants in this financing) could be exposed to verdicts from Indonesian courts that (a) nullify the entire debt offered in this transaction; and/or (b) provide for affirmative money judgments against holders of bonds and/or other participants in this transaction. Any such decision may effectively bar Bondholders and other defendants from pursuing or enforcing any remedies in Indonesia or abroad.

Although the Company believes that these recent court decisions were not rendered on a basis consistent with Indonesian law, and has been advised by its legal counsel that Medco Energi's Guarantee is enforceable under Indonesian law, the Company can give no assurances to Bondholders that the shareholders of the Company will not cause the Company to take similar actions against the holders of the Bonds or that the Indonesian courts will not declare the Bonds and Medco Energi's Guarantee null and void or grant other or additional relief to Medco Energi to the detriment of Bondholders, as described above.

Further, no assurance can be given that any cases currently on appeal will be resolved in favor of the creditors nor that a successful appeal would constitute a legal precedent disabling future cases on the same basis from being brought at the District Court level. Therefore, Bondholders may not be able to enforce any rights under the Bonds or the transaction documents in Indonesia, where most of Medco Energi's assets are located. Moreover, depending on the recognition which non-Indonesian courts may grant to such Indonesian decisions, Bondholders may also be unable to enforce any rights under the Bonds or the transaction documents, or collecting on the Issuer's or the Company's assets anywhere else in the world. In addition, affirmative relief granted against Bondholders by Indonesian courts may be enforced by non-Indonesian courts against the assets of Bondholders (or other transaction participants) located outside of Indonesia (and each Bondholder should consult his own lawyer in that regard). In summary, Bondholders may have no effective or practical recourse to any assets or legal process in Indonesia to enforce any rights against the Issuer or the Company. Moreover, a Bondholder's participa-

tion as a Bondholder in this transaction may expose it to affirmative verdicts by Indonesian courts (beyond the value of the Bonds it purchased).

***There has been no prior market for the Bonds***

The Bonds comprise a new issue of securities for which there is currently no public market. Although in-principle approval to list the Bonds on the SGX-ST has been received, there can be no assurance as to the liquidity of any market that may develop for the Bonds, the ability of holders to sell their Bonds or the prices at which holders would be able to sell their Bonds. The Bonds could trade at prices that may be lower than the initial market value thereof depending on many factors, including prevailing interest rates, the Company's operating results and the markets for similar securities. Although the Issuer and the Guarantor have an obligation under the Trust Deed to use reasonable endeavours to maintain the listing of the Bonds on the SGX-ST, the Issuer, the Guarantor and the Managers have no obligation to make a market in the Bonds or to maintain the listing of the Bonds on the SGX-ST. In addition, the market for debt securities in emerging markets has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Bonds. There can be no assurance that the markets for the Bonds, if any, will not be subject to similar disruptions. Any disruptions in these markets may have a material adverse effect on the holders of the Bonds.

***The Issuer may not be able to redeem the Bonds upon a liquidation or dissolution of Medco Energi***

In the event of a voluntary liquidation or dissolution of Medco Energi, or the appointment of a receiver and/or manager in respect of the whole or substantially the whole of any of Medco Energi's undertaking, property or assets, the Shares may be de-listed from the JSX in accordance with the terms of the Trust Deed. Should such an event occur, the Bondholders will have the right to require the Issuer to redeem the Bonds. There can be no assurance that the Issuer will be able to redeem the Bonds at such time.

***The ratings assigned to the High Yield Notes and the Bonds may be lowered or withdrawn entirely in the future***

The ratings assigned to the High Yield Notes and the Bonds may be lowered or withdrawn entirely in the future. The High Yield Notes have been assigned a rating of B+ by Standard & Poor's and B2 by Moody's and the Bonds are expected to be assigned a rating of B+ by Standard & Poor's. The ratings address the ability to perform obligations under the terms of the High Yield Notes, the Bonds and the Guarantee of the Bonds and the credit risks in determining the likelihood that payments will be made when due. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. The Company has also been informed that Standard & Poor's will change its outlook on the Company from stable to negative while Moody's will re-affirm their current rating and stable outlook for the Company. The change in Standard & Poor's outlook means that the Company's rating is more likely to be downgraded in the medium term. Neither the Issuer nor the Company has any obligation to inform Bondholders of any such revision, downgrade or withdrawal, or any future change in outlook. A suspension, reduction or withdrawal at any time of the rating assigned to the Bonds may adversely affect the market price of the Bonds.

***Upon a Change of Control of Medco Energi or a Delisting of the Shares from JSX, the Issuer may not be in a position to redeem the Bonds***

Upon a Change of Control of Medco Energi or a Delisting of the Shares from the JSX, Bondholders may require the Issuer to repurchase all of such Bondholder's Bonds. See "Terms and Conditions of the Bonds". The Issuer may not be able to redeem all tendered Bonds if the Issuer does not have sufficient cash flow to repurchase the Bonds.

***Future issuances or sales of the Shares could significantly affect the trading price of the Bonds and the Shares deliverable upon conversion thereof***

The future issuance of Shares by Medco Energi or the disposal of Shares by any of the major shareholders of Medco Energi or the perception that such issuance or sales may occur, may significantly affect the trading price of the Bonds and the Shares upon exchange thereof.



***Bondholders will bear the risk of fluctuations in the price of the Shares***

The market price of the Bonds at any time will be affected by fluctuations in the price of the Shares. The Shares are currently listed on the JSX. There can be no certainty as to the effect, if any, that future issues or sales of the Shares, or the availability of such Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the price of the Bonds.

***Sales of substantial numbers of the Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds.***

The trading price of the Shares will be influenced by the Company's operational results, which in turn are subject to the various risks to which its businesses and operations are subject, and by other factors such as changes in the regulatory environment that can affect the markets in which the Company operates and capital markets in general. Corporate events such as share sales, reorganizations, take-overs or share buy backs may also adversely affect the value of the Shares. Any decline in the price of the Shares would adversely affect the market price of the Bonds.

***Bondholders have limited anti-dilution protection***

The number of Shares into which the Bonds may be converted will be adjusted in the event that there is a sub-division, consolidation or re-denomination, rights issue, bonus issue, reorganization, capital distribution or other adjustment, but only in the situations and only to the extent provided in "Terms and Conditions of the Bonds — Conversion Right". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

***There is a limited period for, and costs associated with, the exercise of Conversion Rights***

An investor in a Bond will, subject as more fully described herein under "Terms and Conditions of the Bonds — Conversion Right", have the right to convert such Bonds for Shares. The Conversion Rights may be exercised at any time on or after 41 days from the Closing Date up to the close of business (at the place where such Bond is deposited for exchange) 30 days before the Maturity Date. If the Conversion Rights are not exercised by Bondholders during the Conversion Period, the Bonds will be redeemed at 142.77 per cent. of their principal amount on May 12, 2011.

A Bondholder delivering a Certificate in respect of a Bond for conversion will be required to pay to the relevant Conversion Agent any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in The Netherlands or the Republic of Indonesia and, if relevant, in the place of the Alternative Stock Exchange (as defined in "Terms and Conditions of the Bonds"), by the Guarantor in respect of the transfer of Shares on conversion) as more fully described herein under "Terms and Conditions of the Bonds — Conversion Procedure".

***Bondholders have no shareholder rights before conversion***

An investor in a Bond will not be a holder of the Shares. No Bondholder will have any voting rights, any right to receive dividends or other distributions or any other rights with respect to the Shares until such time, if any, as he converts his Bonds into Shares and (as applicable) becomes registered as the holder thereof.

In exercising any voting rights attaching to the Shares or making any such election, the Issuer is not obliged to take account of the interests of the Bondholders and therefore the Issuer may act in a manner which is contrary to the interests of the Bondholders.

***Short selling of the Shares by purchasers of the Bonds could materially and adversely affect the market price of the Shares***

The issuance of the Bonds may result in downward pressure on the market price of the Shares. Many investors in convertible securities seek to hedge their exposure in the underlying equity securities, often through short selling of the underlying equity securities or similar transactions. Any short selling and similar hedging activity could place significant downward pressure on the market price of the

Shares, thereby having a material adverse effect on the market value of the Shares owned by Bondholders as well as on the trading price of the Bonds.

***Medco Energi may explore the possibility of amending the terms and conditions of its other indebtedness***

Medco Energi is considering the possibility of conducting a consent solicitation in connection with certain of its outstanding debt securities (see “Factors Affecting the Guarantor’s Financial Condition and Results of Operations — Indebtedness”). In the event Medco Energi decides to conduct a consent solicitation and is successful in having the terms and conditions of such indebtedness amended, and depending on the nature of the terms and conditions that are so amended, the ability of Medco Energi to incur, for example, additional indebtedness, create liens on its assets or declare dividends may be enhanced. This may increase the financial leverage of Medco Energi and its subsidiaries and affect the ability of Medco Energi to repay the Bonds.

***The application of BAPEPAM conflict of interest rules may cause the Company to forego transactions that are in its best interests***

In order to protect the rights of minority shareholders, the rules of BAPEPAM afford independent shareholders of Indonesian public companies the opportunity to vote to approve or disapprove any transactions, whether or not material, which entail a “conflict of interest” under BAPEPAM rules unless the conflict existed before a company became a public company or listed on the JSX, or the Surabaya Stock Exchange, or the SSX, and was fully disclosed in the relevant Indonesian share offering documents. As a result, the approval of holders of a majority of shares not owned directly or indirectly by Encore would have to be obtained if a conflict of interest were to exist. BAPEPAM has the power to enforce this rule and shareholders of the Company may also be entitled to seek enforcement or bring enforcement action based on this BAPEPAM rule. Moreover, there can be no assurance that the approval of disinterested shareholders would be obtained if sought.

## EXCHANGE RATES AND EXCHANGE CONTROLS

Prior to August 14, 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 August 14, 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.

	<u>At Period End</u>	<u>Average<sup>(1)</sup></u> (Rp. per US\$1.00)	<u>High<sup>(2)</sup></u>	<u>Low<sup>(2)</sup></u>
2001 .....	10,400	10,266	11,675	8,865
2002 .....	8,940	9,261	10,320	8,730
2003 .....	8,465	8,571	8,908	8,279
2004 .....	9,290	8,985	9,415	8,441
First Quarter .....	8,587	8,492	8,587	8,441
Second Quarter .....	9,415	9,095	9,415	8,661
Third Quarter .....	9,170	9,222	9,328	9,168
Fourth Quarter .....	9,290	9,133	9,290	9,018
2005 .....	9,830	9,751	10,310	9,165
First Quarter .....	9,480	9,302	9,480	9,165
Second Quarter .....	9,713	9,593	9,713	9,495
Third Quarter .....	10,310	10,123	10,310	9,819
Fourth Quarter .....	9,830	9,985	10,090	9,830
2006				
First Quarter .....	9,075	9,304	9,795	9,030
Most recent six months:				
December 2005 .....	9,830	9,857	10,035	9,735
January 2006 .....	9,395	9,493	9,795	9,355
February 2006 .....	9,230	9,253	9,335	9,200
March 2006 .....	9,075	9,172	9,370	9,030
April 2006 .....	8,775	8,937	9,045	8,775
May 2006 (through May 5, 2006) .....	8,785	8,776	8,785	8,767

Notes:

- (1) The average of the middle exchange rate announced by Bank Indonesia on the last day of each month during the period indicated, other than data for the most recent six months which is the average of the daily middle exchange rate.
- (2) The high and low amounts are determined based upon the month-end middle exchange rate announced by Bank Indonesia during the period indicated, other than data for the most recent six months which is based on the daily middle exchange rate.

Source: Statistik Ekonomi dan Keuangan Indonesia (Indonesian Financial Statistics) published monthly by Bank Indonesia and available on the website of Bank Indonesia ([www.bi.go.id](http://www.bi.go.id)).

## **Indonesian Foreign Exchange Control Policy**

Indonesia has limited foreign exchange controls. Foreign currency is generally freely transferable within or from Indonesia. However, to maintain the stability of the Rupiah, and to prevent the utilization of the Rupiah for speculative purposes by non-residents, Bank Indonesia has introduced regulations to restrict the movement of Rupiah to a bank domiciled outside Indonesia or to an offshore branch of an Indonesian bank, or any investment in Rupiah denomination with foreign parties and/or Indonesian parties domiciled or permanently residing outside Indonesia, thereby limiting offshore trading to existing sources of liquidity. In addition, Bank Indonesia has the authority to request information and data concerning the foreign exchange activities of all persons and legal entities that are domiciled, or plan to domicile, in Indonesia for at least one year. Bank Indonesia regulations also require resident banks and companies that have total assets or total annual gross revenues of at least Rp.100 billion to report to Bank Indonesia all data concerning their foreign currency activities. The transactions that must be reported include receipt and payment of foreign currency through bank accounts outside of Indonesia.

## MARKET PRICE INFORMATION

The Shares were listed for trading on the JSX on October 12, 1994. The table below shows the high and low trading prices and the average daily volume of trading activity on the JSX for the Shares since January 1, 2001. On May 5, 2006, the closing price of the Shares on the JSX was Rp.4,625 per Share.

	<u>Price per Share</u>			<u>Average Daily Trading Volume</u> (No. of Shares)
	<u>High</u>	<u>Low</u>	<u>Closing</u>	
	(Rp. per Share)			
2001 .....	1,525	725	1,500	4,479,947
2002 .....	1,950	950	1,350	2,274,516
2003 .....	1,475	1,125	1,350	695,002
2004 .....	2,200	1,250	2,075	2,562,345
First Quarter .....	1,750	1,350	1,450	749,750
Second Quarter .....	1,575	1,300	1,350	321,640
Third Quarter .....	1,675	1,250	1,525	1,553,847
Fourth Quarter .....	2,200	1,525	2,075	7,568,746
2005 .....	4,100	2,050	3,375	6,147,551
First Quarter .....	2,900	2,050	2,450	5,231,822
Second Quarter .....	4,100	2,450	3,775	3,036,677
Third Quarter .....	3,875	2,975	3,625	11,478,992
Fourth Quarter .....	3,750	3,100	3,375	4,521,517
2006				
First Quarter .....	4,275	3,375	4,150	5,746,877
Most recent six months:				
December 2005 .....	3,575	3,275	3,375	4,052,475
January 2006 .....	4,050	3,375	3,900	7,477,150
February 2006 .....	4,175	3,875	4,125	4,844,925
March 2006 .....	4,275	3,925	4,150	4,958,000
April 2006 .....	5,050	4,025	4,800	11,099,806
May 2006 (through May 5, 2006) .....	4,850	4,600	4,625	3,126,400



## DIVIDEND POLICY

Under Indonesian law, the payment of final dividends is required to be approved by the shareholders at the annual general meeting of shareholders upon the recommendation of the board of directors. The Company's Articles of Association provide that if it makes a net profit in any financial year, it may distribute dividends to its shareholders, based on a recommendation from its board of directors, upon obtaining the necessary approval from its shareholders. There is no guarantee that the Company will pay dividends in the future. To the extent a decision is made to pay dividends, dividends will be paid in Rupiah. Holders of Shares on the applicable record dates (14 days before the applicable General Meeting of Shareholders) will be entitled to the full amount of dividends approved, subject to any Indonesian withholding tax imposed, if any. The board of directors may change its dividend policy at any time, subject to approval of such change by a General Meeting of Shareholders. See "Description of Capital Stock — Dividends".

Since 2004, the Company has made cash dividend payments of US\$52,520,440. These included a payment of an aggregate amount of US\$19,877,468 (US\$0.0064 per Share) in 2004 and US\$32,642,972 (US\$0.0105 per Share) in 2005.

It is the current intention of the management, subject to the financial performance and financial position of the Company, to maintain an annual dividend payment ratio of approximately 20% to 50% of net profit for each year and pay both an interim and a final dividend. The Company recently approved at its Annual General Meeting of Shareholders held on May 5, 2006 a final 2005 dividend payment of an aggregate amount of US\$37,348,630 or US\$0.0112 per Share.

Dividends received by a Non-Indonesian Holder of the Shares will be subject to Indonesian withholding tax. For the definition of Non-Indonesian Holder and further information relating to Indonesian taxation, see "Taxation — Indonesian Taxation".

## CAPITALIZATION

The following table shows the audited consolidated cash and cash equivalents, liabilities and capitalization of the Company as of December 31, 2005 as determined under Indonesian GAAP and as adjusted on a pro-forma basis to give effect to the Bond Offering. This information should be read in conjunction with the consolidated financial statements of the Company and the related notes thereto included elsewhere in this Offering Circular.

	<u>As of</u> <u>December 31, 2005</u> <u>(Audited)</u> <u>(US\$ in millions)</u>	<u>As of</u> <u>December 31, 2005</u> <u>(As adjusted)</u>
Cash and cash equivalents .....	152.1	152.1
Short-term debt:		
Short-term bank loans .....	0.0	0.0
Current maturities of long-term bank loans and obligations .....	16.6	16.6
Total short-term debt .....	16.6	16.6
Long-term debt — net of current maturities:		
Bank loans .....	23.6	23.6
Notes payable .....	276.1	276.1
Rupiah bonds .....	192.6	192.6
Loans .....	6.7	6.7
Bonds .....	0.0	176.9
Total long-term debt .....	499.0	675.9
Total short-term debt and long-term debt .....	515.6	692.5
Shareholders' equity:		
Capital stock — par value Rp.100 per share .....	101.2	101.2
Authorized capital — 4,000,000,000 shares issued and fully paid — 3,332,451,450 shares <sup>(1)</sup>		
Treasury stock — 223,597,000 shares .....	(3.1)	(3.1)
Additional paid-in capital .....	123.2	123.2
Revaluation increment in property and equipment ..	0.1	0.1
Effects of changes in the equity transactions of subsidiaries/associated company .....	17.5	17.5
Translation adjustment .....	(0.5)	(0.5)
Retained earnings .....	294.9	294.9
Total shareholders' equity .....	533.2	533.2
Total capitalization .....	1,048.8	1,225.7

Note:

(1) Including treasury stock.

All of the Company's issued Shares are fully paid. No capital has been paid with assets in 2005. The number of shares of treasury stock in 2005 was 223,597,000. Other than as set forth in this Offering Circular, there has been no material change in the Company's total capitalization since December 31, 2005.

## **USE OF PROCEEDS**

The aggregate net proceeds from this offering, after payment of the underwriting fees and certain transaction-related expenses, are expected to be approximately US\$173 million and will be on-lent by the Issuer to the Guarantor. The net proceeds will be used to fund the Company's working capital requirements and for general corporate purposes.

## SELECTED CONSOLIDATED FINANCIAL, OPERATING AND RESERVE DATA

### Selected Consolidated Financial Data

The following tables set forth certain summary historical consolidated financial data of the Company as of the dates and for each of the periods indicated. The summary historical consolidated financial data as of and for the years ended December 31, 2004 and 2005 are derived from the Company's audited consolidated financial statements as of and for the years ended December 31, 2004 and 2005 audited by E&Y. The Company's consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differ in certain respects from IFRS. See "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and International Financial Reporting Standards" and "Risk Factors — Risks Relating to the Company — Indonesian corporate and other disclosure and accounting standards differ from those in other jurisdictions, such as countries in the European Union". The following information should be read in conjunction with the consolidated financial statements of the Company, the related notes thereto and other financial information included elsewhere in this Offering Circular.

	For the Year Ended December 31,	
	2004	2005
	(Restated) <sup>(1)</sup> (US\$ in thousands, except where otherwise indicated)	
<b>Consolidated Statements of Income Data</b>		
Sales and Other Operating Revenues:		
Net oil and gas sales .....	367,367.6	432,361.4
Revenue from drilling operations and related services .....	94,438.6	89,026.1
Net methanol sales .....	55,490.3	44,954.3
Share of profits of joint ventures .....	19,733.5	19,781.6
Electric power sales .....	1,534.5	8,204.8
Revenue from other contracts .....	<u>11,551.0</u>	<u>25,825.2</u>
Total Sales and Other Operating Revenues .....	550,115.4	620,153.4
Production and Lifting Costs .....	77,774.2	74,608.8
Depreciation and Amortization .....	74,623.6	87,481.6
Drilling Operations Costs .....	72,625.3	68,228.8
Cost of Methanol Sales .....	42,666.1	32,246.3
Exploration Expenses .....	23,847.1	19,043.4
Cost of Crude Oil Purchase .....	5,033.9	4,208.6
Cost of Power Sales .....	<u>72.9</u>	<u>4,923.5</u>
Gross Profit .....	253,472.2	329,412.4
Operating Expenses .....	<u>74,208.1</u>	<u>90,072.9</u>
Income from Operations .....	179,264.1	239,339.5
Other Charges — Net .....	(49,148.3)	(58,227.7)
Tax Expense — Net .....	<u>(55,138.8)</u>	<u>(103,493.0)</u>
Income Before Minority Interests in Net Earnings of Consolidated Subsidiaries .....	74,977.1	77,618.8
Minority Interests in Net Earnings of Consolidated Subsidiaries ..	<u>(1,127.0)</u>	<u>(2,921.6)</u>
Net Income .....	<u>73,850.1</u>	<u>74,697.3</u>
Basic Earnings per Share .....	0.0238	0.0240
<b>Other Financial Data</b>		
EBITDA <sup>(2)(4)</sup> .....	254,778.6	328,158.7
Adjusted EBITDA <sup>(3)(4)</sup> .....	280,561.0	350,026.9
EBITDAX <sup>(2)(4)</sup> .....	278,625.7	347,202.2
Adjusted EBITDAX <sup>(3)(4)</sup> .....	307,032.2	369,415.7

	For the Year Ended December 31,	
	2004 (Restated) <sup>(1)</sup> (US\$ in thousands, except where otherwise indicated)	2005
<b>Consolidated Balance Sheets Data</b>		
Assets:		
Cash and cash equivalents .....	215,302.0	152,108.2
Other current assets .....	<u>416,823.2</u>	<u>317,154.8</u>
Total Current Assets .....	632,125.2	469,263.0
Total Non-Current Assets .....	<u>840,121.8</u>	<u>1,073,669.9</u>
Total Assets .....	<u><u>1,472,247.1</u></u>	<u><u>1,542,932.9</u></u>
Liabilities and Equity:		
Short-term debt (including current maturities of long-term bank loans and obligations) .....	180,863.1	16,633.4
Other current liabilities .....	<u>116,240.8</u>	<u>221,096.6</u>
Total Current Liabilities .....	297,103.9	237,730.0
Long-term debt — net of current maturities .....	518,435.1	499,002.7
Other non-current liabilities .....	<u>118,908.1</u>	<u>176,918.8</u>
Total Non-Current Liabilities .....	637,343.2	675,921.5
Negative Goodwill — Net .....	1,798.8	953.5
Minority Interests in Net Assets of Subsidiaries .....	35,925.8	95,157.2
Equity — Net .....	<u>500,075.3</u>	<u>533,170.8</u>
Total Liabilities and Equity .....	<u><u>1,472,247.1</u></u>	<u><u>1,542,932.9</u></u>

	For the Year Ended December 31,	
	2004 (Restated) <sup>(1)</sup> (US\$ in thousands, except where otherwise indicated)	2005
<b>Consolidated Statement of Cash Flows Data</b>		
Net Cash Provided by Operating Activities .....	136,273.9	186,895.1
Net Cash Used in Investing Activities .....	(322,484.0)	(82,304.5)
Net Cash Provided by (Used in) Financing Activities .....	267,142.5	(167,784.5)

Notes:

- (1) The consolidated financial statements as of and for the year ended December 31, 2004 have been restated to reflect the retroactive effects of the applications of the revised Statements of Financial Accounting Standards in Indonesia. The retroactive effects of such changes in the consolidated financial statements as of and for the year ended December 31, 2004 are described in note 42 to the Company's consolidated financial statements. The cumulative effect of such adjustments had a net effect of decreasing net income by US\$694,336 and increasing shareholders' equity by US\$1,273,836 in 2004.
- (2) EBITDA means earnings before interest, taxes, depreciation, amortization, gain or loss on foreign exchange and other income or charges as calculated under Indonesian GAAP. EBITDAX means EBITDA adding back exploration expenses as calculated under Indonesian GAAP.
- (3) Adjusted EBITDA adjusts for earnings before interest, taxes, depreciation, amortization, gain or loss on foreign exchange and other income or charges attributable to the Company's non-operated fields, which would otherwise be reported on a proportionate net income basis under "share of profits of joint ventures" in the Company's consolidated financial statements. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Revenues from Company-Operated and Non-Company-Operated Fields". Adjusted EBITDAX means Adjusted EBITDA adding back exploration expenses as calculated under Indonesian GAAP.



- (4) The Company has included EBITDA, EBITDAX, Adjusted EBITDA and Adjusted EBITDAX because management believes it is a financial measure commonly used in the oil and gas industry as a useful supplement to cash flow data as a measure of the Company's performance and its ability to generate cash from operations to cover debt service and taxes. These measures should not be considered in isolation or construed as an alternative to cash flows, earnings or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. These measures do not account for certain items such as taxes, interest expense and other non-operating cash expenses. In evaluating these measures, the Company believes that investors should consider, among other things, the components of these measures such as revenues and operating expenses and the amount by which these measures exceed capital expenditures and other charges. These measures presented herein may not be comparable to similarly titled measures presented by other companies. For a reconciliation of EBITDA and EBITDAX as well as Adjusted EBITDA and Adjusted EBITDAX, see "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Non-GAAP Accounting Items".

### Selected Operating and Reserve Data

The table below sets forth the Company's gross production, net entitlement and certain other operating data for the years ended December 31, 2004 and 2005.

	For the Year Ended December 31,	
	2004	2005
<b>Gross production:</b> <sup>(1)</sup>		
Oil and condensate (MBbls/d) .....	55.6	54.1
Natural gas (Mcf/d) .....	203.4	167.2
Total (MBOE/d) <sup>(2)</sup> .....	90.3	82.7
Total (excluding Langsa block) (MMBOE) <sup>(3)</sup> .....	33.0	29.7
<b>Net entitlement:</b> <sup>(4)</sup>		
Oil and condensate (MBbls/d) .....	21.2	16.8
Natural gas (Mcf/d) .....	93.6	74.2
Total (MBOE/d) .....	37.2	29.6
<b>Lifting cost:</b> <sup>(5)</sup>		
Oil, condensate and natural gas (US\$ per BOE) .....	2.91	2.88
<b>Three-year average finding and development cost:</b> <sup>(6)</sup>		
Oil, condensate and natural gas (US\$ per BOE) .....	7.54	6.89
<b>Three-year average finding, development and acquisition cost:</b> <sup>(7)</sup>		
Oil, condensate and natural gas (US\$ per BOE) .....	5.38	5.39
<b>Average realized sales price:</b> <sup>(8)</sup>		
Oil and condensate (US\$ per Bbl) .....	36.93	53.68
Natural gas (US\$ per Mcf) .....	2.26	2.45
Liquefied petroleum gas (LPG) (US\$ per MT) .....	360	329

#### Notes:

- (1) Gross production represents the sum of the oil and gas production from each of the Company's blocks multiplied by the Company's effective interest in such block. Gross production is then shared between the Company and the Government pursuant to the terms of the relevant production sharing arrangement. Gross production for 2004 does not include production from divested blocks in Australia. Gross production in 2004 and 2005 includes production from divested blocks in the Middle East and the United States up to the date of their disposition in 2005.
- (2) Gross production for the year ended December 31, 2004 has been revised to reflect additional associated gas production as described in the January 1, 2006 GCA Report.
- (3) The Company's total gross production (excluding the Langsa block and the divested Australian blocks) for the year ended December 31, 2004 was 32,981,564 BOE. The Company's total gross production (including production from divested Middle East and United States blocks only up to the

date of their disposition but excluding the Langsa block) for the year ended December 31, 2005 was 29,736,790 BOE.

- (4) The Company's net entitlement in a given year represents its share of gross production after deducting the share payable to the Government pursuant to the terms of the relevant production sharing arrangement. For a more complete description of the mechanism for sharing gross production between the Company and the Government, refer to "Indonesian Oil and Gas Regulatory Framework". The Company's net entitlement includes only field production from the GCA Report. Approximately 14.9% of the Company's gross proved reserves for the year ended December 31, 2005 have not been certified by GCA as of January 1, 2006 and, as a result, these fields are also excluded from the net entitled volume estimates.
- (5) Production and lifting cost of operated and non-operated blocks per BOE, divided by production for that period. 2004 and 2005 excludes the production and lifting cost and gross production related to the Langsa block and the divested Australian blocks.
- (6) Total costs incurred for exploration and development in the relevant year plus the costs incurred in the previous two years, divided by the sum of gross proved reserve additions, extensions and revisions for all three years. Total costs in 2004 were derived from the Company's audited financial statements. Total costs for 2005 were derived from Company estimates, which includes capital expenses and exploration costs.
- (7) Total costs incurred for exploration, development and acquisitions in the relevant year plus the costs incurred in the previous two years, divided by the sum of gross proved reserve additions, extensions, revisions and acquisitions for all three years. Total costs in 2004 were derived from the Company's audited financial statements. Total costs for 2005 were derived from Company estimates, which includes capital expenses and exploration costs.
- (8) Represents revenues for the period divided by aggregate net entitlement for the period.

The following table summarizes the Company's gross and net proved, and gross proved and probable, oil and gas reserves as of the dates indicated. This reserve data has been derived from the estimates of the Company's gross and net proved and gross probable reserves as of January 1, 2004, 2005 and 2006 included in the January 1, 2006 GCA Report, as well as from the estimates certified by other independent petroleum engineering consultants or estimated by the Company. For a more complete description, see "Business — Reserves".

	As of January 1,		
	2004	2005	2006
<b>Gross proved reserves:</b>			
Oil and condensate (MMBbls) .....	113.9	94.3	117.0
Natural gas (Bcf) .....	<u>271.0</u>	<u>382.3</u>	<u>327.6</u>
Total (MMBOE) <sup>(1)</sup> .....	160.3	159.7	173.0
<b>Net proved reserves:</b>			
Oil and condensate (MMBbls) .....	44.9	34.4	42.4
Natural gas (Bcf) .....	<u>106.3</u>	<u>154.0</u>	<u>173.0</u>
Total (MMBOE) <sup>(2)</sup> .....	63.1	60.7	72.0
<b>Gross proved plus probable reserves:</b>			
Oil and condensate (MMBbls) .....	236.5	201.2	183.7
Natural gas (Bcf) .....	<u>1,986.9</u>	<u>2,180.7</u>	<u>2,039.2</u>
Total (MMBOE) <sup>(3)</sup> .....	576.1	574.0	532.2
<b>Net Proved reserves developed (%):<sup>(4)</sup></b>			
Oil and condensate .....	97%	92%	69%
Natural gas .....	89%	88%	81%
<b>Proved reserve life index (in years)<sup>(5)</sup> .....</b>	6.4	5.9	6.7
<b>Proved plus probable reserve life index (in years)<sup>(6)</sup> .....</b>	20.3	18.7	18.6

Notes:

- (1) Approximately 26.4 MMBOE, or 15.3%, of the Company's gross proved reserves, have not been certified by the GCA Report as of January 1, 2006.

- (2) Approximately 26.4 MMBOE, or 15.3%, of the Company's gross proved reserves have not been reviewed by the GCA Report as of January 1, 2006 and are excluded from net proved reserves because the Company does not produce in-house estimates for net proved reserves.
- (3) Approximately 319.6 MMBOE, or 60.0%, of the Company's gross proved plus probable reserves have not been certified by the GCA Report as of January 1, 2006.
- (4) Based solely on reserve estimates that have been certified by GCA for the respective periods.
- (5) Prior year-end gross proved reserves divided by prior year gross production.
- (6) Prior year-end gross proved plus probable reserves divided by prior year gross production.

See "Risk Factors — Risks Relating to the Company — The oil and gas reserve data in this Offering Circular are only estimates and the Company's actual production, revenue and expenditure with respect to its reserves may differ from such estimates" and "Risk Factors — Risks Relating to the Company — Probable reserve estimates in this Offering Circular are generally considered of a higher risk than proved reserve estimates and are generally believed to be less likely to be recovered than proved reserves" and "Business — Reserves" and "Business — Description of the Properties".

### ***Additional Information on Reserve Estimates***

In connection with the section entitled "Supplementary Information (Unaudited) — Reserve Estimation" attached to the Company's audited consolidated financial statements as of and for the year ended December 31, 2005 (see pages F-185 to F-187), investors should note the following:

- In the table of estimated proved developed and undeveloped gas reserves for Tuban, Brantas and the Senoro gas field as of December 31, 2005 included as part of the "Supplementary Information (Unaudited) — Reserve Estimation" on page F-186, gas reserves for the Senoro gas field have been included in determining the Company's gross proved developed and undeveloped gas reserves as of December 31, 2005. The basis for this was the technical classification of the Senoro gas field reserves as 1P reserves in a report filed with BPMigas by JOB Pertamina-Medco E&P Tomori Sulawesi.

For purposes of preparing management estimates of the Company's consolidated reserves that are disclosed to investors, management, consistent with industry practice, uses the standards set by the SPE for classifying oil and gas reserves as either proved or probable. Based on the latest available third-party certification for the Senoro gas field prepared by GCA dated January 17, 2003, under SPE standards, reserves for the Senoro gas field are classified as 2P reserves, which is of lesser certainty than 1P reserves. This is because as of December 31, 2005, there were no commercial contracts of gas sales agreements in place to demonstrate the commercial status of the Senoro gas field. This has been previously disclosed to investors as probable reserve.

Further, the same table does not include 2P gas reserves for the Singa gas field of the Lematang block. However, management estimates regarding the Company's consolidated reserves that have been disclosed to investors include gas reserves for the Singa gas field as 2P reserves. This is based on reserve data for the Singa gas field as of December 31, 2000, as certified by another independent petroleum engineering consultant. (There has been no material production from the Singa gas field since the date of this report.) Based on this report, management estimates the Singa gas field to have 2P reserves (using SPE standards) of approximately 182 Bcf.

In addition, 1P and 2P crude oil and gas reserves for the Brantas block included in this same table were derived from crude oil and gas reserve estimates prepared by Novus Petroleum Limited and dated as of December 31, 2003, as adjusted by the production in the Brantas block during the years ended December 31, 2004 and 2005. For purposes of future disclosures to investors and the Company's shareholders regarding the 1P and 2P crude oil and gas reserve estimates for the Brantas block, the Company's management uses for this and future information provided by Lapindo, operator of the Brantas block. The latest information provided by such operator regarding 1P crude oil and gas reserves consists of a reserve report filed with BPMigas by Lapindo. The latest information provided by such operator for 2P crude oil and gas reserves consists of 2P crude oil and gas reserve estimates as of September 30, 2005 as certified by an independent third party petroleum engineering consultant.

The differences in (a) classifying the Senoro gas field reserves as 1P reserves (as set out in the section entitled “Supplementary Information (Unaudited) — Reserve Estimations” on pages F-185 to F-187) and as 2P reserves (as used in management estimates disclosed to investors), (b) the 2P reserves for the same areas but including the Singa gas field (as used in management estimates disclosed to investors) and (c) the adjustment of the 1P and 2P crude oil and gas reserves for the Brantas block as described above, are illustrated as follows:

Company's Estimates						
Supplement to Financial Statements			Disclosure to Investors			
Oil	Gas	Total	Oil	Gas	Total	
MMBbls	Bcf	MMBOE	MMBbls	Bcf	MMBOE	

**Company Non Operated & Indonesian Inhouse**

Proved and Probable (2P) . . . . .	8.3	1,159.2	206.4	38.5	1,507.8	296.2
Proved developed and undeveloped (1P) . . . . .	7.9	1,145.9	203.8	8.4	15.8	11.1

- The total estimated proved developed and undeveloped crude oil and gas reserves for Sumatera, Kalimantan, Tarakan and Sulawesi blocks set out in “Supplementary Information (Unaudited) — Reserve Estimation” on pages F-185 and F-187 is approximately 1.7% higher than the 1P crude oil and gas reserves for these blocks certified by GCA in its most recent reserve report. The principal reason for the difference is that for financial reporting purposes, the Company used a working interest percentage for the Rimau block of 100%, because it receives 100% of the crude oil entitlement under the Rimau block PSC, whereas GCA, in preparing its 1P crude oil reserve certification, uses a 95% working interest as this is the percentage pertaining to the Company under the terms of the Rimau block PSC. The difference of 5% relates to the local government share of the crude oil entitlement under the Rimau block PSC.

In addition, 1P crude oil reserves for the Langsa block in Sumatera were disclosed separately in the section entitled “Supplementary Information (Unaudited) — Reserve Estimations” because the crude oil entitlement for the Langsa block is owned by a non-consolidated entity. However, GCA, consistent with SPE standards, includes crude oil reserves from the Langsa block as part of the Company’s 1P crude oil reserves because the Company, through its non-consolidated associate entity, is the operator of this block.

In preparing management estimates of the Company’s consolidated 1P crude oil and gas reserves for the Sumatera, Kalimantan, Tarakan and Sulawesi blocks for disclosure to investors, management uses the 1P crude oil reserve numbers certified by GCA, including the 1P crude oil reserves from the Langsa block.

The difference in the classification of the Rimau block and Langsa block crude oil and gas reserves discussed above, is illustrated as follows:

Company's Estimates						
Supplement to Financial Statements			Disclosure to Investors			
Oil	Gas	Total	Oil	Gas	Total	
MMBbls	Bcf	MMBOE	MMBbls	Bcf	MMBOE	

**GCA Certified**

Proved and Probable (2P) . . . . .	144.6	418.3	216.1	139.0	430.8	212.7
Proved developed and undeveloped (1P) . . . . .	110.0	228.1	149.0	105.4	240.9	146.6

- Previous reserve estimate disclosures by the Company of the 1P crude oil and gas reserves in the Kakap block, including the reserve estimates included in the section entitled “Supplementary Information (Unaudited) — Reserve Estimation” on page F-186 were derived from reserve estimates prepared by Novus Petroleum Limited and dated as of December 31, 2003, adjusted by the productions in the Kakap block during the years ended December 31, 2004 and 2005. For purposes of this and future disclosures to investors and the Company’s shareholders regarding 1P crude oil and gas reserve estimates for the Kakap block, the Company’s management bases

its estimates on the latest information provided by Star Energy, the operator of the Kakap block, which consists of a reserve report filed by Star Energy with BPMigas.

The adjustment of the 1P crude oil and gas reserve estimates for the Kakap block as described above, is illustrated as follows:

	<b>Company's Estimate</b>					
	<b>Supplement to Financial Statements</b>			<b>Disclosed to Investors</b>		
	<b>Oil</b>	<b>Gas</b>	<b>Total</b>	<b>Oil</b>	<b>Gas</b>	<b>Total</b>
	<b>MMBbls</b>	<b>Bcf</b>	<b>MMBOE</b>	<b>MMBbls</b>	<b>Bcf</b>	<b>MMBOE</b>
	(Unaudited)					
<b>Novus Companies</b>						
Proved and Probable (2P) .....	6.4	104.9	24.4	6.2	100.6	23.4
Proved developed and undeveloped (1P) .....	2.6	70.5	14.6	3.2	70.8	15.3



## FACTORS AFFECTING THE GUARANTOR'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The discussion below should be read together with the Company's consolidated financial statements and the selected consolidated financial, production and reserve data, in each case together with the accompanying notes, contained elsewhere in this Offering Circular. The Company's consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differs in certain material respects from IFRS. "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and International Financial Reporting Standards" and "Risk Factors — Risks Relating to the Company — Indonesian corporate and other disclosure and accounting standards differ from those in the United States, countries in the European Union and other jurisdictions". Effective January 1, 2002, the Company changed its reporting currency from Rupiah to U.S. dollars based on Indonesian SFAS 52, which establishes the accounting standards for Indonesian companies that use a currency other than Rupiah as their reporting and recording currency. The Company has selected the U.S. dollar as its functional currency based on the sales price, cash flows and expense indicators required by Indonesian SFAS 52. Accordingly, effective January 1, 2002, the Company maintains its books of accounts and presents its consolidated financial statements in U.S. dollars.*

*This discussion contains forward-looking statements and reflects the current views of the Company with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Forward-Looking Statements", "Risk Factors" and elsewhere in this Offering Circular.*

### Overview

The Company's profitability is primarily determined by the difference between prices received for crude oil and natural gas produced by it and its costs of finding, developing and producing these hydrocarbons. The Company's financial performance is also affected by a number of other variables external to it and the petroleum industry, including political, economic and social conditions in Indonesia. For a description of these and other factors affecting the Company's financial performance, see "Risk Factors".

### Revenues from Company-Operated and Non-Company-Operated Fields

The Company currently classifies its revenues and expenses from exploration and production of oil and gas primarily on the basis of whether the fields are operated directly by the Company or by third parties. Revenues and expenses from fields operated directly by the Company are presented under the respective income and expense accounts, including net oil and gas sales, depreciation and amortization, production and lifting costs, exploration expenses and operating expenses. Revenues and expenses for the non-Company operated fields or blocks are presented under a single line item, "share of profits of joint ventures". This line item represents the Company's proportionate net income primarily derived from Kakap, Brantas and Tuban blocks. This line item is net of depreciation and amortization, production and lifting costs, exploration expenses, operating expense, other income and tax expense specifically related to such non-Company-operated blocks.

The Company adopted this account presentation following the acquisition of Novus in June 2004 because certain information which is required to be presented in more details in the consolidated financial statements of the Company was not readily available in the audited financial statements of the non-Company operated blocks held by Novus. Such information was not presented in the previous reports of Novus due to the different standards of disclosure required by the Australian and Indonesian securities regulatory authorities. As a result of the adoption of this presentation, the respective revenue and expense items on the statements of income of the Company did not include the Company's revenues and expenses for these non-Company operated blocks which amounted to US\$75.3 million and US\$58.1 million in net oil and gas sales, US\$25.7 million and US\$11.1 million in production and lifting costs, US\$2.6 million and US\$0.3 million in exploration expenses, US\$13.4 million and US\$18.7 million in depreciation and amortization, and US\$1.4 million and US\$5.0 million in operating expenses for the years ended December 31, 2004 and 2005, respectively. These revenues and expenses of the non-Company operated blocks were presented under a single line item, share of profits of joint ventures, which amounted to US\$19.7 million and US\$19.8 million for the years ended December 31, 2004 and 2005, respectively. Going forward, the Company intends to change this account presentation to include revenues and expenses from both operated and non-operated fields in their

respective revenue and expense line items. This change is expected to take effect in the Company's consolidated financial statements as of and for the year ended December 31, 2006. Accordingly, as a result of such expected change, the Company's consolidated financial statements as of and for the years ended December 31, 2004 and 2005 may not be comparable to the Company's future consolidated financial statements relating to similar periods beginning with full year 2006.

The following tables illustrate the contributions from operated and non-operated fields for the periods indicated:

	For the Year Ended December 31,	
	2004	2005
<b>Oil (Operated Fields Only)</b>		
Gross production (MBbls/d) <sup>(1)</sup> .....	55.4	52.9
Net entitlement production (MBbls/d) .....	21.2	16.9
Average realized price (US\$ per Bbl) .....	36.93	53.68
Revenues (US\$ millions) .....	244.1	343.7
<b>Gas (Operated Fields Only)</b>		
Gross production (MMcf/d) <sup>(2)</sup> .....	203.4	167.2
Net entitlement production (MMcf/d) .....	93.6	74.2
Average realized price (US\$/Mcf) .....	2.26	2.45
Revenues (US\$ millions) .....	123.3	88.7
Operated oil and gas revenue .....	367.4	432.4
Non-operated oil and gas revenue .....	75.3	58.1
<b>Total Oil and Gas Revenues</b> .....	<b><u>442.7</u></b>	<b><u>490.5</u></b>
Operated production and lifting costs .....	77.8	74.6
Non-operated production and lifting costs .....	25.7	11.1
<b>Total Production and Lifting Costs</b> .....	<b><u>103.5</u></b>	<b><u>85.7</u></b>
Operated exploration expenses .....	23.8	19.0
Non-operated exploration expenses .....	2.6	0.3
<b>Total Exploration Expenses</b> .....	<b><u>26.4</u></b>	<b><u>19.3</u></b>
Operated depreciation and amortization <sup>(3)</sup> .....	50.0	60.4
Non-operated depreciation and amortization .....	13.4	18.7
<b>Total Depreciation and Amortization</b> .....	<b><u>63.4</u></b>	<b><u>79.1</u></b>

Notes:

- (1) Gross production for the years ended December 31, 2004 and 2005 exclude contribution from the Langsa block.
- (2) Gross production for the year ended December 31, 2004 has been revised to reflect additional associated gas production as described in the January 1, 2006 GCA Report.
- (3) Operated Depreciation and Amortization is based on the depreciation and amortization from oil and gas operations.

**Non-operated Fields Financial Contribution for  
Year Ended December 31, 2005**

	<u>Kakap</u>	<u>Brantas</u>	<u>Tuban</u>	<u>Non-operated Total</u>
	(US\$ in millions)			
<b>Total Sales and Operating Revenues</b> . . . . .	30.2	14.5	13.4	58.1
Production and Lifting Costs . . . . .	6.3	0.6	4.2	11.1
Exploration Expenses . . . . .	0.1	0.001	0.2	0.3
Operating Expenses . . . . .	1.1	2.2	1.7	5.0
<b>EBITDA</b> . . . . .	22.7	11.7	7.3	41.7
Depreciation and Amortization . . . . .	7.6	9.7	1.4	18.7
<b>Income from Operations</b> . . . . .	15.1	2.0	5.9	23.0
Other Expenses (Income) . . . . .	(0.0002)	(0.01)	(4.6)	(4.6)
Tax Expense . . . . .	3.7	1.2	2.9	7.8
<b>Net Income (Loss)</b> . . . . .	11.4	0.8	7.6	19.8

### Net Oil and Gas Sales

The Company's revenues from net sales of crude oil and natural gas are affected primarily by its net entitlement volume of oil and gas under production sharing arrangements and the prices at which they are sold. Net entitlement consists of the Company's (i) cost recovery and (ii) profit share, net of its DMO. See "Indonesian Oil and Gas Regulatory Framework".

The Company sells its net crude oil entitlement through a competitive tender process, subject to market conditions, and enters into short-term sales contracts with the winning bidder. Crude oil entitlement not sold pursuant to a sales contract can readily be sold in the spot market, albeit without the modest premium afforded by a sales contract. Substantially all of the Company's net crude entitlement in 2005 was sold to Itochu Petroleum Co. (S) Pte Ltd ("Itochu"), BPMigas and Pertamina and PTT Public Company Limited ("PTT").

The Company currently sells substantially all of its oil at prices based on the ICP-SLC, subject to adjustment depending on the quality of the crude oil. The cost recovery portion of net crude entitlement is also calculated based upon ICP prices. The ICP-SLC is the monthly average of the mean of three publications of independent oil traders and marketers in the Asia-Pacific region published twice a week by the Asian Petroleum Price Index ("APPI"), published daily by RIM Intelligence Co. ("RIM"), and published by Platts, in the following proportions: 20% APPI, 40% RIM and 40% Platts. The ICP-SLC is published by Pertamina every month. The Company's sales of oil from the Tuban block are based on the ICP-Arjuna, a similar indicator published monthly. The Company's average realized sales price for oil for the years ended December 31, 2004 and 2005 were US\$36.93 per Bbl and US\$53.68 per Bbl, respectively.

Currently, a majority of the Company's net crude entitlement is exported to Itochu and the remainder is supplied to Pertamina's domestic refinery. On November 4, 2004, the Company launched a competitive tender process for 100% of the Company's net crude entitlement from Kaji and Semoga fields of Rimau PSC. The bid was won by Itochu, which bid a premium of US\$2.69/Bbls above the ICP-SLC. On February 21, 2005, the Company entered into the crude oil sales and purchase agreement with Itochu which was initially for a term of one year effective from January 1 to December 31, 2005. On June 1, 2005, the effective dates of this agreement were amended to be from January 1, 2005 to December 31, 2006. The pricing for crude oil supplied from January 1, 2006 to December 31, 2006 has been set at US\$2.37/Bbls above the IPC-SLC.

Gas sales contracts are typically long-term fixed price contracts. The Company's average realized sales price for gas per MMBTU for the years ended December 31, 2004 and 2005 were US\$2.26 and US\$2.45, respectively. As most of the natural gas produced by the Company is from gas fields which were discovered while developing oil fields, the Company believes that the costs of developing and operating its gas fields are relatively low by industry standards. For a summary description of the Company's gas sales arrangements, see "Business — Sales and Distribution — Natural Gas".

The cost recovery portion of the net entitlement varies with the level of cost incurred, including capital investment for exploration, development and production, annual operating expenses and the market prices of oil and gas. For example, if oil prices decrease, the Company's cost recovery portion of

production will rise and thus its net entitlement will also rise in terms of barrels of oil. A decline in oil prices, however, may lead to a decline in revenues despite an increase in net entitlement as a result of decreases in prices that the Company is able to receive for its products. The Company's share of profit for oil and gas, after deduction of Indonesian corporate taxes, ranges from 15% to 35% for oil and 30% to 40% for gas, depending on the production sharing arrangement. 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 DMO to sell approximately 6% to 7% of the crude oil produced from the contract area at a subsidized price which varies depending on the production sharing arrangement. The Company's DMO accounted for an average of approximately 5% of the Company's gross crude oil production for the past three years. The Company's DMO reduced after tax earnings on average by approximately US\$44.1 million per annum for the past three years. The DMO does not currently apply to natural gas production but the Oil and Gas Law may extend DMO to gas production. See "Risk Factors — Risks Relating to the Oil and Gas Industry".

Indonesian income tax rates (including dividends tax) on the Company's production sharing arrangement operations vary from 30% 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 production sharing arrangements cannot be consolidated for Indonesian income tax purposes. Each PSC is taxed individually and no cross deduction is allowed. No deferred taxes are recognized in connection with exploration and production activities. See "Indonesian Oil and Gas Regulatory Framework".

See also "— Revenues from Company-Operated and Non-Company-Operated Fields".

### **Drilling Operations and Related Services**

The Company's revenues from drilling operations and related services vary based upon demand for its drilling and related services (such as mobilization and demobilization fees), which in turn affects the number of days that the rig fleet is utilized and the aggregate dayrates received by the Company. Demand for drilling rigs is affected by a number of factors, including the demand for oil and natural gas products, the level of oil and natural gas exploration and production activities and general worldwide economic and market conditions.

Revenues from drilling contracts are recognized as work is performed. Revenues from drilling operations are dependent on the dayrates, which are the per dayrates that the Company charges to its customers for the use of its rigs. These rates fluctuate based upon demand for the Company's drilling and related services. In addition, revenues from drilling operations may fluctuate from quarter to quarter due to the timing of contract completions, mobilizations, scheduled maintenance and the weather. In respect of onshore rigs, the average revenue per day for the years ended December 31, 2004 and 2005 was US\$8,133 and US\$8,689, respectively. In respect of offshore rigs, the average revenue per day for the years ended December 31, 2004 and 2005 was US\$44,774 and US\$48,242, respectively.

Revenues from mobilization fees are recognized when the rig arrives at the drilling area and is ready to be operated. The Company generally charges a one-time mobilization fee to a customer for mobilization of the Company's rig to a new location. Revenues from demobilization fees are recognized when the drilling service is completed and the rig is removed from the last drilled well.

The Company intends to bring in a strategic partner to invest in Apexindo through an injection of assets, most likely jack-up rigs, which should enhance offshore operating capabilities. In addition, in 2005, the Company reduced its equity interest to 52.4% through a rights issue. For the year ended December 31, 2005, revenues from drilling operations and related services contributed 14.4% of total sales and other operating revenues.

### **Net Methanol Sales**

The Company derives revenues from sales of methanol produced from the Bunyu methanol plant which is leased from Pertamina and operated by the Company. Revenues from net methanol sales are affected by production volume and the prices at which the Company can sell its methanol, which in turn are dependent upon worldwide demand and supply of methanol. Methanol prices are volatile and over the last six years have reached a high of US\$264.17 per MT in March 2004 for domestic sales and US\$237.59 per MT (free on board, or f.o.b.) in May 2004 for export sales, and a low of US\$72 per MT in

December 1998 for domestic sales and US\$70 per MT (f.o.b.) in November 1998 for export sales. The Company's average realized price per MT for the years ended December 31, 2004 and 2005, which track global prices, were US\$230 and US\$225, respectively.

### **Share of Profits of Joint Ventures**

Revenues from the share of profits of joint ventures represent the Company's proportionate net income primarily derived from Kakap, Brantas and Tuban blocks as well as the recently divested Cooper Basin and Pakistan blocks, all of which are not operated by the Company. See "— Revenues from Company-Operated and Non-Company-Operated Fields".

### **Electric Power Sales**

On March 29, 2004, the Company, through its wholly-owned subsidiary, PT Medco Energi Menamas ("MEM"), acquired a 54.0% interest in PT Mitra Energi Batam ("MEB"), the operator of the 55MW power plant in Batam. The other shareholders of MEB are PT PLN Batam with a 30% interest and YPK PLN with a 16% interest. On April 29, 2004, MEB entered into a Transfer of Power Purchase Agreement with Menamas and PT PLN Batam pursuant to which the rights and obligations of PT Menamas to PT PLN Batam under the Power Purchase Agreement between Menamas and PLN Batam transferred to MEB. Under the Transfer of Power Purchase Agreement, MEB is required to fund, design, establish and operate two units of Gas Turbine Genset Dual Fuel. The parties entered into an additional Agreement I of Power Purchase Agreement dated July 14, 2004 pursuant to which the parties agreed, among others, to postpone the commercial operate dates for the two units. PLN Batam will purchase the electricity from the Batam power plant for a minimum of 408,391,200 kilowatt-hour per year at the price of Rp.190 per kilowatt-hour for 12 years. The parties further agreed that the costs incurred by MEB to install the PLN Switchyard shall be repaid by PLN Batam in installments at a price of Rp.7 per kilowatt-hour for a maximum of 408,391,200 kilowatt-hour per year over 12 years. MEB commenced the commercial operations of the Batam power plant on October 29, 2004. Revenue from electric power sales represents revenue derived from the Batam power plant since the commencement of its commercial operations.

On June 22, 2005, the Company through its wholly-owned subsidiary, PT Medco Power Indonesia, entered into a cooperation agreement with PT Dalle Energy, pursuant to which the parties agreed that PT Medco Power Indonesia shall own directly a 40% interest in PT Dalle Energy Batam, which is the owner and operator of 55.5 MW capacity power plant phase II located in Panaran Batam ("Batam Power Plant Phase II"). The other major shareholders of PT Dalle Energy Batam are PT Dalle Energy with a 41% interest and PT Dalle Panaran with a 19% interest.

Under the Power Purchase Agreement ("Phase II Power Purchase Agreement"), dated January 2, 2005, between PT PLN Batam and PT Dalle Energy (which assigned the Power Purchase Agreement to PT Dalle Energy Batam on May 20, 2005), PT PLN Batam will purchase the electricity from the Batam Power Plant Phase II for a minimum of 371,424,000 kilowatt-hour per year at the price of Rp.439 per kilowatt-hour for 12 years starting from the commercial operation date. The parties further agreed that the price will be partially indexed to the changes in the U.S. dollar/Rupiah exchange rate. PT Dalle Energy Batam will be responsible for securing and providing gas supply for the project. The project is expected to be financed through project financing from a combination of local and overseas financial institutions. PT Dalle Energy Batam is currently negotiating with PT PLN Batam to amend the Phase II Power Purchase Agreement to reschedule the commercial operation date and other terms and conditions, including the possibility to increase the capacity and efficiency by installing chiller and combined cycle plant and potential gas pass through scheme to PT PLN Batam.

### **Revenues from Other Contracts**

Revenues from other contracts are recognized when earned and mainly represent back charges related to the Company's drilling operations, comprising spare parts, supplies, fuel and catering for the Company's drilling clients for which the Company bills its customers, as well as operation and management services for Tanjung Jati B.

### **Depreciation and Amortization**

Depreciation and amortization arise from the depletion of capitalized oil and gas exploration and development costs which are calculated using the unit of production method, as well as depreciation of



property and equipment in drilling, methanol and electric power operations which are computed using the straight-line method over the estimated useful lives of the assets as detailed in notes 21, 2m, 12 and 13 to the Company's consolidated financial statements, and amortization of intangible assets. Prior to 2002, the Company calculated depreciation and amortization using internal reserve estimates which varied from GCA's reserve estimates. Beginning in 2002, the Company calculated depreciation and amortization using GCA's reserve estimates where available. The Company's adoption of GCA's reserve data beginning in 2002 and the resulting decrease in the Company's proven reserves caused an increase in the Company's depreciation and amortization expense.

Beginning 2005, the depreciation for support facilities and equipment is calculated using the straight line method over 4 to 20 years. The accounting policy for depreciating the support facilities and equipment from the unit of production method to straight line method was made to reflect the more realistic assumption of the economic benefits over the utilization of these assets. The effect of the change, being immaterial, was charged to current operations.

### **Drilling Operations Costs**

Drilling operations costs consist primarily of salaries and wages, labor contracts, repairs and maintenance, rental expense of drilling equipment, catering and insurance expenses. If a rig is moved without a contract, all costs incurred are immediately recognized as drilling operations costs. Drilling operations costs are not affected by changes in dayrates. In addition, such expenses are not, in the short term, generally affected by fluctuations in utilization. For instance, if a rig is idle for a short period of time, the Company realizes few decreases in expenses as rigs typically are maintained in a ready-to-operate state with a full crew. However, if a rig were expected to be idle for a longer period of time (generally more than one month but not more than six months), the Company attempts to decrease expenses by reducing the size of the rig's crew and takes 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. The stand-by cost for rigs in stacked mode averages US\$3,000 to US\$4,000 per day for offshore rigs and US\$1,000 to US\$2,500 per day for onshore rigs.

Cost of sales and direct expenses 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 recognizes repairs and maintenance expenditures that maintain rather than upgrade rigs as cost of sales and direct expenses.

### **Production and Lifting Costs**

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

### **Cost of Methanol Sales**

Pursuant to a 20-year agreement entered into with Pertamina in April 1997, the Company began operating a methanol plant owned by Pertamina on Bunyu Island, east of Kalimantan through its subsidiary, PT Medco Methanol Bunyu ("MMB"). As compensation, since May 2003, the Company has been paying Pertamina a fixed rental fee of US\$2.2 million per annum, which is subject to review every two years, while the non-fixed rental fee in U.S. dollars is determined based on evaluation of the methanol standard price by the international market. The other components of the cost of methanol sales are feed gas costs, refinery plant operational costs, salaries and other allowances, contract labor, fuel consumption and material used.

### **Exploration Expenses**

Exploration expenses include dry hole costs, geological and geophysical costs and exploration overheads. Exploration expenses vary with the level of exploration activities and the success rate of such activities. The Company uses the "successful efforts method" of accounting for oil and gas exploration expenses. Accordingly, the costs related to acquisitions of interests in oil and gas properties, the costs of drilling and equipping exploratory wells that locate or results in proved reserves and the costs of drilling and equipping development wells, including the costs of drilling exploratory-type stratigraphic test wells, are initially capitalized and recorded as part of uncompleted wells, equipment and facilities until the exploration is determined to be unsuccessful. Exploration expenses for dry holes are

expensed in the year in which the exploration effort is determined to have been unsuccessful. See “— Critical Accounting Policies and Practices”.

### **Cost of Power Sales**

Cost of power sales represents expenses, such as maintenance cost and salaries, related to the Batam power plant since the commencement of its commercial operations on October 29, 2004.

### **Gain (Loss) from Swap Transactions**

In 2005, the Company recorded an unrealized loss of US\$34.7 million from certain of its interest rate swap transactions. This loss was primarily because certain of the Company’s interest rate swap transactions did not meet the criteria for “hedging transactions” under the Indonesian accounting standards (SFAS) No. 55, “Accounting for Derivative Instruments and Hedging Activities”. SFAS No. 55 establish the accounting and reporting standards which requires that every derivative instrument (including embedded derivatives) be recorded in the balance sheet as either an asset or liability, measured at its fair value. SFAS No. 55 also require that changes in the fair value (on a mark-to-market basis) of derivatives be reflected in a company’s statement of income unless the swap transactions pass the effectiveness test, which ranges from 80% to 120% of the underlying transaction. SFAS No. 55 further require that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. Because certain of the Company’s interest rate swap transactions failed to meet the foregoing qualifications, the Company was required to record losses on these transactions (on a mark-to-market basis) in its statement of income. Had these transactions met the criteria for hedging transactions, these losses would have been recorded as adjustments to the Company’s equity. The Company expects that mark-to-market gains or losses on these swap transactions will continue to be reflected in its statement of income going forward.

### **Liquidity and Capital Resources**

Historically, the Company’s operations, capital expenditures and working capital requirements have been funded from cash generated from operations and from borrowings, both short-term and long-term. The Company generated an average of US\$161.6 million of cash flows from operating activities in the two years ended December 31, 2005 and had average capital expenditures of US\$219.1 million in the same period.

Currently, the Company’s primary sources of funding are cash flows from operations and from borrowings such as long-term notes payable, short-term syndicated loan and long-term bank loans. The Company currently has several facilities with banks such as Standard Chartered, HSBC, Bank Danamon and Bank Central Asia (“BCA”). The Company’s primary uses of funds are working capital, repayment of short-term and long-term borrowings and capital expenditures.

As of December 31, 2005, the Company had cash and cash equivalents of US\$152.1 million which comprised cash and time deposits with maturity dates not over three months and which are not used as collateral.

## Indebtedness

### *Indebtedness of the Company*

The following table shows the amount of the Company's total consolidated short-term and long-term debt outstanding as of December 31, 2004 and 2005.

	As of December 31,	
	2004	2005
	(US\$ in millions)	
Short-term bank loans .....	150.0	—
Current maturities of long-term bank loans and obligation .....	30.9	16.6
<b>Long-term debt-net of current maturities</b>		
Bank loans .....	100.0	23.6
Notes payable .....	274.2	276.1
Rupiah bond .....	144.2	192.6
Loan .....	—	6.7
Total debt .....	<u>699.3</u>	<u>515.6</u>

The Company's long-term debt outstanding as of December 31, 2004 and 2005 consisted of both local and foreign currency obligations. The following table shows the currency denomination of the Company's outstanding long-term loans as of December 31, 2005.

	U.S. dollar	Rupiah
	(US\$ in millions)	
Long-term debt-net of current maturities .....	15.5	14.8
Notes payable and Rupiah bond .....	<u>276.1</u>	<u>192.6</u>
Total long-term debt .....	<u>291.6</u>	<u>207.4</u>

On March 6, 2003, Apexindo as sponsor and Apexindo Asia Pacific B.V ("AAP") as borrower entered into a secured project finance facility with Fortis Bank for up to US\$39 million, or 75% of the total construction cost of Rig Raissa, whichever is lower. The proceeds of such facility were used to finance the purchase of the Rig Raissa, which, together with proceeds from the related drilling contract, will secure repayment of the facility. The facility will be repaid in 16 successive quarterly installments and the first installment will be made three months after the drawdown of the facility which is on May 27, 2003, and bearing interest at the London Interbank Offering Rate ("LIBOR"), plus 2.15% to 2.55% per annum.

On May 22, 2003, the Notes were issued by MEFL and guaranteed by the Company. The initial offering price was 99.011%. Repayment of the principal is due upon maturity on May 22, 2010. However the issuer will, at the option of the noteholders, redeem the Notes on the interest payment date falling on the fifth anniversary of the issue date at the principal amount together with the accrued interest. Interest is payable every May 22 and November 22 of each year commencing on November 22, 2003. The Notes are listed on the SGX-ST. The company was assigned a "B plus" corporate credit rating with stable outlook by S&P on May 2, 2003. On February 8, 2005, Moody's upgraded the issuer rating of Medco to B2 from B3. At the same time, the senior unsecured rating notes issued by MEFL was upgraded to B2 from B3. On July 8, 2005, following Moody's global announcement on the withdrawal of issuer ratings for speculative grade issuers, Moody's withdrew Medco's issuer rating and assigned a local currency corporate family rating of B1 to Medco. At the same time, Moody's affirmed the B2 rating of the senior unsecured notes issued by MEFL. The outlook on both ratings is stable.

On July 19, 2003, Apexindo as sponsor and AAP as borrower entered into a secured project finance facility with Fortis Bank for up to US\$26 million or 65% of the total construction cost of Rig Yani, whichever is lower. The proceeds of such facility were used to finance the purchase of the Rig Yani, which, together with proceeds from the related drilling contract, will secure repayment of the facility. The facility is to be repaid in 12 equal quarterly repayments with the first payment due on December 1, 2003 and bearing interest at LIBOR plus 2.15% to 2.35% per annum.

On March 19, 2004, the Company's subsidiary, PT Medco LPG Kaji (formerly PT Musi Banyuasin Energi) entered into a loan agreement, as amended on December 13, 2004, with DEG Deutsche

Investitions und Entwicklungsgesellschaft MBH for a US\$13.3 million term loan facility. The proceeds will be used to finance LPG Extraction, a plant project in Sumatra. The term loan bears interest at DEG base rate plus 4% margin (or equivalent to approximately 7.75% per annum). It is payable over four years with semiannually payment with the first payment due on March 15, 2005.

On May 24, 2004, the Company entered into a loan agreement with UOB, whereby UOB agreed to provide the Company with an unsecured US\$120 million bridging loan facility. The proceeds of the facility were used to partly finance the acquisition of Novus and to refinance the existing obligations of Novus under its notes. On June 30, 2004, the Company entered into an amended and restated agreement to bridging loan facility with UOB and Overseas Chinese Banking Corporation as arranger and UOB as agent, of which the amount of the facility has increased to US\$200 million. The loan which was available from August 24, 2004 bears interest at the Singapore Interbank Offered Rate ("SIBOR"), plus 4% per annum. All other substantive terms and conditions of the previous agreement remain the same. On December 30, 2004, the Company entered into another loan agreement with the same arrangers, lenders and facility agent. Under this loan agreement, the US\$105 million of the US\$200 million bridging loan facility was converted into a US\$105 million transferable loan facility with the interest at SIBOR plus margins ranging from 3% to 6.5% as specified in the loan agreement. The facility shall be repayable in full amount on April 1, 2006. All other terms and conditions remain the same. In January 2005, the Company repaid US\$150 million of the facility. On July 15, 2005, the Company repaid the remaining US\$50 million of the facility with a portion of the proceeds the Company received from its sale of the Novus Group's remaining Middle East assets.

On June 29, 2004, the Company issued a Rupiah bond at nominal value of Rp.1.35 billion, payable on July 12, 2009. The Rupiah bonds bear interest at 13.125% per annum, payable quarterly with the first payment due on October 12, 2004. The proceeds of the bonds were used to finance the acquisition of Novus. The Company has entered into several cross currency swap transactions in relation to the Rupiah bonds. On June 7, 2004, PT Pemeringkat Efek Indonesia, the local rating agency, assigned an "AA minus" corporate rating with stable outlook to the bonds.

The Company also has bank loans from BCA. The BCA loans consisted of US\$19.2 million obtained by Apexindo and US\$21.0 million obtained by MEB in 2004. On August 25, 2003, Apexindo entered into a credit facilities agreement with BCA, whereby BCA agreed to provide (i) investment credit amounting to US\$20 million with interest rate based on BCA's prime lending rate minus 0.625% per annum. The term loan is payable over four years with a grace period of six months commencing on the first drawdown, (ii) local credit amounting to US\$5 million and Rp.10 billion, and (iii) bank guarantee amounting to US\$5 million. The MEB loan bears interest at 12.5% per annum for the first six months of the first withdrawal and shall be adjusted on a progressive basis in accordance with the loan agreement. The loan is payable monthly for 84 equal installment from August 10, 2004. On April 28, 2005, MEB entered into a First Amendment of Credit Agreement with BCA, pursuant to which the monthly principal installment was changed to 82 installments beginning on 29 March 2005 through 29 January 2011, while the other terms and conditions remained the same.

On February 8, 2005, Apexindo submitted a registration statement to BAPEPAM for the issuance of conventional bond and Syariah Ijarah Bond 1 Year 2005 totaling Rp.750 billion. The registration statement was declared effective by BAPEPAM on March 30, 2005. On April 8, 2005, Apexindo has received the proceeds from issuance of the said bonds amounting to Rp.723.3 billion (US\$76.1 million) net of underwriting fee and sinking fund. The proceeds of the bond was used to partially refinance the outstanding balance of the finance facility from Fortis Bank.

On May 3, 2005, the finance facility of rig Raissa was fully repaid amounting to US\$23.3 million (principal plus accrued interest) and the finance facility of rig Yani was fully repaid on June 1, 2005 amounting to US\$13.5 million (principal plus accrued interest).

Apexindo is in the process of obtaining a ship mortgage term facility totalling approximately US\$120.0 million which will be used to cover costs relating to the completion of Apexindo's new jack-up rig, Soehanah. The Company expects the financing arrangements to be completed by the end of the second quarter of 2006.

The Company is in discussion with its auditors to determine the accounting treatment of the premium payable on the Bonds and has not yet determined whether it needs to make accruals or other provisions for potential premium payments.

## Capital Expenditures

The following table sets forth the Company's capital expenditures for 2004 and 2005.

	For the Year Ended December 31,	
	2004 <sup>(1)(2)</sup>	2005
	(US\$ in millions)	
Exploration and Development Activities .....	235.1	139.2 <sup>(3)</sup>
Drilling .....	11.5	44.9 <sup>(4)</sup>
Methanol .....	—	—
Electric Power .....	—	7.4 <sup>(5)</sup>
Others .....	0.1	— <sup>(6)</sup>
Total .....	<u>246.7</u>	<u>191.5</u>

### Notes:

- (1) Such capital expenditures primarily related to stopping the decline in production as well as pressure maintenance in Rimau block, exploration drilling in Madura block, and development drilling and facilities in South and Central Sumatra, particularly in Matra wells which was scheduled to be put into production in last quarter of year 2004, as well as completion expenditures for the construction of two new rigs (Yani and Raissa) and refurbishment of the Maera rig by Apexindo.
- (2) Such capital expenditures primarily related to the acquisition of Novus in June 2004, exploration drilling in Lematang and South and Central Sumatra blocks, and development drilling and facilities in South and Central Sumatra and Tomori blocks.
- (3) Capital expenditures for exploration and development activities were primarily for the Senoro gas field, Rimau, Extension/Kampar and Sembakung.
- (4) Capital expenditures for drilling primarily related to expenses for Apexindo's new jack-up rig, Soehanah, which is expected to begin operating in early 2007.
- (5) Primarily relating to the acquisition of PT Trihasra Sarana Jaya Purnama's 5.0% interest in PT Energi Sengkang, DEB and Tanjung Jati.
- (6) Primarily relating to capital expenditures for the Company's proposed ethanol project. See "Business — Ethanol Project".

Development and exploration drilling accounts for a majority of the capital expenditure for exploration and production operations.

The following table sets forth the Company's currently planned capital expenditures for 2006, 2007 and 2008.

	2006	2007	2008	Total
	(US\$ in millions)			
<b>Exploration and Development Activities .....</b>	<b>372.7</b>	<b>471.6</b>	<b>318.6</b>	<b>1,163.0</b>
Indonesia				
Producing — Operated				
Rimau .....	91.9	51.4	34.3	177.7
Extension/Kampar .....	38.8	34.0	18.5	91.3
Langsa .....	8.2	—	—	8.2
Kalimantan .....	8.9	4.3	4.6	17.8
Tarakan .....	5.9	8.2	8.3	22.4
Sembakung .....	7.3	8.8	12.1	28.1
Producing — Non-Operated				
Kakap .....	7.1	—	0.8	7.9
Brantas .....	11.9	9.4	3.7	25.0
Tuban .....	16.0	0.1	0.4	16.5



	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
	(US\$ in millions)			
Development				
Senoro-Toili .....	61.5	76.8	65.2	203.5
Lematang .....	0.1	21.6	22.1	43.8
Jeruk .....	42.0	95.1	33.9	171.0
Exploration				
Merangin .....	2.4	4.4	7.5	14.3
Simenggaris .....	5.2	8.5	15.2	28.9
Nunukan .....	0.3	27.2	13.0	40.5
Bengara .....	4.0	—	—	4.0
Madura .....	—	—	2.5	2.5
U.S. Assets	37.8	34.4	1.0	73.2
Libya .....	22.2	34.3	34.3	90.9
Oman .....	1.2	53.1	41.2	95.6
<b>Contract Drilling<sup>(1)</sup></b> .....	12.7	119.3	147.5	279.4
<b>Methanol<sup>(2)</sup></b> .....	2.0	0.5	0.4	2.9
<b>Electric Power<sup>(3)</sup></b> .....	19.4	34.4	1.9	55.8
<b>Ethanol<sup>(4)</sup></b> .....	9.5	19.1	—	28.7
<b>Total</b> .....	<b><u>416.4</u></b>	<b><u>645.0</u></b>	<b><u>468.4</u></b>	<b><u>1,529.8</u></b>

Notes:

- (1) Such capital expenditures are expected to relate primarily to maintenance costs of existing assets that are owned by Apexindo and Apexindo's Soehanah jack-up project which is scheduled to be finished in early 2007 with a total estimated cost in the amount of US\$134 million and another jack-up project for which the Company intends to award a construction contract by end-2006 and which is expected to be completed in 2008. The Soehanah jack-up project is being partly funded by equity and partly by project financing and the Company intends to fund the additional jack-up project in the same manner.
- (2) Such capital expenditures are expected to relate primarily to maintenance costs, including the scheduled maintenance shutdown in 2006.
- (3) Such capital expenditures are expected to relate primarily to the operation of MEB and other projects which are still in bidding process. These projects will be partly funded by equity. The amount shown is Medco's equity share of the projects. These projects may be undertaken with a partner.
- (4) Such capital expenditures are expected to relate primarily to the construction of the Company's proposed ethanol plant. See "Business — Ethanol Project".

The Company plans to meet its capital expenditure requirements primarily from its future cash flow from operations, proceeds from future asset divestments and debt financing. The Company may also raise additional capital through the offering of equity, debt and other securities in the future. 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. The Company may make additional capital expenditures as opportunities or needs arise. In addition, the Company may increase, reduce or suspend its planned capital expenditures or change the timing and use of its capital expenditures from what is currently planned in response to market conditions or for other reasons. The above budgeted amounts do not include any investments the Company may make in acquisitions of oil and gas properties or other downstream projects, if any, consistent with its business strategy.

The Company's ability to maintain and grow its revenues, net income and cash flows depends upon continued capital spending. The Company's capital expenditure plans are subject to a number of risks, contingencies and other factors, such as oil and gas prices, geological factors, market demand, acquisition opportunities and the success of the Company's drilling program, some of which are beyond the Company's control. The Company adjusts its capital expenditure plans and investment budget

periodically, based on factors deemed relevant by the Company. 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.

### **Off-Balance Sheet Arrangements**

The Company has various contractual obligations, some of which are required to be recorded as liabilities in the Company's consolidated financial statements, including long-term and short-term loans. The Company has certain additional commitments and contingencies that are not recorded on the Company's consolidated balance sheet but may result in future cash requirements. These off-balance sheet arrangements are not generally required to be recognized as liabilities on the Company's balance sheet.

In January 2000, the Company acquired a 75% share interest in the holding companies operating in the Simenggaris and Madura blocks from Cityview Asia Pty., Ltd ("Cityview") for a purchase price of A\$1.00 and an obligation to reimburse Cityview's past expenditures subject to commercial discovery in these blocks. The Company will reimburse all costs incurred by Cityview in drilling and developing the committed wells from the revenue generated from the Madura and Simenggaris operations pursuant to the cost recovery mechanism stated in the Madura PSC and Simenggaris PSC. As of the date of this Offering Circular, there is no revenue generated from either block as there is no commercial discovery yet in either block. If there is no commercial discovery during the exploration period, then the blocks will be relinquished back to the Government and the Company will not be required to compensate Cityview for its costs incurred.

In 2002, two of the Company's oil and gas subsidiaries, Exspan Cumi-Cumi Inc. and Medco Lematang Ltd, received tax assessments from the Indonesian Directorate General of Taxation for the payment of US\$2.2 million of value added tax plus related penalties and interest. Such subsidiaries have disputed the assessments and accordingly the Company has not accrued a liability for their payment.

The Company does not have any other off-balance sheet arrangements that it believes have or are reasonably likely to have a current or future material effect on its financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Inflation**

According to the BPS — Statistics Indonesia, Indonesia's annual overall inflation rate as measured by the consumer price index was approximately 9.4% in 2001, 12.6% in 2002, 10.0% in 2003, 5.1% in 2004 and 17.1% in 2005. Inflation in Indonesia has not significantly impacted the Company's results of operations in recent years.

### **Seasonality**

Indonesia's wet and dry seasons do not have a material impact on the demand and prices for crude oil and natural gas.

### **Quantitative and Qualitative Disclosure About Market Risks**

The Company's primary market risk exposures are to fluctuations in oil and gas prices.

#### ***Commodity Price Risk***

The Company is exposed to fluctuations in prices of crude oil, natural gas and methanol which are commodities whose prices are determined by reference to international market prices. International oil and gas prices are volatile and this volatility has a significant effect on the Company's revenues and net income. Due to the cost recovery provided to the Company in its production sharing arrangements, the Company does not currently hedge market risk resulting from fluctuations in oil and gas prices, but it is evaluating certain hedging arrangements that it may implement in the future. See "— Overview" and "Risk Factors — Risks Relating to Oil and Gas Industry — The volatility of prices for crude oil, condensate and natural gas and the cyclical nature of the oil and gas industry could adversely affect the Company's financial condition and results of operations".

### ***Operating Risks***

The Company is exposed to operating risks, including reservoir risk, risk of loss of oil and gas and natural calamities risk in respect of all its installations and facilities. The Company has, however, insured its installations and facilities. The Company is, however, not covered for lost profits. Total premium paid by the Company in 2005 for insurance coverage was US\$464,391. See “Business — Operating Hazards, Insurance and Uninsured Risks” and “Risk Factors — Risks Relating to the Oil and Gas Industry — Oil and gas operations are subject to significant operating hazards, against which the Company may not be fully insured”.

### ***Foreign Exchange Rate Risk***

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 majority of the Company’s cash expenses are also denominated in U.S. dollars. Certain expenses comprising the salaries of Indonesian employees, local vendors, local rentals and interest income/expense are normally paid in Rupiah. Given the relatively small currency mismatch, the Company believes that its exposure to the currency risk of an appreciation of the Rupiah is limited.

On November 5, 2004, the Company entered into a foreign exchange swap contract with PT Investindo Nusantara Sekuritas in which the Company received US\$6.0 million and US\$7.0 million and pays Rp.51.2 billion and Rp.60.1 billion on November 9 and November 10, 2004, respectively. The swap was unwound on May 9, 2005.

The Company is also exposed to foreign exchange rate risk resulting from fluctuations in exchange rates in the translation of its Rupiah denominated loans. As of December 31, 2005, the Company had foreign currency loans of US\$305.9 million and Rupiah denominated loans of Rp.2.1 trillion (US\$209.7 million).

The Company’s policy for foreign exchange management, swap and hedging was designed to minimize currency risk and maintain cost effectiveness and has the following objectives:

- ensure that all transactions in currencies other than U.S. dollar (being the functional currency of the Company) are sufficiently covered on a timely basis;
- ensure that the Company is not adversely affected by foreign exchange, commodity price, interest rate and general market movement in a way that might seriously threaten its viability or undermine the confidence of its customers, staff or debt and equity holders;
- reduce the actual or anticipated cost of financing; and
- optimize swap and hedging transactions by maintaining cost effectiveness of such activities and to fairly weigh the cost of risk with possible saving in going unhedged or by engaging in natural hedging.

### ***Interest Rate Risk***

On June 19, 2003, MEFL, a wholly-owned subsidiary of the Company, entered into a forward interest rate swap agreement, which was amended on July 2, 2004, with Morgan Stanley & Co. Ltd. International (“MS”) for a notional amount of US\$50 million. Under this agreement, MEFL received a fixed rate of 8.75% per annum and paid a floating rate equivalent to 12 months LIBOR BBA plus 4.88% per annum on every May 22 and November 22, which was to expire on May 22, 2010. This agreement was terminated on April 29, 2005.

All of the Company’s U.S. dollar notes bear fixed rates of interest. Most of Apexindo’s U.S. dollar denominated loans bear fixed rates of interest. On May 21 and November 21, 2003, AAP entered into interest rate swap agreements with Fortis Bank for a notional amount of US\$30 million with maturity period ending May 1, 2007 and US\$17.9 million with maturity period ending September 1, 2006, respectively. These swap agreements were cancelled as the loan to Fortis Bank for the purchase of rig Raissa was fully repaid on May 3, 2005 and the loan for the purchase of rig Yani was fully repaid on June 1, 2005.

On July 13 and July 15, 2004, the Company entered into cross currency interest rate swap agreements with Merrill Lynch Capital Services, Inc. ("ML") for a notional amount of US\$25 million each. Under these agreements, the Company will receive a fixed rate of 13.125% per annum equivalent in Rupiah and pay a floating rate equivalent to 3 months LIBOR plus 2.45% per annum on every January 12, April 12, July 12 and October 12, commencing on October 12, 2004. These agreements will expire on July 12, 2009. On April 1, 2005, the Company amended one of the cross currency swap agreements with ML and changed the floating rate of 3 months LIBOR plus 2.45% per annum into a fixed rate of 6.98% per annum for the first US\$25 million notional amount. Therefore, starting from January 12, 2005 the company will pay fixed rate of 6.98% per annum under this swap agreement. On April 12, 2005, the Company amended the other cross currency swap agreement with ML and changed the floating rate of 3 months LIBOR plus 2.45% per annum into a fixed rate of 6.99% per annum for the second US\$25 million notional amount. Both agreements were terminated on March 21, 2006.

On August 3, 2004, the Company entered into a cross currency interest rate swap agreement with Standard Chartered Bank ("SCB") for a notional amount of US\$25 million. Under this agreement, the Company will receive a fixed rate of 13.125% per annum equivalent in Rupiah and pay a floating rate equivalent to 3 months LIBOR plus 2.90% per annum on every January 10, April 10, July 10 and October 10, commencing on October 10, 2004. This agreement will expire on July 10, 2009. On April 25, 2005, the Company amended the cross currency swap agreement with SCB and changed the floating rate of three months LIBOR plus 2.90% per annum into a fixed rate of 7.23% per annum. Accordingly, from July 10, 2005 the Company started paying a fixed rate of 7.23% per annum under this swap agreement. All other terms and conditions remained the same.

On October 19, 2004, the Company entered into a cross currency interest rate swap agreement with Citibank, N.A. for a notional amount of US\$25 million. Under this agreement, the Company will receive a fixed rate of 13.125% per annum equivalent in Rupiah and pay a floating rate equivalent to three months LIBOR plus 2.45% per annum on every January 12, April 12, July 12 and October 12, commencing on January 12, 2005. This agreement will expire on July 12, 2009.

On March 28, 2005, the Company entered into a short-term cross currency swap (tenor six months) agreement with SCB for a notional amount of US\$25 million, effective on March 29, 2005 and expiring October 12, 2005. Under this agreement, the Company received a fixed rate of 13.125% per annum equivalent in Rupiah and paid a fixed rate equivalent to 9.15% per annum on April 12, July 12 and October 12, 2005 commencing on April 12, 2005. On October 7, 2005, the Company entered into a short-term cross currency interest rate swap (three months) agreement with SCB for a notional amount US\$12.5 million, effective on October 12, 2005 and expiring on January 12, 2006. Under this agreement, the Company received a fixed rate of 13.125% per annum equivalent in Rupiah and paid a fixed rate of 1% per annum on January 12, 2006.

Apexindo has five cross currency interest rate swaps with SCB for its Rupiah bond with a nominal amount of US\$78.95 million. The agreements became effective on April 8, 2005. Under the swap agreements, Apexindo paid on the initial exchange on April 8, 2005, the total Rupiah notional amount of Rp.750 billion and received the total US Dollar notional amount of US\$78.95 million. Apexindo will receive interest of 12.25% per annum on the total Rupiah nominal amount and pay interest on the total US Dollar amount as follows: 8.65% per annum on US\$27.63 million, 8.45% per annum on US\$11.84 million and three months LIBOR plus 4.05% per annum on US\$39.47 million.

On June 2, 2005, the Company entered into another cross currency interest rate swap agreement with ML for a notional amount of US\$25 million. Under the agreement, the Company will receive a fixed rate of 13.125% per annum. and pay a fixed rate equivalent to 7.98% per annum. The agreement became effective on July 12, 2005 and will expire on July 12, 2009. This agreement was terminated on February 8, 2006.

As of December 31, 2005, a 1% change in interest rates on the Company's floating rate borrowings, which totaled US\$96.1 million would result in a change of US\$0.96 million of annualized change in the Company's interest expense, provided that the impact on the Company's interest expense may decrease under its hedging contracts.

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its short-term and long-term borrowings. Upward fluctuations in interest rates increase the cost of new borrowings and the interest cost of the Company's outstanding floating rate borrowings. As of December 31, 2005, 18.6% of the Company's long-term borrowings accrued interest at floating rates which, in

the case of U.S. dollar borrowings, principally are determined in reference to LIBOR or SIBOR and, in the case of Rupiah borrowings, in reference to the banks prime lending rate.

### Non-GAAP Accounting Items

EBITDA, EBITDAX, Adjusted EBITDA and Adjusted EBITDAX are not measurements of financial performance under Indonesian GAAP and should not be considered as an alternative to net income as indicators of the Company's operating performance or any other measures of performance derived in accordance with Indonesian GAAP. As a measure of the Company's operating performance, the Company believes that the most directly comparable Indonesian GAAP measure to EBITDA and EBITDAX is income from operations.

The following table reconciles the Company's income from operations under Indonesian GAAP to the Company's definition of EBITDA and EBITDAX for the years ended December 31, 2004 and 2005. EBITDA means earnings before interest, taxes, depreciation, amortization, gain or loss on foreign exchange and other income or charges as calculated under Indonesian GAAP. EBITDAX means EBITDA adding back exploration expenses as calculated under Indonesian GAAP.

<u>Reconciliation of EBITDA and EBITDAX to Income From Operations</u>	<u>2004</u>	<u>2005</u>
	(US\$)	
<b>EBITDAX</b> .....	278,625,677	347,202,153
Exploration Expense .....	<u>(23,847,061)</u>	<u>(19,043,406)</u>
<b>EBITDA</b> .....	254,778,616	328,158,747
Depreciation and Amortization .....	<u>(75,514,504)</u>	<u>(88,819,259)</u>
<b>Income from Operations</b> .....	<u><u>179,264,112</u></u>	<u><u>239,339,488</u></u>

The following table reconciles the Company's net income under Indonesian GAAP to the Company's definition of Adjusted EBITDA and Adjusted EBITDAX for the years ended December 31, 2004 and 2005. Adjusted EBITDA adjusts for earnings before interest, taxes, depreciation, amortization, gain or loss on foreign exchange and other income or charges attributable to the Company's non-operated fields, which would otherwise be reported on a proportionate net income basis under "share of profits of joint ventures" in the Company's consolidated financial statements. Adjusted EBITDAX means Adjusted EBITDA adding back exploration expenses as calculated under Indonesian GAAP. See "— Revenues from Company-Operated and Non-Company-Operated Fields".

<u>Reconciliation of Adjusted EBITDA and Adjusted EBITDAX to Net Income</u>	<u>2004</u>	<u>2005</u>
	(US\$)	
<b>Adjusted EBITDAX</b> .....	<u>307,032,214</u>	<u>369,415,658</u>
Exploration Expense (Consolidated) .....	(23,847,061)	(19,043,406)
Exploration Expense (Share of joint ventures) .....	(2,624,151)	(345,392)
<b>Adjusted EBITDA</b> .....	<u>280,561,002</u>	<u>350,026,860</u>
Depreciation and Amortization (Direct costs) .....	(74,623,615)	(87,481,607)
Depreciation and Amortization (Share of joint ventures) .....	(13,394,244)	(18,705,704)
Depreciation — Operating expenses (Consolidated) .....	(890,889)	(1,337,652)
Interest expenses (Consolidated) .....	(37,684,194)	(48,559,773)
Financing Charges (Consolidated) .....	(10,218,408)	(1,083,653)
Current Taxes (Consolidated) .....	(66,148,681)	(99,573,680)
Deferred Taxes (Consolidated) .....	11,009,898	(3,919,319)
Other non charges (Consolidated) .....	(1,245,655)	(8,584,237)
Interest, financing, tax and other charges (Share of joint ventures) .....	(12,388,142)	(3,162,409)
Minority interest (Consolidated) .....	<u>(1,126,940)</u>	<u>(2,921,567)</u>
<b>Net Income</b> .....	<u><u>73,850,132</u></u>	<u><u>74,697,259</u></u>



## **Critical Accounting Policies and Practices**

The Company's critical accounting policies and practices are those that the Company believes are the most important to the portrayal of its financial condition and results of operations and that require subjective judgment on behalf of management. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. However, in the preparation of the consolidated financial statements the Company uses judgment to make certain estimates, assumptions and decisions regarding accounting treatments. The Company believes the policies and practices described below are its critical accounting policies and practices.

### ***Oil and Gas Properties***

The Company uses the "successful efforts" method of accounting for oil and gas activities. Under this method, costs to acquire interests in oil and gas properties, to drill and equip exploratory wells that locate/result in proved reserves and to drill and equip development wells are capitalized. Geological and geophysical costs and other exploration costs are charged to income as incurred.

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

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

Depreciation and amortization of oil and gas properties, except unoperated acreage and uncompleted wells, equipment and facilities, is calculated based on the unit of production method, using the gross production divided by gross proved developed reserves.

Beginning 2005, the depreciation for the support facilities and equipment is calculated using the straight-line method over four to 20 years (see Note 14 to the Company's audited consolidated financial statements included in this Offering Circular). The accounting policy for depreciating the support facilities and equipment from the unit-of-production method to straight-line method was made to reflect the more realistic assumption of the economic benefits over the utilization of these assets. The effect of the change, being immaterial, was charged to current operations.

Costs to acquire rights to explore for, and produce oil and gas are recorded as unoperated acreage, which pertains to properties wherein proved reserves have not yet been discovered, or operated acreage. Unoperated acreage is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

### ***Foreign Currency Transactions and Balances***

The Company, except Medco Energi Finance Overseas, B.V. ("MEFO"), Medco Energi (Australia) Pty. Ltd. ("MEAPL"), Apexindo, MMB, PT Exspan Petrogas Internusa ("EPI"), PT Antareja Jasatama ("AJT"), MEB, MEM, PT Medco Power Sengkang ("MPS"), PT Medco Power Indonesian ("MPI"), PT Medco Gajendra Power Services ("MGPS"), PT Dalle Panaran ("DP"), PT Dalle Energy Batam ("DEB") and the Novus Australian entities (Note 1b), have maintained their books using U.S. dollars. Transactions during the year involving currencies other than U.S. dollars are recorded in U.S. dollars at the prevailing rates of exchange in effect on the date of the transactions.

As of balance sheet date, all foreign currency monetary assets and liabilities are translated at the middle exchange rates quoted by Bank Indonesia on those dates. The resulting net foreign exchange gains or losses are credited or charged to current operations.

MEB, MEM, MPS, MPI, MGPS, DP and DEB maintain their books/accounts in Rupiah. For consolidation purposes, assets and liabilities of MEB and MEM are translated into U.S. dollars using the rates of exchange prevailing at balance sheet date, equity accounts are translated using historical rates of exchange, while revenues and expenses and cash flows are translated using average rates of exchange. The resulting foreign exchange differences are credited or charged to "Translation adjustment" under Equity in the consolidated balance sheets. The books/accounts of Apexindo, MMB, EPI and AJT are maintained in Rupiah, MEFO in Euro and MEAPL and the Novus Australian entities in Australian

Dollars, but their functional currency is U.S. dollars. For consolidation purposes, the accounts of these entities have been remeasured into U.S. dollars in order to reflect more closely their economic substance.

### ***Transactions with Related Parties***

The Company has transactions with parties which are related to them. In accordance with SFAS No. 7, "Related Party Disclosures", related parties are defined as follows:

- companies that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the Company (including holding companies, subsidiaries and fellow subsidiaries);
- associated companies;
- individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and close members of the family of any such individuals (close members of the family are those who can influence or can be influenced by such individuals in their transactions with the Company);
- key management personnel who have the authority and responsibility for planning directing and controlling the Company's activities, including commissioners, directors and managers of the Company and close members of their families; and
- companies in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in the previous two prongs or over which such a person is able to exercise significant influence. These includes companies owned by commissioners, directors or major shareholders of the Company and companies which have a common key member of management as the Company.

All significant transactions with related parties are disclosed in the notes to the consolidated financial statements. See also "Related Party Transactions".

### ***Business Acquisitions***

Acquisitions are accounted for by use of purchase method in accordance with the requirements of SFAS No. 22 on "Business Combination". The cost of an acquisition is allocated to the identifiable assets and liabilities recognized using as reference their fair values at the date of exchange transactions. Any excess of the cost of the acquisition over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transactions are recognized as goodwill/negative goodwill. Goodwill of the acquired oil and gas companies is reported under Oil and Gas Properties account to the extent applicable for capitalization and is amortized over the life of the PSCs or equivalent contract agreement or 18 years using the unit of production method. Negative goodwill is treated as deferred income and is amortized using the straight-line method over 20 years.

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

### ***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 year.

## **Investments**

Investments consist of:

*Marketable securities in the form of debt and equity securities.*

The Company applies the SFAS No. 50, "Accounting for Investments in Certain Securities", which classifies marketable securities into three categories:

- Trading.

Included in this classification are investments which are purchased for immediate resale, normally characterized by the high frequency of purchase-and-sale transactions. These investments are made to earn immediate gain from the improvement in the short-term prices of the securities. Investments that meet this classification are stated at fair value. The unrealized gain/loss on the appreciation/decline in market value of the investments at balance sheet date is credited or charged to current operations.

- Held-to-maturity.

Investments in debt securities which are held-to-maturity date are stated at cost, adjusted for amortization of premium or accretion of discount to maturity.

- Available-for-sale.

Investments which do not meet the classification of trading and held-to-maturity categories are stated at fair value. Any unrealized gain/loss on the appreciation/decline in market value of the investment at balance sheet date is credited/charged to "Unrealized Gain/Loss from Valuation to Market of Securities", under the Equity section of the consolidated balance sheets.

To determine realized gain or loss, cost of securities sold is determined using the last-in first-out method.

### *Time Deposits*

Time deposits which are either used as collateral or with maturity period of greater than three months but not more than one year from the time of placement are stated at cost.

### *Long-term Investments in Shares of Stock*

Investments in shares of stock wherein the Company has an ownership interest of at least 20% but not exceeding 50% are accounted for under the equity method. Under this method, the investments are stated at cost, adjusted for the Company's share in the net earnings (losses) of the associated companies after acquisition, dividends received, foreign currency translation adjustment arising from financial statements translation, amortization of deferred gain on exchange of non-monetary assets and straight-line amortization over a five-year period of the difference between the cost of such investment and the Company's proportionate share in the underlying net assets of the investee at the date of acquisition. The Company reviews and evaluates periodically the carrying values of goodwill, taking into consideration current results and future prospects of the related associate.

The changes in the equity transactions of subsidiary/associated company are reflected as additions to or reductions of equity under the account "Effects of changes in the equity transactions of a subsidiaries/associated companies" in the consolidated balance sheets. Gain or loss is recognized when the investments are disposed of.

The net book value of the newly acquired subsidiaries which are primarily intended for immediate disposal or sale, are presented under "Other Assets".

## **Property and Equipment**

Property and equipment except for revalued assets, are stated at cost less accumulated depreciation. Certain assets were revalued based on independent appraisal conducted by a third party in accordance with Indonesian government regulation. Revaluation increment in property and equipment is credited to "Revaluation increment in property and equipment" under "Equity" in the consolidated balance sheets.

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

Land is stated at cost and is not depreciated.

In 2004, the estimated useful lives of certain offshore drilling rigs and offshore drill pipes which are classified under rig equipment were changed to reflect a more realistic assumption of the economic benefits over the utilization of such assets. The effect of the change was charged to current operations.

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 increase of 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 current operations.

Construction in progress is stated at cost. The accumulated costs are reclassified to the appropriate property and equipment account when the construction is completed and the assets is ready for its intended use.

### ***Pension and Other Employee Benefits***

#### *Pension Plan*

Subsidiaries involved in the oil and gas exploration and production have 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' salaries.

The subsidiaries' pension costs are accrued when incurred/paid.

#### *Other Employee Benefits*

The Company recognizes employee benefits liabilities in accordance with the requirements of Labor Law No. 13 Year 2003 (Law No. 13/2003) dated March 25, 2003 which was issued by the President of the Republic of Indonesia.

In July 2004, the Indonesian Institute of Accountants ("IIA") issued SFAS No. 24 (Revised 2004), "Employee Benefits" ("Revised SFAS No. 24"), which provides the accounting and disclosures for employee benefits. The Revised SFAS No. 24 is effective for the preparation and presentation of financial statements covering periods beginning on or after July 1, 2004 and Revised SFAS No. 24 is to be applied retrospectively by reporting the amounts of any resulting adjustments that relate to prior periods as adjustments to the beginning balance of retained earnings of the earliest comparative period presented. The Company has applied Revised SFAS No. 24 effective on January 1, 2005 and the consolidated financial statements as of and for the year ended December 31, 2004 have been restated to the extent that the effect of the application of Revised SFAS No. 24 was material to the 2004 consolidated financial statements, otherwise, the effect is charged to current operations. The effects of the adjustments are disclosed in note 42 to the Company's audited consolidated financials statements as of and for the year ended December 31, 2005 included in this Offering Circular.

Under Revised SFAS No. 24, the cost of providing employee benefits under the Law is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gain and losses for each individual plan at the end of the previous reporting year exceeded 10.0% of the defined benefit obligation at the date. These gains or losses are recognized on a straight-line basis over the expected average remaining working lives of the employees. Further, past-service costs arising from the introduction of a defined benefit plan or changes in the benefits payable of an existing plan are required to be amortized over the period until the benefits concerned become vested.

### ***Income Tax***

The Company determines its income taxes in accordance with the SFAS No. 46, "Accounting for Income Taxes".

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

Subsidiaries involved in oil and gas exploration and production in Indonesia are subject to a corporate income tax at the rate of 35% as stated in the PSC, except for Exspan Airsenda, Exspan Airlimau and PT Medco E & P Rimau for which a rate of 30% applies. Dividend tax applies at 20%, except for MEPI for which the rate is 15% of income after corporate income tax.

Subsidiaries operating under the provisions of TAC are subject to a corporate income tax and dividend tax at the rate of 35% and 13%, respectively, based on income net of all production and operating expenditures and other non-taxable and non-deductible items.

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

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

Amendments to tax obligations are recorded when an assessment is received or, if appealed against by the Company or its Subsidiaries, when the result of the appeal is decided by the court.

### ***Derivative Instruments***

The Company applies SFAS No. 55, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 55 establishes the accounting and reporting standards requiring that every derivative instruments (including embedded derivatives) be recorded in the balance sheet as either asset or liability as measured at its fair value. SFAS No. 55 requires that changes in derivative fair value be recognized currently in earnings unless specific hedges allow a derivative gain or loss offset related results on the hedged item in the statement of income, and requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. See "— Gain (Loss) from Swap Transactions".

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with Indonesian GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported therein and the disclosures of contingent assets and liabilities at the date of the financial statements. While management uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur, particularly in respect of oil and gas reserves.

### ***Impairment of Asset Value***

In compliance with SFAS No. 48, "Impairment of Asset Value", asset values are reviewed for any impairment and possible write down to fair values whenever events or changes in circumstances indicate that their carrying values may not be fully recovered.



## INDONESIAN OIL AND GAS REGULATORY FRAMEWORK

### Production Sharing Arrangements

Indonesia's oil and gas resources are national assets controlled by the Government. Prior to the enactment of the Oil and Gas Law, the Indonesian state-owned oil and gas company, Pertamina, managed all of Indonesia's oil and gas resources on behalf of the Government. In most cases, Pertamina entered into production sharing arrangements with private sector energy companies, such as the Company, entitling such private sector energy companies to a portion of the production from the fields in the applicable production sharing area.

The Oil and Gas Law came into force in November 2001. Under the Oil and Gas Law, BPMigas, a non-profit Government-owned legal entity, has replaced Pertamina as the Government party to all production sharing arrangements. Under the terms of the Oil and Gas Law, on the establishment of BPMigas, all rights and obligations of Pertamina under production sharing arrangements were transferred to BPMigas. In this respect, BPMigas and Pertamina are tasked by the Upstream Regulation to finalize a formal instrument reflecting BPMigas as the new Government party to such production sharing arrangements, which to-date is still outstanding. As required by the Oil and Gas Law, Pertamina has converted into a limited liability state owned company, PT Pertamina (Persero), and is to enter into a production sharing arrangement or other form of cooperation contract with BPMigas for its continued exploration and exploitation of the fields that were designated as Pertamina's working areas before the enactment of the Oil and Gas Law. See "— Oil and Gas Law".

The working relationship and sharing of production between the Government and the private sector operator engaging in the Indonesian oil and gas industry remains governed by the production sharing arrangements between such operator and BPMigas. The production sharing arrangements require that the operator commits to spending a specified sum of capital to implement an agreed work program.

Production sharing arrangements are based on five main principles:

- contractors are responsible for all investments (exploration, development and production);
- contractors' investment and production costs may be recovered against production;
- profits are split between the Government and contractors based on production after the cost recovery portion;
- ownership of tangible assets remains with the Government; and
- overall management control remains with BPMigas on behalf of the Government.

### PSCs

An original PSC (i.e. an existing PSC created under the regulatory framework that preceded the Oil and Gas Law) 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 each contract term, 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 the Minister of Energy and Mineral Resources. 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.

BPMigas has replaced Pertamina as the Government party to the PSCs and is responsible for managing all PSC operations, assuming and discharging the contractor from all taxes, other than Indonesian corporate taxes (including 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, budget and Plan of Development (except the first Plan of Development). 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.

In each PSC, the contractor and BPMigas share the total production in any given period in a ratio agreed between the two under the terms of that PSC. The contractor generally has the right to recover all funding and development costs, as well as operating costs, in each PSC against available revenues generated by the PSC after deduction of first tranche petroleum ("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 for the contractor calculated by reference to the prevailing Indonesian crude price (in the case of oil) and the gas price stipulated in the relevant gas sale contract (in the case of gas). After the contractor has recovered all allowable costs, the Government is entitled to a specified profit share of the remaining natural gas and crude oil production and the contractor keeps the rest as its profit share. The contractor is obligated to pay Indonesian corporate taxes on its specified profit share including FTP either at the Indonesian corporate tax rate in effect at the time the PSC is executed or at the prevailing tax rate as agreed by the parties. See “Business — Production”.

The total of the contractor’s share of FTP, production attributable to cost recovery and post-tax profit share represents its net crude entitlement for a given period.

All PSCs in Indonesia are subject to DMO under which the contractor is required to supply, at a reduced price, the domestic market with the lesser of 25% of (i) the contractor’s before-tax share of total crude oil production and (ii) the contractor’s share of profit oil. This reduced price varies from PSC to PSC, in each case calculated at the point of export. Under the prior regulatory framework, DMO did not apply to natural gas production. Under the Oil and Gas Law, DMO also applies to natural gas production. In addition, on December 21, 2004, the Constitutional Court deleted the word “maximum” in Article 22 paragraph 1 of Oil and Gas Law, so that a fixed rate of 25% will be applicable for DMO, instead of a maximum threshold of 25%. See “— Oil and Gas Law”.

Under an original PSC, the contractor is obligated to pay BPMigas a compensation bonus upon approval by the Government of the PSC and production bonuses after specified daily production goals for the contract area have been reached. An original PSC also provides that BPMigas has the right to demand that a specified percentage (generally 10%) of undivided interest in the total rights and obligations under the PSC be offered to an entity designated by BPMigas (the “Indonesian participant”). This right lapses if not exercised by BPMigas within three months after the contractor notifies BPMigas of its first discovery of petroleum in the contract area. In return, the Indonesian participant typically reimburses the contractor for an amount equal to that specified percentage of the sum of the costs incurred under the PSC to the date of the demand, including a proportion of the compensation bonus and production bonuses previously paid by the contractor to BPMigas. These amounts can be paid directly in cash or through production installments. The Upstream Regulation restates this obligation to offer Indonesian participation in production sharing arrangements, although the procedure for, and timing of, offering such an interest has been modified. This modification, however, is applicable only to the new contracts entered into after the issuance of the Oil and Gas Law. The Upstream Regulation also provides the Minister of Energy and Mineral Resources with a right to request a contractor who wishes to sell a participating interest under a production sharing arrangement to grant a right of first offer to national enterprises such as regional government-owned companies, central government-owned companies, cooperatives, small scale businesses and Indonesian companies wholly-owned by Indonesians. Under the Upstream Regulation, such an offer must be made on an “arms-length” basis. All payments to be made under the PSC to BPMigas, the Government or the contractor must be made in U.S. dollars or in other currency acceptable to the payee. However, the contractor may make payments to BPMigas or the Government in Rupiah to the extent that such currency is realized as a result of the domestic sale of crude oil or natural gas. As to Indonesian interest participation, the Upstream Regulation grants a right of first offer to regionally based enterprises with sufficient financial capability and the participation must be made on an “arms-length” basis. As a result, the old method of payment out of production which was designed for participation by the Government may no longer be adopted for future contracts.

Disputes arising between the contractor and BPMigas pursuant to the PSC are submitted to arbitration under the Rules of the Arbitration of the International Chamber of Commerce. The PSC is governed by the laws of the Indonesia. Either party has the right to terminate the PSC on 90 days’ written notice if a major breach of the PSC is committed by the other party, provided that conclusive evidence of such breach is found through arbitration or a final court decision.

## **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. Under a TAC, the non-shareable portion declines annually. The shareable portion corresponds to the additional production resulting from the operator's investment in the field and is split in the same way as for a PSC. The Upstream Regulation provides that TACs will remain with Pertamina and are not renewable after the expiry of the initial term.

## **JOBs**

In a JOB, operations are conducted by a joint operating body headed by Pertamina and assisted by the private sector energy company through their respective secondees to the JOB. In a JOB, Pertamina has a percentage of the working interest (as agreed by contract). The balance, after the production is applied towards cost recovery and cost bearing as between Pertamina and the private sector energy company, is the shareable portion which is split in the same way as for an ordinary PSC. Unlike TACs, the Upstream Regulation provides that JOBs will be transferred to and continue with BPMigas and are not renewable at the expiry of their initial term, while the Pertamina participating interest in the JOBs will remain with Pertamina.

## **Other Cooperation Contracts**

The Oil and Gas Law allows the adoption of new forms of cooperation contract other than production sharing form or scheme. Irrespective of the form of cooperation, however, certain key principles remain the same as the PSCs. For example, title over resources in the ground remains with the Government (and title to the oil and gas lifted for the contractor's share passes at the point of transfer, usually the point of export), ultimate management control is with BPMigas, and funding and risks are to be assumed by the contractors. These cooperation contracts are to be entered into with BPMigas and thereafter notified in writing to the Parliament. Only one working area will be given to a legal entity (ring fencing). Cooperation contracts can be made for a maximum term of 30 years and can be extended for a maximum of 20 years. Cooperation contracts are divided into exploration and exploitation stage. The exploration stage is for the term of six years, subject to only one extension for a maximum of four years.

The Upstream Regulation introduces the concept of a service contract, or Kontrak Jasa, as another form of cooperation contract, for the exploitation of crude oil and natural gas. This service contract will be on a fee basis, taken out of production. There is no sharing of production in kind and all production is owned by and must be delivered to the Government.

## **Oil and Gas Law**

The Oil and Gas Law was enacted on November 23, 2001. The Oil and Gas Law replaces the 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 over 30 years. The Oil and Gas Law creates an overall statutory framework for a fundamental restructuring of the oil and gas regime, principally resulting in an ending to Pertamina's monopoly in upstream oil and gas and the liberalization of the domestic oil and gas markets. Unlike its predecessor law, which did not distinguish between upstream and downstream activities as they were monopolized by Pertamina, the Oil and Gas Law categorizes oil and gas activities into upstream and downstream activities. Upstream activities consist of exploration and exploitation of oil and gas resources, while downstream activities (which include mid-stream activities) encompass processing, transporting, storage and commerce. The Oil and Gas Law introduces two new governmental bodies, the Upstream Implementing Body (BPMigas) and the Downstream Regulatory Body (BPHMigas). BPMigas, a non-profit Government-owned legal entity, is to control upstream activities on behalf of the Government as the holder of exclusive mining authority. The functions of BPMigas are similar to the functions of Pertamina's BPPKA division/Manajemen Production Sharing, which was responsible for the administration of contracts under the previous legislative framework. BPHMigas, an independent governmental agency, is tasked with supervisory and regulatory functions at the downstream level, in order to ensure the availability and distribution of fuels throughout the Indonesian territory and to promote gas utilization in the domestic market.

Under the terms of the Oil and Gas Law, on the establishment of BPMigas, all rights and obligations of Pertamina under production sharing contracts were transferred to BPMigas and BPMigas replaced Pertamina as the Government party to all production sharing contracts. In this respect, BPMigas and Pertamina are tasked by the Upstream Regulation to finalize an instrument reflecting BPMigas as the new Government party to such production sharing arrangements, which to date is still outstanding.

As required by the Oil and Gas Law, Pertamina has been converted into the Persero form of organization (a limited liability company), PT Pertamina (Persero). Pertamina is now required to enter into a production sharing arrangement or other form of cooperation contract with BPMigas for continued exploration and exploitation of the fields that were designated as Pertamina's working areas before the enactment of the Oil and Gas Law.

The Oil and Gas Law is an umbrella legislation setting forth general principles that are expected to be further developed in a series of Government regulations, presidential decrees and ministerial decrees, some of which have been promulgated. Under the Oil and Gas Law, upstream activities are performed through production sharing contracts or other forms of cooperation contract. The main principles governing production sharing contracts are similar to the ones governing the current production sharing arrangements. See "— Production Sharing Arrangements". Negotiation of production sharing arrangement terms with potential contractors is handled primarily by the Ministry of Energy and Mineral Resources after an award of the relevant work area by competitive tender or direct award, and the Indonesian Parliament must be notified of the production sharing arrangements. Only one working area can be given to any one legal entity (also known as ring fencing). Based upon the provisions of the Oil and Gas Law, management believes that the Oil and Gas Law has not to date materially altered the terms of its existing production sharing arrangements.

The Oil and Gas Law has the following implications in the upstream sector:

- Under the existing PSC structure, contractors are only required to supply 25% of oil produced domestically at a subsidized price. This may change for new PSCs, as the Oil and Gas Law imposes the obligation to supply to the domestic markets up to a maximum of 25% of oil production as well as a maximum of 25% of gas production. In addition, on December 21, 2004, the Constitutional Court deleted certain provisions of the Oil and Gas Law. In particular, the Constitutional Court deleted the word "maximum", so that oil and gas companies must now contribute at a fixed rate of 25% of their production for DMO, instead of a maximum threshold of 25%. It is uncertain at this stage what the practical impact of the Constitutional Court's decision is. This DMO requirement will be further elaborated in an implementing Governmental/Ministerial regulation and will essentially contain the domestic market conditions, implementing mechanism and pricing rules, as well as incentive policies.
- Under the existing PSC structure, contractors are required to pay only corporation and dividend taxes. Cooperation 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 prevailing corporate tax law.
- Under the Oil and Gas Law, the Company will be entitled to elect to lock-in prevailing Government tax rates for the entire term of a new production sharing arrangement at the time the arrangement commences or applying the prevailing tax law.

Another key term of the Oil and Gas Law was the establishment of BPHMigas to ensure the availability and distribution of fuel throughout Indonesia and to promote gas utilization in the domestic market. Although the general principle is that pricing of fuel and gas are to be determined by the market, the Oil and Gas Law allows the Government to provide special assistance to create a replacement for the current subsidy scheme in respect of certain consumers for the use of certain types of fuel. Further, the Government is allowed to adopt a gas pricing policy for household gas, small scale customers and certain other categories of users. Initially, it was expected that the Government subsidy on oil-based fuel will be abolished and free competition in the downstream sector would begin by 2006. However, a Constitutional Court decision on December 21, 2004 ruled that the price for fuels and gas must be determined by the Government with due consideration of the interests of certain economically disadvantaged customers and sound and fair business competition. The Constitutional Court declared that Article 28(2)(3) of the Oil and Gas Law with respect to fuel and gas pricing which takes account only of sound and fair business competition is contrary with the 1945 Constitution and therefore has no legal effect. It is uncertain at this stage what the practical impact of this Constitutional Court's decision is.

## ***Upstream Regulation***

Government Regulation No. 35 of 2004, as amended by Government Regulation No. 34 of 2005, on Upstream Oil and Gas Business Activities, or the Upstream Regulation, provides a number of further changes to the manner in which upstream oil and gas activities are being regulated and managed, which may impact on the Company's operations. Some of the relevant provisions include:

- TACs and Enhanced Oil Recovery ("EOR") continue with Pertamina for the remaining duration of their initial term, with no extensions of such TACs and EORs being permitted. However, if there is a mutual agreement among the parties prior to an expiration of TAC or EOR, the Minister of Energy and Mineral Resources may agree on a revised contractual form;
- JOAs and JOBs are transferred to and continue with BPMigas for the remaining duration of their initial term, with no extensions of such JOAs and JOBs being permitted. Pertamina's participating interest in the JOAs and JOBs continue with Pertamina;
- introduction of a right to the Minister of Energy and Mineral Resources to request a contractor who wishes to sell a participating interest under a production sharing arrangement to first make an offer to national enterprises, such as regional Government-owned companies, central Government-owned companies, cooperatives, small scale businesses and Indonesian companies wholly-owned by Indonesians. Such an offer, however, must be made on an "arms-length" basis;
- the application of DMO obligation to gas as well as oil, which applies to new PSCs only. Depending on the economics of the gas field, the Upstream Regulation provides that the Government has 15 months to decide whether it will be developed for the domestic market or for export; and
- provisions dealing with the transfer of certain categories of agreements from Pertamina to BPMigas.

The Upstream Regulation also provides that in cases of emergency involving the national interest, subject to the full satisfaction of certain conditions, the President may approve requests for exception of certain conditions under PSCs, such as (i) the offer of participating interest to regional government-owned companies, (ii) the recovery of investment cost and operational cost, and (iii) Pertamina's payment obligation to the Government.

Not all of the implementing regulations to the Oil and Gas Law have been issued. In addition, it is unclear what the impact is of the Constitutional Court's decision of December 21, 2004 discussed above on the oil and gas regulations. Accordingly, the full impact of the Oil and Gas Law and the related implementing regulations on the Company's financial and operational status cannot be determined at this time. See "Risk Factors — Risks Relating to the Oil and Gas Industry — The interpretation and application of the Oil and Gas Law is uncertain and may adversely affect the Company's business, financial condition and results of operations".



## BUSINESS

### Overview

The Company is the largest publicly-listed oil and gas exploration and production company in Indonesia, with additional operations in contract drilling, gas-fed methanol production and gas-fired power plants. As of January 1, 2006, the Company's estimated gross proved reserves of 173.0 MMBOE consisted of 117.0 MMBbls of oil and condensate and 327.6 Bcf of natural gas. As of January 1, 2006, the Company's estimated gross proved plus probable reserves of 532.2 MMBOE consisted of 183.7 MMBbls of oil and condensate and 2,039.2 Bcf of natural gas. The Company produced approximately 20.3 and 19.8 MMBbls of oil and condensate and approximately 74.4 and 61.0 Bcf of natural gas in the years 2004 and 2005, respectively. The Company was a top five crude oil producer by volume in Indonesia in 2004 and 2005.

For the years ended December 31, 2004 and 2005, the Company had total sales and other operating revenues of US\$550.1 million and US\$620.2 million, respectively, and EBITDA of US\$254.8 million and US\$328.2 million, respectively. Net oil and gas sales accounted for 66.8% and 69.7% of the Company's total sales and other operating revenues in 2004 and 2005, respectively. For a reconciliation of EBITDA to income from operations, see "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Non-GAAP Accounting Items".

The Company has the right to explore for and produce oil and gas in over 42,769 square kilometers of property in Indonesia under 18 different production sharing arrangements with BPMigas, Indonesia's national upstream oil and gas regulator, and in some cases, with Pertamina, Indonesia's state-owned national oil and gas company. Under these production sharing arrangements, the Company is entitled to recover its costs and earn an agreed after-tax profit share out of production once the relevant block is declared commercially exploitable by BPMigas or Pertamina, as the case may be. See "Indonesian Oil and Gas Regulatory Framework". As of December 31, 2005, the Company produced crude oil and natural gas from 679 wells in eleven contract areas located in Sumatra, Java, Sulawesi, Kalimantan and Natuna in Indonesia, and had six exploration contract areas in Indonesia. The Company has a 22.5% economic interest in the Jeruk field in the Sampang PSC and stakes in three U.S. blocks as well as one exploration block in Libya. In 2006, the Company has acquired a development block in Indonesia and has recently entered into a contract to provide exploration and development services for a producing block in Oman.

Contract drilling operations accounted for 17.2% and 14.4% of the Company's total sales and other operating revenues in 2004 and 2005, respectively. The Company offers onshore and offshore contract drilling services through its 52.4% — owned subsidiary, Apexindo. The Company owns a fleet of nine onshore drilling rigs and five offshore drilling rigs, consisting of four submersible swamp barge rigs and one jack-up rig. A second jack-up rig is under construction and is scheduled to commence operations in early 2007. Apexindo's shares were listed on the Jakarta Stock Exchange ("JSX") in July 2002. In September 2005, SeaDrill Ltd., an offshore drilling company controlled by John Fredriksen, bought a 32.3% stake in Apexindo for US\$44.2 million through a rights issue, which reduced the Company's stake in Apexindo from 77.5% to 52.4%. The Company is considering further reducing its ownership interest in Apexindo.

As part of the Company's strategy of developing new markets for its natural gas reserves, the Company leased the operation of the Bunyu methanol plant in East Kalimantan in 1997 from Pertamina and entered into a GSA with Pertamina to sell gas from its adjacent Tarakan field as feedstock to the plant through 2007. Sales of methanol accounted for 10.1% and 7.2% of the Company's total sales and other operating revenues in 2004 and 2005, respectively. To position itself for future gas sales to the power sector, in 2003 the Company acquired two small stakes in gas-fired power plants, which accounted for 0.3% and 1.3% of its total sales and other operating revenues in 2004 and 2005, respectively.

### Summary History

The Company was established in 1980 as an Indonesian drilling contractor and has grown substantially since becoming an oil and gas exploration and production company in 1992. In particular, the Company expanded its exploration and production activities with its acquisition of an interest in the Rimau block in 1995, followed by the subsequent discovery of the Kaji and Semoga oil fields in the same block in 1996. Since January 2000, the Company has acquired interests in 18 Indonesian blocks,

eleven of which are currently producing, with the remainder under exploration and development. In particular, as part of its acquisition in 2004 of Novus, an upstream oil and gas exploration production company then publicly listed in Australia, the Company acquired interests in a diversified portfolio of exploration and production assets primarily in Indonesia and the United States. As a result, the Company has grown its oil and gas production from approximately 17,500 Bbls/d and 48 MMcf/d in 1996 to approximately 53,300 Bbls/d and 167.2 MMcf/d in 2005.

Medco Energi's registered and principal executive office is located at 16th Floor, Graha Niaga, Jl. Jend. Sudirman Kav. 58, Jakarta 12190, Indonesia.

## **Business Strengths**

The Company believes its key business strengths are as follows:

### ***Leading Regional Exploration and Production Company***

The Company is the largest publicly-listed oil and gas exploration and production company in Indonesia, and is one of the largest independent exploration and production companies in South East Asia in terms of reserves and production. It is also a leading oil producer among publicly-listed oil companies in South East Asia. Its significant operations have attracted major foreign partners, including PetroChina Company Limited ("PetroChina"), Mitsui, PTT Exploration and Production Public Company Limited ("PTTEP"), Santos Limited ("Santos") and Anadarko, and major customers, including Itochu, Statoil ASA ("Statoil") and Total E&P Indonesia. Given its large size, the Company has the resources and expertise to serve as operator of seven of its eleven Indonesian blocks under production and development, including the key blocks of Rimau and Senoro-Toili, as well as five of its seven Indonesian exploration blocks. The Company also believes its large portfolio of blocks offers a diversification of reserve, production and exploration opportunities and risk across a broader group of assets and geological formations. As a leading Indonesian oil and gas company, the Company believes it can leverage its home field advantage, to be in a more competitive position to bid for or acquire domestic blocks. The Company also believes its financial and operational strength allows it better access to the domestic and international capital markets to fund its acquisition and development costs, as demonstrated by its three previous bond financings.

### ***Large Undeveloped Reserve Base for Production Growth***

The Company has undeveloped proved plus probable reserves of over 378 MMBOE of oil and gas, which is equivalent to approximately 71% of its gross proved plus probable reserves as of January 1, 2006. By developing key field projects for these reserves, the Company is establishing a foundation to target gross production growth over the next five years. The key gas projects currently under various stages of development include the large Senoro gas field, consisting of 1,291.5 Bcf of gross probable reserves as of January 1, 2006, and the strategically located South Sumatra Extension PSC and Lematang PSC gas fields. These two blocks are in the South Sumatra gas market and near the significant West Java gas market, consisting of over 558 Bcf of gross proved plus probable undeveloped gas reserves, of which gross volumes of over 191 Bcf have already been commercially committed for sale and 136 Bcf are under negotiation for sale. The Company also has over 27 MMBbls of gross probable reserves in the oil fields of the Rimau and South Sumatra Extension blocks, which it is targeting for development through infield drilling and marginal oil field recovery techniques.

### ***Focused and Balanced Reserve Growth Strategy***

The Company has successfully grown its operations through a balanced strategy of exploration and acquisition. Of its existing reserve portfolio as of January 1, 2006, the Company believes that over 55% of proved reserves were discovered by the Company, with the remainder acquired by the Company. The Company has demonstrated its competitive ability to acquire exploration acreage, reserve assets and even a public company. Since January 2000, the Company has acquired interests in 21 Indonesian blocks, eleven of which are currently producing, with the remainder under exploration and development. Key asset acquisitions include the Senoro-Toili block in 2000 and the producing Tuban and Lematang blocks in 2002. In July 2004, the Company completed the landmark acquisition of the then Australian-listed Novus. The transaction marked the first cross-border, unsolicited acquisition of a publicly-listed company by an Asian oil and gas company. The transaction also enabled the Company to acquire key producing Indonesian assets, and gave the Company the flexibility to monetize certain of the Novus'

U.S. and Middle East assets to pay down acquisition-related debt. Running parallel to its acquisition strategy has been the Company's successful exploration program, with the largest exploration success being the Kaji and Semoga oil fields of the Rimau block in 1996. Over the last five years, the Company has realized an exploration success rate of approximately 50%, consisting of 46% for wildcat wells and 73% for delineation wells. The Company, working with Santos as operator, discovered the offshore Jeruk oil field in 2004, and subsequently acquired an effective 25% economic interest in the field in January 2006. In April 2006, the Company acquired a 16.7% working interest in the Block A PSC, which the Company believes has significant gas potential. The Company continues to explore actively in Indonesia and has identified over ten prospects and leads in its operated blocks. The Company has budgeted for an exploration drilling program for six of its exploration blocks and six of its producing and development blocks. In addition to its exploration drilling program, the Company also entered into an EJVA on July 26, 2005 with Anadarko, which allows the Company to utilize Anadarko's exploration expertise and between US\$80 million to US\$200 million of Anadarko's capital to explore new and higher risk prospects in certain of the Company's existing exploration acreage. The Company believes it can successfully translate its oil and gas experience in Indonesia to Libya and the Middle East because of its cultural relationships, experience in operating marginal oil fields, existing relationships and experience from its drilling operations in the Middle East.

### ***Experienced Management Team***

Members of the Company's senior management team average over 20 years of experience in oil and gas exploration, production and contract drilling in Indonesia. Since the Company's IPO in 1994, the Company's management has demonstrated its ability to grow the Company's operations through a combination of acquisition, exploration and development, increasing production from 25.7 MBOE/d in 1996 to 82.7 MBOE/d in 2005. During this period of growth, the Company's management has made shareholder returns and corporate governance a core goal. In recognition of this, over the past five years the Company has been awarded several management awards from international organizations as well as the Government. As an entrepreneurial Indonesian operator benefiting from local knowledge and good working relations with the Government, BPMigas and the wider oil and gas community, the Company's management believes it has an advantage over other oil and gas companies operating in Indonesia in competing for new blocks, bidding out drilling contracts, and developing markets for its natural gas reserves.

### ***Competitive Cost Structure***

The Company believes that it has a competitive cost structure with among the lowest lifting costs amongst oil producers in Indonesia and the Asia-Pacific region. For the year ended December 31, 2005, the Company's lifting cost was US\$2.88 per BOE for all of its oil and gas assets. The Company's average production and lifting cost for the three-year period ended December 31, 2005 was US\$2.78 per BOE. Such relatively low costs have been achieved through the employment of local professionals, the proximity of existing infrastructure to the Company's producing blocks and the geographic concentration of its oil fields. The Company believes that its cost structure, among other factors, assists in extending the economic life of producing blocks and allow it to be more competitive in bidding for new blocks. A lower cost structure also allows for reserve growth at lower capital cost levels and provides stronger operating margins, in a given oil price environment.

### ***Strategic Location of Oil Reserves to Asian Markets and Gas Reserves to Key Gas Markets***

With demand for oil in Asia, fueled by substantial economic growth in China and India and the strong petroleum import demand of Japan and South Korea, the Company believes that it is well-situated in a growing market. The strategic location of the Company in Indonesia offers convenient, lower cost product delivery to offtakers in Asia, including the regional petroleum trading center of Singapore. In addition, many of the Company's natural gas fields are located close to growing domestic gas markets of West Java, East Java and South Sumatra, as well as the developed gas market of Singapore. The Company believes that this proximity should also enable the Company to monetize its gas reserves more quickly and at a relatively lower cost. As evidence of this demand, currently the Company has entered into over 13 gas arrangements for a gross volume of approximately 495 Bcf for its natural gas, including nine gas agreements for a gross volume of approximately 221 Bcf from its Sumatra gas reserves.

## **Business Strategy**

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

### ***Replace and Add Reserves Through Acquisitions and Exploration***

With its focus on reserve replacement and sustainable growth of the Company's oil and gas business, the Company plans to continue to seek to acquire and develop new fields, building on its successful acquisition and exploration strategies to date. The Company's acquisition strategy is primarily focused on Indonesia with a secondary focus on the Middle East and North Africa, including Libya. The Company intends to opportunistically pursue attractive asset acquisitions, such as Senoro-Toili in 2000, Lematang in 2002, Sembakung in 2005 and Jeruk, Block A and Bangkanai in 2006, as well as potential corporate acquisitions, such as Novus in 2004. With global trends towards oil and gas industry consolidation and asset rationalization, the Company believes that it will continue to find opportunities to acquire oil and natural gas properties, primarily within Indonesia. More specifically, the Company plans to continue to target smaller properties which can be relatively less attractive or strategic for larger operators, whereas for larger prospects, the Company intends to work with strategic partners to facilitate participation by the Company while spreading risk. The Company intends to target both developed fields, for which significant geological data is available with lower exploration risk, and frontier fields for which minimal geological data is available but which may have significant exploration potential. The Company also plans to continue to explore for new oil and gas reserves through exploration of its existing blocks, as well as opportunistically pursuing selective exploration block acquisitions and special farm-in or single well opportunities. The Company plans to drill 51 exploration wells, including 32 wildcat wells and 15 delineation wells in Indonesia and 4 exploration wells in Libya from 2006 through 2008. This exploration drilling is expected to be focused on five of its exploration blocks as well as six of its producing and development blocks in Indonesia. Management believes that exploration in its producing blocks can be commercially attractive as it typically offers lower drilling risk, given the Company's advanced knowledge of the geology, and more cost-effective commercialization of reserves given the existing infrastructure. The Company intends to continue its disciplined approach to exploration over the next three years and has allocated US\$213.1 million as budgeted capital expenditure for exploration activities through the end of 2008. In addition to its exploration program, the Company also entered into an EJVA on July 26, 2005 with Anadarko, which will allow the Company to utilize Anadarko's exploration expertise and between US\$80 million to US\$200 million of Anadarko's capital to explore new and higher risk prospects in certain of the Company's existing exploration acreage. The Company also entered into a Farmout Agreement on February 22, 2006 with Japan Petroleum, with Japan Petroleum obliged to fund 100% of the costs associated with drilling an exploration well at the Konang Prospect in the Madura block. See "Risk Factors — Risks Relating to the Company — The Company is highly dependent on its ability to develop existing reserves, replace existing reserves and develop additional reserves" and "Risk Factors — Risks Relating to the Company — The Company may not be able to consummate future acquisitions and certain consequences of acquisitions which it does complete may adversely affect the Company".

### ***Replace and Increase Production Volumes Through the Development of Reserves***

In order to replace and increase gross production over the next five years, the Company is developing its sizeable natural gas reserves, new oil fields and utilizing marginal oil field development for its Rimau fields. The Company is currently developing approximately 558 Bcf of gross proved plus probable gas reserves from the South Sumatra PSC and Lematang PSC gas fields, of which gross volumes of approximately 191 Bcf has been commercially committed for sale under long-term marketing arrangements and a further 136 Bcf is under negotiation for sale. Moreover, the Company is also in the early stages of developing its significant Senoro gas field, which consists of 1,291.5 Bcf of gross probable natural gas reserves, for a potential LNG project with strategic partners. Finally, the Company intends to continue to minimize production declines in the Rimau block Kaji-Semoga fields, which have over 18.5 MMBbls of gross probable reserves as of January 1, 2006, by utilizing a comprehensive marginal field development strategy, including in-field drilling, waterflood optimization, and implementation of its enhanced oil recovery pilot program. To facilitate all of its development plans, the Company plans to drill 276 development wells between 2006 and 2008 in Indonesia, including 6 EOR injection wells for the Kaji-Semoga oil fields. From 2006 to 2008, the Company expects to continue the waterflood optimization program for the Kaji-Semoga fields by converting an additional 42 high water cut wells to water injection wells. See "Risk Factors — Risks Relating to the Company — The Company is highly



dependent on its ability to develop existing reserves, replace existing reserves and develop additional reserves”.

### ***Develop New Markets for Uncommitted Natural Gas***

Asian governments, including the Government, expect significant growth in natural gas demand, and are making efforts to promote the use of natural gas as a cleaner and more efficient alternative to coal or oil. Indonesia in particular has seen significant increases in gas demand and a growing supply shortfall with the ongoing reduction of fuel-oil subsidies. The Company intends to capitalize on regional and domestic gas demand growth by continuing to market its uncommitted natural gas reserves and prudently evaluate selective investments in both domestic and export gas projects. The Company intends to continue to take a three-pronged approach to commercialize its gas reserves:

- direct sales to adjacent customers or to PGN or through third-party transmission pipelines;
- working alliances with down-stream gas users to establish gas sales; and
- individual projects utilizing gas consumption.

The Company plans to market its uncommitted gas to nearby customers or utilize new third-party transmission infrastructure to transport and market its uncommitted gas to the West Java, Batam and East Java markets. The Company is currently a party to entered into 13 gas arrangements to supply gas to eight different power plants in Indonesia, most of which are in South Sumatra. The Company is currently seeking similar gas customers for its remaining uncommitted South Sumatra gas. Secondly, the Company also intends to develop markets for its own uncommitted gas by entering into working alliances as a gas supplier. The aim of such working alliances is to obtain and secure long-term gas contracts with power plants and industrial users, among others, as new users of natural gas. An example of this alliance strategy began with Pertamina and its Bunyu methanol plant, which the Company operates under a long-term lease agreement and pursuant to which the Company provides natural gas feedstock from its Tarakan block. Also consistent with this strategy are the Company's acquisitions of small interests in gas-fired power plant projects, which the Company intends to utilize to better understand the domestic power market and potentially lock-in feedstock agreements for its gas in the future. Thirdly, where alliances or direct customers sales are less attractive options, the Company also intends to explore the potential of utilizing its gas as feedstock for its own gas marketing projects. An example of this is its LPG plant in the Rimau block, which became operational in 2004, utilizing previously flared associated gas for sales in the greater South Sumatra area. An important focus of management is the commercialization of the large Senoro gas field in Sulawesi for which the Company has pursued a combination of the above three marketing options. See “Risk Factors — Risks Relating to the Company — Due to the limited natural gas transmission and distribution infrastructure, failure by the Company to develop markets for the sale of its natural gas would have an adverse effect on the Company's results of operations”.

### ***Maintain Financial Flexibility with a Prudent Financial Structure and Cost Control***

The Company intends to maintain a prudent financial structure by keeping the use of leverage within reasonable limits and utilizing a mix of internally generated funds and external financing to fund the Company's planned capital expenditures. The Company's capital expenditures program focuses primarily on its core oil and gas exploration and production business. The Company intends to continue its disciplined approach to acquisitions and to invest in projects that meet or exceed its hurdle rate. Following the acquisition of Novus, the Company disposed of selected assets within the Novus group, thereby improving its financial condition. The Company has also reduced its use of short-term debt funding and plans to continuing accessing fixed income capital markets for attractive funding term and tenors. Initiated in mid-2003 and completed in 2004, the Company reorganized its exploration and production functions to be based on a block-by-block focused structure. By implementing asset-based responsibility and authority, the Company can better monitor productivity and profitability and benchmark each business unit internally and against peers' assets. The Company expects that its ongoing focus on prudent leverage and cost control will also assist it to take advantage of acquisition and development opportunities as they arise. See “Risk Factors — Risks Relating to the Company — The Company's business is capital intensive and no assurance can be given that the Company will be able to obtain required funding”.



### ***Build Strategic Alliances with International Operators in the Oil and Gas Industry***

Using its competitive position in the Indonesian oil and gas industry, the Company plans to continue to build strategic alliances with international operators. These strategic alliances should allow the Company to deepen its technical expertise, access opportunities and diversify exploration and development risk. For example, the Company, through jointly owning and operating oil and gas fields in Indonesia, presently has a strategic exploration agreement with Anadarko and farmout agreements with PTTEP and Moeco Merangin Co., Ltd. (“MMC”) for the Merangin PSC, as well as partnerships with PetroChina at Tuban, East Java, Santos at Jeruk, Sampang block, East Java, Mitsui at Langsa, Nanggroe Aceh Darussalam, and Japan Petroleum at Madura.

### ***Ensure Support from Local Community***

The Company is committed to building strong relationships with local communities and governments, through its community development programs. The Company’s community development is driven by the following principles:

- assist in improvement of public welfare;
- improve surrounding community’s sanitation facilities;
- create an economically self-sustained community;
- encourage local government in re-greening and re-forestation programs; and
- support social, religious and educational activities.

The community development programs encompass a variety of social and economic aspects, including infrastructure, education and sports, medical and health, and religion and culture. For example, in the education sector, the Company is focusing on the “hardware” and “software” improvement programs for elementary and mid-level education such as the betterment of school buildings, study tools/equipment, laboratory equipment, scholarships and improvement of teachers’ welfare. In the public health sector, the Company has been actively involved in various programs such as improving household sanitation, medical facilities and nutrition of children and infants. These programs have been implemented with a firm belief that the Company’s operations should be beneficial not only to shareholders, but also to local communities.

### ***Focus on Maintaining High Corporate Governance Standards***

The Company is strongly focused on maintaining high corporate governance standards which are driven by principles of accountability, responsibility, transparency and fairness. The Company’s objective is to become the pre-eminent oil and gas operator in Indonesia, and it intends to continue to implement measures to further strengthen its corporate governance measures.

### **Reserves**

The table below sets forth information about changes in the Company’s gross proved reserves for the 12 months ended January 1, 2004, 2005 and 2006. Proved reserves are those quantities of hydrocarbon 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. Gross reserves are reserves attributable to the Company’s effective interest prior to deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement. The opening and period-ending reserve amounts set forth in the table below have been derived from GCA certified reserve estimates and the Company’s estimates, in some cases based upon certifications of other independent petroleum engineering or similar consultants for third parties and in some cases based on estimates of other operators, which are not current and from which production (if any) at the relevant block since the date of such certification has been deducted, and in some cases based on the

Company's own investigations. The below categories of production, discoveries/extensions/revisions and acquisition/sales are based on the Company's estimates.

	<u>As of January 1,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Crude oil and condensate (MMBbls):</b>			
<b>Gross proved reserves</b>			
Beginning of prior year .....	152.0	113.9	94.3
Discoveries/extensions/revisions .....	(15.4)	(5.8)	37.8
Acquisitions/sales .....	2.0	6.5	4.7
Production for the prior year .....	<u>(24.7)</u>	<u>(20.3)</u>	<u>(19.8)</u>
End of prior year <sup>(1)</sup> .....	<u>113.9</u>	<u>94.3</u>	<u>117.0</u>
<b>Natural gas (Bcf):</b>			
<b>Gross proved reserves</b>			
Beginning of prior year .....	124.0	271.0	382.3
Discoveries/extensions/revisions .....	177.2	(4.1)	11.4
Acquisitions/sales .....	—	186.7	(5.1)
Production for the prior year .....	<u>(30.2)</u>	<u>(71.3)</u>	<u>(61.0)</u>
End of prior year <sup>(2)</sup> .....	<u>271.0</u>	<u>382.3</u>	<u>327.6</u>
<b>Total (MMBOE):</b>			
<b>Gross proved reserves<sup>(3)</sup></b>			
Beginning of prior year .....	173.2	160.3	159.7
Discoveries/extensions/revisions .....	14.9	(6.5)	39.7
Acquisitions/sales .....	2.0	38.4	3.8
Production for the prior year .....	<u>(29.8)</u>	<u>(32.5)</u>	<u>(30.2)</u>
End of prior year <sup>(4)</sup> .....	<u>160.3</u>	<u>159.7</u>	<u>173.0</u>

Notes:

- (1) Approximately 11.6 MMBbls, or 9.9% of the Company's gross proved reserves for oil and condensate, have not been certified by the GCA Report as of January 1, 2006.
- (2) Approximately 86.7 Bcf, or 26.5% of the Company's gross proved reserves for natural gas, have not been certified by the GCA Report as of January 1, 2006.
- (3) The total discoveries/extensions/revisions and acquisitions/sales of the Company's gross proved reserves for the 12 months ended January 1, 2004, 2005 and 2006 was 16,901,632 BOE, 31,897,963 BOE and 43,516,277 BOE, respectively. The total average discoveries/extensions/revisions and acquisitions/sales of the Company's gross proved reserves for the three-year period ended December 31, 2005 was 30,771,957 BOE.
- (4) Approximately 26.4 MMBOE, or 15.3% of the Company's gross proved reserves for oil, condensate and natural gas, have not been certified by the GCA Report as of January 1, 2006.

The table below sets forth information about changes in the Company's net proved reserves for the 12 months ended January 1, 2004, 2005 and 2006. Net proved reserves are proved reserves attributable to the Company's effective interest after deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement. In the table below, net production may differ from the actual net entitlement received by the Company because this net production amount is calculated in accordance with SEC rules by using a net interest factor computed at year end from the actual price received by the Company for sales as of that date, instead of using prices actually received for sales over the course of the year. Volatility in oil and gas prices may result in significant year on year variations in net production and net proved reserve revisions. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Net Oil and Gas Sales". The information set forth in the table below is solely derived from the GCA Report as of the respective periods because the Company does not produce in-house estimates for net proved reserves. Approximately 9.9% of the Company's gross proved reserves for oil and condensate and approximately 26.5% of the Company's

gross proved reserves for natural gas have not been certified by GCA and are excluded from the net proved reserves set forth below. In addition, the Company's non-operated blocks have not been certified by GCA and are excluded from the table below. The amounts of net proved reserves would be higher if the Company's non-operated blocks were included.

	<u>As of January 1,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Crude oil and condensate (MMBbls):</b>			
<b>Net proved reserves</b>			
Beginning of prior year .....	47.4	44.9	34.4
Discoveries/extensions/revisions .....	7.3	(2.8)	11.3
Acquisitions/sales .....	—	—	3.4
Production for the prior year .....	<u>(9.7)</u>	<u>(7.7)</u>	<u>(6.7)</u>
End of prior year .....	<u>44.9</u>	<u>34.4</u>	<u>42.4</u>
<b>Natural gas (Bcf):</b>			
<b>Net proved reserves</b>			
Beginning of prior year .....	82.2	106.3	154.0
Discoveries/extensions/revisions .....	44.3	81.9	52.5
Acquisitions/sales .....	—	—	—
Production for the prior year .....	<u>(20.2)</u>	<u>(34.2)</u>	<u>33.5</u>
End of prior year .....	<u>106.3</u>	<u>154.0</u>	<u>173.0</u>

The table below sets forth information about changes in the Company's gross proved plus probable reserves for the 12 months ended January 1, 2004, 2005 and 2006. Proved plus probable reserves are proved reserves plus those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. The opening and period-ending reserve amounts set forth in the table below have been derived from GCA certified reserve estimates and the Company's estimates, in some cases based upon certifications of other independent petroleum engineering or similar consultants for third parties and in some cases based on estimates of other operators, which are not current and from which production (if any) at the relevant block since the date of such certification has been deducted, and in some cases based on the Company's own investigations. The below categories of production, discoveries/extensions/revisions and acquisition/sales are based on the Company's estimates.

	<u>As of January 1,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Crude oil and condensate (MMBbls):</b>			
<b>Gross proved plus probable reserves</b>			
Beginning of prior year .....	237.6	236.5	201.2
Discoveries/extensions/revisions .....	19.0	(28.5)	2.7
Acquisitions/sales .....	4.6	13.6	(0.5)
Production for the prior year .....	<u>(24.7)</u>	<u>(20.3)</u>	<u>(19.8)</u>
End of prior year <sup>(1)(3)</sup> .....	<u>236.5</u>	<u>201.2</u>	<u>183.7</u>
<b>Natural gas (Bcf):</b>			
<b>Gross proved plus probable reserves</b>			
Beginning of prior year .....	1,793.3	1,986.9	2,180.7
Discoveries/extensions/revisions .....	189.1	35.8	(73.1)
Acquisitions/sales .....	34.8	229.3	(7.4)
Production for the prior year .....	<u>(30.2)</u>	<u>(71.3)</u>	<u>(61.0)</u>
End of prior year <sup>(2)(4)</sup> .....	<u>1,986.9</u>	<u>2,180.7</u>	<u>2,039.2</u>

Notes:

(1) Approximately 44.6 MMBbls, or 24.3% of the Company's gross proved plus probable reserves for oil and condensate, have not been certified in the January 1, 2006 GCA Report.

- (2) Approximately 1,608.4 Bcf, or 78.9% of the Company's gross proved plus probable reserves for natural gas, have not been certified in the January 1, 2006 GCA Report.
- (3) Includes 27.9 MMBbls of probable condensate estimates for the Senoro gas field of the Senoro-Toili JOB, which was not certified in the January 1, 2005 and January 1, 2006 GCA Reports.
- (4) Includes 1,291.5 Bcf of probable gas estimates for the Senoro gas field of the Senoro-Toili JOB, which was not certified in the January 1, 2005 and January 1, 2006 GCA Reports.

The Company's reserve estimates for the Senoro gas field of the Senoro-Toili JOB were certified and restated in the GCA Report as of January 1, 2004. The Company's probable condensate and gas estimates for the Senoro gas field of the Senoro-Toili JOB were not certified in the January 1, 2005 and 2006 GCA Reports. Oil volumes for the Tiaka field of the Senoro-Toili JOB were updated in GCA Reports as of January 1, 2005 and 2006.

The following table lists, as of January 1, 2006, the Company's contract areas and gross proved and gross proved plus probable reserves and net proved reserves for each of its production sharing arrangements. The Company has engaged GCA to review its Indonesian operated fields.

	As of January 1, 2006								
	Net Proved Reserves <sup>(1)</sup>			Gross Proved Reserves			Gross Proved and Probable Reserves		
	Oil (MMBbls)	Gas (Bcf)	Total (MMBOE)	Oil (MMBbls)	Gas (Bcf)	Total (MMBOE)	Oil (MMBbls)	Gas (Bcf)	Total (MMBOE)
<b>Indonesia</b>									
<b>Sumatra</b>									
Rimau (PSC) .....	28.3	17.2	31.2	74.9	18.6	78.0	93.4	23.9	97.5
Extension/Kampar (PSC) ..	6.0	130.7	28.4	16.8	190.7	49.4	25.9	375.3	90.0
Lematang (PSC) (Harimau field) .....	0.004	0.2	0.04	0.004	0.2	0.04	0.004	0.2	0.04
Langsa (TAC) .....	0.7	—	0.7	1.1	—	1.1	1.8	—	1.8
<b>East Kalimantan</b>									
Kalimantan (TAC) .....	2.0	12.3	4.1	3.7	14.5	6.2	5.5	14.5	8.0
Tarakan (PSC) .....	1.0	12.6	3.1	2.2	17.0	5.1	2.2	17.0	5.1
Sembakung (TAC) .....	2.7	—	2.7	4.8	—	4.8	5.4	—	5.4
Senoro-Toili (PSC/JOB) (Tiaka field) .....	<u>1.7</u>	<u>—</u>	<u>1.7</u>	<u>1.9</u>	<u>—</u>	<u>1.9</u>	<u>4.8</u>	<u>—</u>	<u>4.8</u>
<b>Total GCA (January 1, 2006 Report) .....</b>	<b>42.4</b>	<b>173.0</b>	<b>72.0</b>	<b>105.4</b>	<b>240.9</b>	<b>146.6</b>	<b>139.0</b>	<b>430.8</b>	<b>212.7</b>
<b>Other</b>									
Senoro-Toili (PSC/JOB) (Senoro gas field) <sup>(2)</sup> .....	N.A.	N.A.	N.A.	—	—	—	27.9	1,291.5	248.7
Lematang (PSC) (Singa gas field) <sup>(3)</sup> .....	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>182.6</u>	<u>31.2</u>
<b>Total Operated .....</b>	<b>N.A.</b>	<b>N.A.</b>	<b>N.A.</b>	<b>105.4</b>	<b>240.9</b>	<b>146.6</b>	<b>167.0</b>	<b>1,905.0</b>	<b>492.6</b>
<b>Natuna (Offshore)</b>									
Kakap (PSC) <sup>(4)</sup> .....	N.A.	N.A.	N.A.	1.7	30.1	6.8	2.6	39.3	9.3
<b>East Java</b>									
Brantas (PSC) <sup>(5)</sup> .....	N.A.	N.A.	N.A.	1.0	15.8	3.7	3.2	33.7	8.9
Tuban (JOB) <sup>(6)</sup> .....	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>7.4</u>	<u>—</u>	<u>7.4</u>	<u>7.4</u>	<u>—</u>	<u>7.4</u>
<b>Total Non-Operated ...</b>	<b><u>N.A.</u></b>	<b><u>N.A.</u></b>	<b><u>N.A.</u></b>	<b><u>10.1</u></b>	<b><u>46.0</u></b>	<b><u>17.9</u></b>	<b><u>13.2</u></b>	<b><u>72.9</u></b>	<b><u>25.6</u></b>
<b>Total Indonesia .....</b>	<b>N.A.</b>	<b>N.A.</b>	<b>N.A.</b>	<b>115.5</b>	<b>286.9</b>	<b>164.5</b>	<b>180.1</b>	<b>1,977.9</b>	<b>518.2</b>

As of January 1, 2006

	Net Proved Reserves <sup>(1)</sup>			Gross Proved Reserves			Gross Proved and Probable Reserves		
	Oil	Gas	Total	Oil	Gas	Total	Oil	Gas	Total
	(MMBbls)	(Bcf)	(MMBOE)	(MMBbls)	(Bcf)	(MMBOE)	(MMBbls)	(Bcf)	(MMBOE)
<b>United States</b>									
East Cameron <sup>(7)</sup> . . . . .	N.A.	N.A.	N.A.	—	27.8	4.8	—	38.4	6.6
Sorrento Dome <sup>(7)</sup> . . . . .	N.A.	N.A.	N.A.	0.1	6.8	1.3	0.2	16.8	3.1
Main Pass <sup>(7)</sup> . . . . .	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>1.5</u>	<u>6.1</u>	<u>2.5</u>	<u>3.4</u>	<u>6.1</u>	<u>4.4</u>
<b>Total United States</b> . . . . .	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>1.5</u>	<u>40.7</u>	<u>8.5</u>	<u>3.5</u>	<u>61.3</u>	<u>14.0</u>
<b>Total</b> . . . . .	<u>42.4</u>	<u>173.0</u>	<u>72.0</u>	<u>117.0</u>	<u>327.6</u>	<u>173.0</u>	<u>183.7</u>	<u>2,039.2</u>	<u>532.3</u>

Notes:

- (1) The Company does not produce in-house estimates for net proved reserves.
- (2) The Company's reserve estimates for the Senoro gas field of the Senoro-Toili JOB were certified and restated in the GCA Report as of January 1, 2003. The Company's probable condensate and gas estimates for the Senoro gas field of the Senoro-Toili JOB were not certified in the January 1, 2005 and 2006 GCA Reports.
- (3) The Company's reserve estimates for the Singa gas field of the Lematang PSC is based on reserve data certified by another independent petroleum engineering consultant as of December 31, 2000. There has been no material production from the Singa gas field since the date of the certification.
- (4) The Company's reserve estimates for the Kakap block gas fields are based on operator's estimates as of December 31, 2005 and an effective working interest of 16.00%. The gross probable reserves were based on the operator's estimates as of January 1, 2005. See "— Description of the Properties — Properties Relinquished or Divested".
- (5) The Company's reserve estimates for the Brantas block are based on the operator's estimates as of December 31, 2005 and an effective working interest of 32.00%. The gross probable reserves as of September 30, 2005 were certified by third party petroleum engineering consultant.
- (6) The Company's reserve estimates for the Tuban block are based on operator's estimates as of December 31, 2005 and an effective working interest of 25.00%.
- (7) The Company's reserve estimates for the U.S. assets consisting of East Cameron, Main Pass and Sorrento Dome blocks are based on the estimates of the Company's U.S. operating subsidiary.

In preparing their report, GCA utilized generally accepted petroleum engineering principles and definitions applicable to the proved and probable reserve categories and subclassifications promulgated by the SPE. Information used in the preparation of the GCA Report 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 certain 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. GCA did not make a field examination of the physical condition and operation of the properties in which the Company owns interests. Prior to the 2002 year-end reserve estimates, the Company utilized its own reserve estimates for accounting purposes. For reserve estimates, GCA estimated recoverable reserves throughout the contract life only and did not assume any contract extension. Estimated quantities of gas reserves represent expected sales, after deduction for plant fuel and shrinkage.

Certain other reserve information contained in this Offering Circular, which amounts to approximately 15.3% of the Company's gross proved oil and gas reserves and 60.0% of the Company's gross proved and probable oil and gas reserves as of January 1, 2006, is not certified by GCA, but constitutes the Company's estimates, in some cases based upon certifications of other independent petroleum engineering or other similar consultants for third parties and in some cases based on estimates of other operators, which are not current and from which production (if any) at the relevant block since the date of such certification has been deducted, and in some cases based on the Company's own investigations.



The SEC only allows the disclosure of net proved reserves in filings with the SEC except as required by foreign law. In this Offering Circular, the Company discloses probable reserves. The SEC has not promulgated a definition of probable reserves. Probable reserves are of a higher risk and are generally believed to be less likely to be recovered than proved reserves.

There are numerous uncertainties inherent in estimating natural gas and oil reserves, including many factors beyond the control of the Company. For a description of certain of the risks and uncertainties with respect to the Company's reserve data, see "Risk Factors — Risks Relating to the Company — The oil and gas reserve data in this Offering Circular are only estimates and the Company's actual production, revenue and expenditure with respect to its reserves may differ from such estimates" and "Risk Factors — Risks Relating to the Company — Probable reserve estimates in this Offering Circular are generally considered of a higher risk than proved reserve estimates and are generally believed to be less likely to be recovered than proved reserves".

## Production

The Company produced an average of approximately 54.1 MBbls/d of oil and condensate during the year ended December 31, 2005, of which an average of 32.4 MBbls/d and 9.1 MBbls/d were produced from the Rimau PSC and the Extension/Kampar 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 increased from an average of 11.5 MBbls/d of oil and condensate in 1996 to an average of 32.4 MBbls/d of oil and condensate in 2005.

The following table lists the Company's production sharing arrangements that are currently in commercial production, and the gross production data relating to such arrangements, for the periods indicated.

	<u>For the Year Ended December 31,</u>			
	<u>2004</u>		<u>2005</u>	
	<u>Oil</u>	<u>Gas</u>	<u>Oil</u>	<u>Gas</u>
	(Oil in MMBbls and gas in Bcf)			
<b>Indonesia Operated Properties</b>				
<b>Sumatra</b>				
Rimau (PSC) .....	12.84	11.44	11.83	7.27
Extension/Kampar (PSC) .....	3.59	21.37	3.31	25.72
Lematang (Harimau field) (PSC) .....	0.03	0.77	0.01	0.38
Langsa (PSC) .....	<u>0.07</u>	<u>—</u>	<u>0.46</u>	<u>—</u>
Sub-total .....	16.52	33.58	15.60	33.37
<b>East Kalimantan</b>				
Kalimantan (TAC) .....	1.89	5.56	1.82	4.12
Tarakan (PSC) .....	0.24	8.24	0.58	7.67
Sembakung (TAC) .....	<u>—</u>	<u>—</u>	<u>0.39</u>	<u>—</u>
Sub-total .....	2.13	13.80	2.79	11.79
<b>Sulawesi</b>				
Senoro Toili (Tiaka field) (JOB) .....	<u>—</u>	<u>—</u>	<u>0.08</u>	<u>—</u>
<b>Sub-Total — Operated</b> .....	18.66	47.37	18.47	45.15

	<b>For the Year Ended December 31,</b>			
	<b>2004</b>		<b>2005</b>	
	<b>Oil</b>	<b>Gas</b>	<b>Oil</b>	<b>Gas</b>
	(Oil in MMBbls and gas in Bcf)			
<b>Non-Operated Properties</b>				
<b>Natuna (Offshore)</b>				
Kakap (PSC) <sup>(2)</sup> .....	0.66	5.00	0.50	5.28
<b>East Java</b>				
Brantas (PSC) <sup>(1)</sup> .....	—	11.77	0.002	5.99
Tuban (JOB) .....	0.62	—	0.57	—
Sub-total .....	<u>0.62</u>	<u>11.77</u>	<u>0.57</u>	<u>5.99</u>
<b>Sub-Total — Non-Operated</b> .....	<u>1.27</u>	<u>16.78</u>	<u>1.07</u>	<u>11.27</u>
<b>Total Indonesia Production</b> .....	19.93	64.15	19.54	56.43
<b>International</b>				
U.S. Assets <sup>(3)</sup> .....	0.09	5.37	0.10	2.36
Middle East Assets <sup>(4)</sup> .....	<u>0.32</u>	<u>4.91</u>	<u>0.12</u>	<u>2.24</u>
<b>Total</b> .....	<u>20.33</u>	<u>74.43</u>	<u>19.76</u>	<u>61.03</u>

Notes:

- (1) 2004 production contribution refers to the period from July 1, 2004 to December 31, 2004, based on a working interest of 50.00%. For 2005 production, this is based on an effective working interest of 32.00%.
- (2) 2004 production contribution refers to the period from July 1, 2004 to December 31, 2004, based on effective working interest of 25.00%. 2005 production is based on an effective working interest of 18.75% until October 27, 2005 and 16.00% for the remainder of the year ended December 31, 2005.
- (3) 2004 production contribution refers to the period from July 1, 2004 to December 31, 2004, and includes contribution of 2.1319 Bcf from Stratton gas field which was divested in December 2004. 2005 production contribution includes production from the Padre Island field until the date of its disposition in July 2005. See “— Description of the Properties — Properties Relinquished or Divested”.
- (4) 2004 production contribution from July 1, 2004 to December 31, 2004. In July 2005, the Company sold all of Novus' Middle East assets to Meridian Oil & Gas (Middle East) Limited, a Cayman Islands company associated with Silk Route Investments, a Cayman Islands company. 2005 production contribution includes production from such Middle East assets until the date of their disposition. See “— Description of the Properties — Properties Relinquished or Divested”.

The following table sets forth average realized sales prices per barrel of crude oil and condensate, average realized sales prices per thousand cubic feet of natural gas, and lifting costs per BOE produced, for the periods indicated.

	<b>For the Year Ended December 31,</b>	
	<b>2004</b>	<b>2005</b>
<b>Average realized sales prices:<sup>(1)</sup></b>		
Oil and condensate (US\$ per Bbl) .....	36.93	53.68
Natural gas (US\$ per Mcf) .....	2.26	2.45
LPG (US\$ per MT) .....	360	329
<b>Lifting costs per BOE produced (US\$ per BOE)<sup>(2)</sup></b> .....	2.91	2.88

Notes:

- (1) Represents revenues for the period divided by aggregate net entitlement for the period.
- (2) Production and lifting cost of operated and non-operated blocks per BOE, divided by production for that period. 2004 and 2005 excludes the production and lifting cost and gross production related to the Langsa block and the divested Australian blocks.

The following table sets forth the Company's Indonesian producing and injection wells as of December 31, 2005.

<u>Indonesian Wells</u>	<u>As of December 31, 2005</u>
Oil producing wells .....	599
Gas producing wells .....	<u>80</u>
Total producing wells .....	<u>679</u>
Water injection wells .....	44
Gas injection wells .....	<u>2</u>
Total injection wells .....	<u>46</u>

Producing wells consist of wells capable of production, including wells awaiting connections. Water and gas injection wells consist of wells in Rimau's Kaji-Semoga oil fields used for reservoir pressure maintenance.

The Company's oil and gas activities in Indonesia are primarily carried out through 18 production sharing arrangements (PSCs, TACs and JOBs) covering 20 blocks 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"). Eleven of these contract areas are currently producing: the Rimau PSC, the Extension/ Kampar PSC, the Kalimantan TAC (Sanga-Sanga area and Tarakan area), the Tarakan PSC, the Lematang PSC, the Langsa TAC, the Kakap PSC, the Brantas PSC, the Tuban JOB, the Senoro Toili-JOB and the Sembakung TAC. Of the 18 Indonesian production sharing arrangements in which the Company has an interest, eleven are PSCs, three are TACs and four are JOBs. See "Indonesian Oil and Gas Regulatory Framework — Production Sharing Arrangements". See "Indonesian Oil and Gas Regulatory Framework — Production Sharing Arrangements" for a discussion of certain of the terms and conditions of the production sharing arrangements.

The following table sets forth certain terms of the Company's production sharing arrangements as of December 31, 2005.

<u>Contract Area (Type)</u>	<u>Date of Acquisition</u>	<u>Medco Effective Interest</u>	<u>Gross Area (Km<sup>2</sup>)</u>	<u>Effective Date</u>	<u>Expiry Date</u>	<u>Effective Post-Government Tax and Post-Cost Recovery Share to Contractor<sup>(1)</sup></u>	
						<u>Profit Crude Oil %</u>	<u>Profit Natural Gas %</u>
<b>Indonesia</b>							
<b>Producing Properties</b>							
<b>Sumatra</b>							
Rimau (PSC) .....	1995	95.00%	1,577	1973	2023	15	35
Extension/Kampar (PSC) ..	1995	99.99%	4,470	1983	2013	15	30
Langsa (TAC) <sup>(1)</sup> .....	2003	35.00%	77	1997	2017	15	35
<b>East Kalimantan</b>							
Kalimantan (TAC) (Sanga-Sanga Area and Tarakan Area) .....	1992	99.99%	136	1988	2008	35	35
Tarakan (PSC) .....	1992	99.99%	180	1982	2022	15	35
Sembakung (TAC) .....	2005	100.00%	23	1993	2013	15	30
<b>Natuna (Offshore)</b>							
Kakap (PSC) <sup>(4)</sup> .....	2004	16.00%	2,000	2005	2025	15	35
<b>East Java</b>							
Brantas (PSC) <sup>(2)</sup> .....	2004	32.00%	3,050	1990	2020	15	30
Tuban (JOB) <sup>(3)</sup> .....	2002	25.00%	1,478	1988	2018	15	30

Contract Area (Type)	Date of Acquisition	Medco Effective Interest	Gross Area (Km <sup>2</sup> )	Effective Date	Expiry Date	Effective Post-Government Tax and Post-Cost Recovery Share to Contractor <sup>(1)</sup>	
						Profit Crude Oil %	Profit Natural Gas %
<b>Development Properties</b>							
<b>Sulawesi</b>							
Senoro-Toili (JOB) <sup>(5)</sup> . . . . .	2000	50.00%	475	1997	2027	35	40
<b>Sumatra</b>							
Lematang (PSC) . . . . .	2002	74.12%	228	1987	2017	20	30
<b>Exploration Properties</b>							
<b>Sumatra</b>							
Merangin (PSC) <sup>(5)</sup> . . . . .	2003	41.00% <sup>(6)</sup>	3,226	2003	2013 (exploration) 2033 (development)	25	40
<b>East Kalimantan</b>							
Simenggaris (JOB) <sup>(5)</sup> . . . . .	2000	37.50%	1,367	1998	2008 (exploration) 2028 (development)	15	35
Nunukan (PSC) . . . . .	2004	100.00%	4,917	2004	2010 (exploration) 2034 (development)	35	40
Bengara (PSC) <sup>(5)</sup> . . . . .	2001	95.00%	3,649	1999	2009 (exploration) 2029 (development)	15	35
<b>East Java</b>							
Madura (JOB) <sup>(5)(7)</sup> . . . . .	2000	33.15%	2,729	1997	2005 (exploration) 2027 (development)	15	35
<b>Papua</b>							
Yapen (PSC) <sup>(5)(8)</sup> . . . . .	2002	15.00%	9,500	1999	2009 (exploration) 2029 (development)	35	40
<b>International</b>							
<b>United States</b>							
East Cameron . . . . .	2004	50.00-100%	41	1983	Expires when production ends	N.A.	N.A.
Main Pass							
Block 64 . . . . .	2004	79.38%	28	1981	Expires when production ends	N.A.	N.A.
Block 65 . . . . .	2004	79.38%	8	1982	Expires when production ends	N.A.	N.A.
Sorrento Dome . . . . .	2004	63.17-100%	23	1998	Various, last contract expiring in 2007	N.A.	N.A.
<b>Africa</b>							
Libya (EPSA) . . . . .	2005	50.00%	6,182	2005	2030 (exploration)	N.A.	N.A.

Notes:

- (1) Prior to any potential domestic market obligations and any local government taxes.
- (2) Operated by Lapindo.
- (3) Operated by PetroChina and Pertamina.
- (4) Operated by Star Energy.
- (5) BPMigas has the right to direct that a 5% to 10% interest under the production sharing arrangement be sold to an Indonesian participant.
- (6) In July, 2005, the Company agreed to farm-out (a) a 39% participating interest in the Merangin PSC to PTTEP Offshore Investment Company Limited, a subsidiary of PTTEP, and (b) a 20% participating interest in the Merangin PSC to MMC, in order to minimize its exploration risk. See “— Description of the Properties — Exploration Properties — Exploration Properties for Future Development — Merangin Block, Jambi, South Sumatra”.
- (7) Exploration activities under the Madura JOB were originally due to expire in May 2003 but were extended for two years. The Company applied for an additional two-year extension in 2005.
- (8) The Company intends to relinquish the Yapen block.

In 2006, the Company acquired an indirect 16.67% working interest in the Block A PSC. For more information, see “— Description of the Properties — Development Properties — Block A PSC”.

The Company has also entered into an agreement to acquire a 15.00% effective interest in the Bangkanai PSC, which is pending BPMigas approval. See “— Description of Properties — Properties to be Acquired”.

## **Exploration**

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), drilling of “wildcat” exploration wells, core testing and well logging. Seismic surveys involve recording and measuring the rate of transmission of shock waves through the earth with a seismograph. 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 three-dimensional (3D) or two-dimensional (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 “leads” or “prospects”. “Leads” are preliminary interpretation of geological and geophysical information that may or may not lead to prospects and “prospects” are 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 (i.e., is “successful”), the Company may then drill a delineation (or appraisal) well to acquire more detailed data on the reservoir formation. Once the presence of hydrocarbons is proved to be in commercially recoverable quantities, or the delineation well is “successful”, development wells may be drilled to prepare for production. 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 Company currently has seven exploration contract areas in Indonesia, and also has plans to explore approximately half of its eleven producing and development blocks. The Company has identified over ten leads and prospects in its Indonesian producing, development and exploration blocks. The Company plans to drill 51 exploration wells, including 32 wildcat wells and 15 delineation wells in Indonesia and 4 exploration wells in Libya from 2006 through 2008. This exploration drilling is expected to be focused on five of its exploration blocks as well as six of its producing and development blocks in Indonesia. See “— Business Strategy — Replace and Add Reserves Through Acquisitions and Exploration”.

### ***Anadarko Exploration Joint Venture***

On July 26, 2005, the Company entered into an EJVA with a wholly-owned subsidiary of Anadarko. Anadarko is one of the largest independent oil and gas exploration and production companies in the world with assets of over US\$22 billion and production of over 150 million BOE in 2005, according to publicly available information.

Under the EJVA, Anadarko has committed to a three-year work program to fund certain exploration activities of the Company under 12 PSCs at a minimum investment of US\$80 million, subject to the satisfaction of certain conditions. Anadarko has the right to earn up to a 40% interest in the Company's initial interest in a PSC where a successful exploration well is drilled at Anadarko's cost and a plan of development is approved.

The Company believes the EJVA furthers the Company's strategic objective by forming an alliance with a substantial, well-regarded international operator, while at the same time helping the Company maintain financial flexibility and diversify risk through Anadarko's funding of the Company's exploration activities.



The principal terms of the EJVA are as follows:

#### *Initial Payments and Effectiveness of EJVA*

Under the EJVA, the Company has received aggregate non-refundable payments of US\$5 million.

#### *Anadarko's Work Commitment*

Under the EJVA, Anadarko has committed to fund certain exploration activities by the Company under 12 agreed PSCs in an amount equal to at least US\$80 million ("Work Commitment") but not more than US\$200 million. The exploration activities are to be carried out in certain agreed exploration areas within each PSC block. The agreed exploration areas exclude those areas that are already in production and certain areas delineated by the Company as being potentially productive of oil or gas in commercial quantities (the "Reserved Areas").

The Company has committed to include the exploration activities specified by Anadarko in the annual work program and budget submitted to BPMigas under the PSCs where it is the operator of the relevant PSC, and to use its reasonable endeavours to have such exploration activities included by third party operators in the work program and budget submitted to BPMigas, and following approval by BPMigas, the Company's share of the costs of such exploration activities will be funded at Anadarko's cost and credited against the Work Commitment.

#### *Anadarko Interest*

Upon discovery of oil or gas (through a successful well(s) funded at Anadarko's cost) in sufficient quantities which is sufficient to form the basis for an application to BPMigas for a plan of development, the Company will file an application with BPMigas for approval of a plan of development. Upon receiving such approval, the Company will assign an interest in the PSC to Anadarko. The percentage interest to which Anadarko is entitled is (i) in a PSC area that does not have any Reserved Areas and for which a plan of development has not been approved by BPMigas, 40% of the Company's initial interest in that PSC, (ii) in the case of a PSC contract area that includes one or more Reserved Areas, a percentage interest determined (or redetermined at least once every three years but not more than annually) as follows:

- Where the price of oil or gas and the lifting cost of newly produced oil or gas in the PSC is the same as the existing price and lifting cost as stated in the annual work program and budget approved by BPMigas for the year in which the plan of development is approved, a percentage interest determined based on 40% of the proven and probable reserves discovered, as a proportion of the total proven and probable reserves in the PSC area.
- Where the price of oil or gas and the lifting cost of newly produced oil or gas in the PSC differs from the existing price and lifting cost as stated in the annual work program and budget approved by BPMigas for the year in which the plan of development is approved, a percentage interest determined based on an adjusted percentage of the proven and probable reserves discovered, as a proportion of the total proven and probable reserves in the PSC area. The adjusted percentage is 40% adjusted for differences in the (i) the oil and gas price approved by BPMigas in the plan of development as against the then weighted average price for the previous six month period; and (ii) the lifting cost contemplated for the first year of production in the BPMigas approved plan of development and the actual lifting cost of newly produced oil and gas.

In the case of the Rimau PSC, Anadarko will earn its interest at the time the Rimau block's commercial production of hydrocarbons discovered by the Company pursuant to the EJVA comes on stream, and from the period from the approval of the plan of development until such time, shall be entitled to the economic equivalent of the after-tax value of cost oil which would have been attributable to the Anadarko interest based on the foregoing formula.

Anadarko's right to earn an interest in a PSC expires with respect to a PSC on December 31, 2008, or if an extension period has been granted, on the earlier of expiration of such extension period and June 30, 2010. If a discovery is made in a PSC area but a plan of development has not been approved, there is an extension period with respect to such PSC until approval is obtained and assignment of the interest in the PSC to Anadarko is made.

### *Assignment of Interests to Anadarko*

Anadarko's right to earn an interest in a PSC expires with respect to a PSC on December 31, 2008, or if an extension period has been granted, on the earlier of expiration of such extension period and June 30, 2010. If a discovery is made in a PSC area but a plan of development has not been approved, there is an extension period with respect to such PSC until the earlier to occur of (i) rejection of the application for a plan of development by BPMigas, (ii) approval is obtained and assignment of the interest in the PSC to Anadarko is made, and (iii) June 30, 2010.

### *Recent Developments*

The following activities have taken place since the execution of the EJVA:

- On December 7, 2005, the Company and Anadarko entered into an agreement whereby Anadarko has undertaken to fund the drilling of an exploration well in the Nunukan Block. Drilling is expected to commence in June 2006, with total costs estimated at US\$4.0 million, which are to be borne by Anadarko. Under the terms of this agreement, any gas that can be commercially produced from the reservoirs that are in pressure communication with the wellbore of the exploration well will be sold to PT Medco Methanol Bunyu pursuant to the terms of a mutually acceptable gas sales agreement, at a price agreed by the parties within the range of US\$1.70 to US\$2.10 per MMBTU.
- On December 7, 2005, the Company and Anadarko entered into an agreement whereby Anadarko has undertaken to fund the drilling of two exploration wells in the Simenggaris block. The first well has been drilled and suspended, and the second well is in the process of being drilled. Total costs are estimated at US\$7.8 million. Anadarko will bear all of the Company's share in such costs. The first of these wells, South Sembakung-2, is currently being drilled. Anadarko has withdrawn from funding the costs of a sidetracking operation under the terms of this agreement, but will remain liable for all costs funded up to the date of its withdrawal. As a result of Anadarko's withdrawal, the Company has all rights to the zones penetrated by the well, and Anadarko is not able to use the well for the purposes of earning an interest in the Simenggaris PSC under the EJVA.
- The Company and Anadarko have also entered into an agreement pursuant to which Anadarko has agreed to assume the costs associated with 2D and 3D seismic surveys that have been commissioned by the Company for the Tarakan PSC. In the case of Lematang, Anadarko is only funding reprocessing costs of existing seismic data. Anadarko also agreed to reimburse the Company for the costs thus far incurred in connection with such surveys, which is estimated at approximately US\$1.9 million.

The Company and Anadarko are currently negotiating the terms of an interim operating agreement and associated ancillary agreements to govern the funding and conduct of exploration activities under the PSCs subject to the terms of the EJVA.

### **Acquisition of Novus**

On August 20, 2004, the Company completed its acquisition of Novus, an upstream oil and gas exploration and production company then publicly-listed and headquartered in Australia. Through an unsolicited off-market takeover by Medco Energi (Australia) Pty Ltd, a wholly-owned subsidiary of the Company, the Company acquired Novus which had assets in the United States (Texas, Louisiana), the Middle East (Oman, United Arab Emirates, Pakistan), South East Asia (Indonesia, Philippines) and Australia, including interests in 26 oil and gas blocks with a total net acreage approximately 30,611 square kilometers, of which 11 of these blocks were commercially producing.

Following the acquisition, the Company divested or relinquished select Novus assets in 2004 and 2005, including those in Australia, Pakistan, Philippines (expiration), a portion of the Indonesian assets, three of the five U.S. assets and all of the Novus Group's Middle Eastern Assets. The Company has retained interests in Novus' two key Indonesian blocks and three of the U.S. blocks. The Company currently plans to hold the remaining Novus assets in the United States until an optimal divestment opportunity occurs. The acquisition of Novus is consistent with the Company's long-term strategy to develop and operate a high quality portfolio of energy assets through both organic growth and acquisitions. Management believes that the Company's acquisition of Novus has strengthened the Company's

core Indonesian asset base. See “— Description of the Properties — Properties Relinquished or Divested” and “— Description of the Properties — Properties to be Relinquished or Divested”.

## **Description of the Properties**

Unless otherwise specified, all references herein to “production capacity” of a facility means the maximum amount that can, or is expected to be able to, be contained by such facility. No representation is made that the amount of production (if any) from such facility is or will or is expected to be equal to the production capacity of a facility and production capacity should not be treated as indicative of future levels of production. See “Forward-Looking Statements” and “Risk Factors — Risks Relating to the Company — The Company’s business is capital intensive and no assurance can be given that the Company will be able to obtain required funding”.

### ***Production Properties***

#### *Rimau Block, South Sumatra*

The Rimau PSC block is the Company’s largest oil producing block and contains its largest gross proved and probable oil reserves. The Rimau block is located onshore in South Sumatra and covers 1,577 square kilometers. The Company’s gross production from Rimau was 11.8 MMBbls of oil and 7.3 Bcf of gas for the year ending December 31, 2005. The Company’s gross proved reserves in the block were 74.9 MMBbls of oil and 18.6 Bcf of gas, while gross proved plus probable reserves were 93.4 MMBbls of oil and 23.9 Bcf of gas, as of January 1, 2006. The Company is the operator of the block and holds a 95.00% effective interest in the Rimau PSC, with the local government holding a 5% interest, which includes a free carry on capital expenditure.

*Background.* Production of oil from the Rimau block began in 1986, with the Company acquiring an interest in the block in 1995. However, it was not until the Company discovered Kaji field and Semoga fields in September 1996 that the block became a significant oil producing operation. The Company also discovered significant gas reserves at the Kaji-Semoga fields. The Kaji-Semoga oil has an API range of 35 to 38 degrees. The Company has acquired 3,122 kilometers of 2D seismic data covering the Rimau block area.

*Production.* In the year ended December 31, 2005, the block averaged gross production of approximately 32.4 Bbls/d of oil. Producing operations in the Rimau block consist of approximately 120 commercially producing wells across seven fields, as well as 44 injection wells in Kaji-Semoga. As mature oil fields, the Kaji-Semoga fields have seen declining production since the beginning of 2002. The Company has recently taken several key initiatives to offset oil production declines of the Kaji-Semoga fields, including:

- Maintaining reservoir pressure through simultaneous re-injection of 80,000 Bbls/d of water and 3 MMcf/d of gas in order to sustain or prevent the reservoir pressures from dropping. This was initiated by drilling 25 injection wells in 2003, which were brought on-line in 2004.
- Developing and stimulating the Telisa sands tight reservoir formations by utilizing sand fracing techniques in the reservoir rock. Five infill wells have been completed and fractured and 17 wells were switched from other formation in 2003. The Company has continued these efforts by drilling 15 infill and 5 switched wells through Telisa formation through December 31, 2005.
- Developing the Talang Akar reservoir by drilling three infill wells and one switched well through the same zone from 2003 to 2005.
- Drilling horizontal producing wells in the Kaji and Semoga fields to minimize pressure drawdown. Currently, these horizontal wells produce approximately 2,000 Bbls/d.

Moreover, the Company has also recently realized lower production decline rates by a new well management rationalization program introduced in early 2005, which shuts down higher water producing oil wells and de-chokes more productive oil wells to increase the fields’ overall oil flow. As a result, average production during 2005 was 32.4 MBbls/d compared to an average of 35.1 MBbls/d for 2004.

*Sales.* Crude oil export sales from the South Sumatra operations commenced in December 1999 with the Company selling its net crude entitlement under nine-month contracts through a competitive tender process to international buyers. Such buyers have included Mitsui, Itochu and PTT. Currently, the Company is under a sales agreement to sell 0.32 to 0.40 MMBbls/month or approximately 100% of

its net crude entitlement from Rimau and South Sumatra Extension, to Itochu, from January 1, 2005 until December 31, 2006. For the period from January 1, 2005 to December 31, 2005, crude sold under this agreement was priced at a premium to ICP-SLC of US\$2.69/Bbls, with total sales of US\$267.8 million in 2005. For 2006, crude sold to Itochu under this agreement has been priced a premium to ICP-SLC of US\$2.37/Bbls. See “— Sales and Distribution — Crude Oil”. The Company expects to initiate a competitive tender process for crude oil export sales after the expiration of its current agreement with Itochu. Since the first quarter of 2001, crude oil exports utilized a pipeline from the Kaji field to the Tengguleng river terminal, and from there transportation is by barge to a marine terminal, the floating storage and offloading vessel (“FSO”), MT Laksmiati, moored at Muntok, Bangka Island.

Prior to 2003, the Company flared associated gas production from the field. In 2003, the Company began selling natural gas to an adjacent PLN power plant, under a GSA through October 2013, with volumes supplied on a best efforts basis. In October 2004, the Company’s LPG plant entered production. The LPG plant processes the natural gas from the Rimau fields, including splitting out condensate and LPG from the natural gas. The Company now sells LPG and condensate to Pertamina, under a long-term GSA, and continues to sell the remaining dry gas to PLN. For the year ending December 31, 2005, the Company sold 35,335 MT of LPG, 11,826 MBbls of condensate, and averaged 19.9 MMcf/d of gas sales from the plant. See “— Gas Related Downstream Projects” and “— Sales and Distribution.”

In order to commercialize additional associated gas in the Kaji-Semoga oil fields, the Company through its subsidiary, PT Medco LPG Kaji, entered into agreements with PT Citra Panji Manunggal in September 2003 to build an LPG plant in the Kaji-Semoga fields and process gas produced from the Kaji field, for a term of 10 years commencing on the date the LPG plant begins operations. The 73,000 tons per annum LPG plant commenced operations in October 2004. Annual capacity of feed-gas required from the Rimau fields is approximately 12-13 MMcf/d. The Company sells gas produced from its fields and processed in the LPG plant to PLN and Pertamina pursuant to sale and purchase agreements entered into in July 2003 and January 2004 respectively. See “— Sales and Distribution”.

*Strategy.* The Company remains focused on enhancing oil recovery, commercializing associated gas, and doing near field oil exploration on the Rimau block. The Company has budgeted approximately US\$177.7 million of capital expenditure for exploration and development in the Rimau block through 2008. This plan consists of drilling a total of 144 development (producing and injection) wells and seven exploration wildcat wells through 2008. Exploration is expected to target near field oil prospects. The Company has sought to minimize further production declines by improving recovery rates and proving up some of its 18.6 MMBbls gross probable oil reserves with the following additional initiatives:

- Continue the waterflood optimization program by converting an additional 42 high water cut wells to water injector wells, and drilling 144 producing wells through 2008. This program has begun to show results as of the first quarter of 2006.
- Implement the EOR pilot program by drilling six injection and ten producer wells in 2006, and begin an Alkaline Surfactant Polymer water injection program followed by water injection program into key reservoir formations. The Company intends to evaluate the EOR pilot program in 2009 and institute an EOR program for the entire Kaji-Semoga fields starting in 2010.
- Continue the development of the Kaji-Semoga fields by drilling more conventional producing wells in Telisa and Talang Akar formation through 2007.

#### *Extension/Kampar Block, South and Central Sumatra*

The Extension/Kampar PSC, comprising South Sumatra Extension and the Central Sumatra Kampar blocks, represents the Company’s largest gas producing blocks and its second largest oil producing blocks. The blocks are located onshore in South and Central Sumatra and cover 4,470 square kilometers. The Company’s gross production from the blocks was 3.3 MMBbls of oil and 25.7 Bcf of gas for the year ending December 31, 2005. The Company’s gross proved reserves in the blocks were 16.8 MMBbls of oil and 190.7 Bcf of gas, while gross proved plus probable reserves were 25.9 MMBbls of oil and 375.3 Bcf of gas, as of January 1, 2006. The Company is the operator of the blocks with a 99.99% effective interest. The South Sumatra Extension block is an important component in the Company’s gas reserve development strategy.

*Background.* Production of oil from the Kampar block and the Extension block began in 1971 and 1972, respectively. Prior to November 1995, 108 exploratory wells, six delineation wells and 429 pro-



duction wells had been drilled in the Extension and Kampar contract areas and more than 161.0 MMBbls of oil had been produced. Since acquiring the Extension/Kampar PSC, the Company has drilled a further 28 exploratory wells and 11 delineation wells resulting in the discovery of three major commercial oil fields, including the Soka field in 1997, the Matra field in 2000, and the Kembar field in 2002. The oil from these blocks has an API range of 33 to 46 degrees. The Company has acquired 27,607 kilometers of 2D seismic data and 116 square kilometers of 3D seismic data covering the Extension and Kampar blocks.

*Production.* In the year ended December 31, 2005, the Extension/Kampar PSC averaged gross production of approximately 9,068 Bbls/d of oil in aggregate. Producing operations consisted of approximately 218 producing wells across two fields in the Extension/Kampar PSC. The Soka field produced 2,800 Bbls/d for the year end December 31, 2005. The Matra field started producing in September 2003 and produced an average of 2,000 Bbls/d from ten producing wells for the year end December 31, 2005.

*Sales.* The Company sells its net crude oil entitlement from South Sumatra Extension to Itochu (see “— Description of Properties — Production Properties — Rimau Block, South Sumatra”). The Company also swaps its net crude oil entitlement from Kampar with the Government, in exchange for a corresponding amount of the Government’s crude oil entitlement from South Sumatra Extension, which is then sold to Itochu.

The Company currently sells gas under two long-term GSAs with two separate PLN power plants and one Pertamina fertilizer plant. For the year ended December 31, 2005, the Company averaged 70.5 MMcf/d of gross gas sales from the South Sumatra block. In addition, in 2005 the Company entered into two binding HOAs with two separate power plants to sell up to 120.8 Bcf of gross volumes. The Company signed a HOA in January 2006 with PLN to supply approximately 25 MMcf/d of total field gas volumes to the PLN Keramasan II power plant over a six year period, starting in January 2007. The gas will be supplied from the South Sumatra block, at a price of US\$2.75 per MMBTU, escalating to a price of US\$3.00 per MMBTU by the end of the contract. See “— Sales and Distribution”.

*Strategy.* The Company is focused on developing and commercializing the Extension block’s significant gross probable gas reserves of 184.6 Bcf. The Company has budgeted US\$91.3 million of capital expenditure on the blocks for exploration and development through 2008. This budget includes planned drilling for a total of 43 development wells and 14 exploration wells, including 12 wildcat wells, through 2008. Exploration is expected to target five near field oil prospects and two gas prospects.

#### *Langsa Block, Offshore East Aceh*

The Langsa TAC block is an offshore oil block located in East Aceh, Nanggroe Aceh Darussalam, covering 77 square kilometers. The Company estimates that the Langsa block had gross proved and probable reserves of 1.1 MMBbls as of January 1, 2006. The Company has a 35.00% effective interest in the Langsa block, through its 50% interest in Medco Moeco, a 50:50 joint venture with Mitsui and Modec Inc., which has a 70% effective interest in the Langsa TAC and serves as joint operator of the block.

*Background.* Production of oil from the Langsa contract area began in 2001. There were two production wells in the Langsa contract area and over 0.59 MMBbls of oil have been produced through October 2002.

*Production.* The block re-entered production by the Company in November 2004, with an average gross production of 1,250 Bbls/d for the year ended December 31, 2005 and recorded a total gross production of 456 MBbls for the year ended December 31, 2005. Crude oil operations in the Langsa block consist of three producing sub-sea wells and one FPSO for processing and storage. Under a contract with Pertamina which expires in 2017, the Company sold or exported 518.3 million Bbls of crude oil in 2005

*Strategy.* The Company plans to focus on optimizing production of the oil field and has budgeted US\$8.2 million of capital expenditure for development through 2008.

#### *Kalimantan TAC, East Kalimantan*

The Kalimantan TAC block, which consists of blocks in the Tarakan area and in the Sanga-Sanga area, is located onshore Kalimantan near the Bontang LNG plant and covers 136 square kilometers. The Company’s gross production from the blocks was 1.8 MMBbls and 4.1 Bcf for the year ending



December 31, 2005. The Company's gross proved reserves in the blocks were 3.7 MMBbls and 14.5 Bcf, while gross proved plus probable reserves were 5.5 MMBbls and 14.5 Bcf, as of January 1, 2006. The Company is the operator of the block with a 99.99% effective interest.

*Background.* Production of oil from the Kalimantan TAC block began in 1898 and production from within the current Kalimantan TAC contract area began in 1906. Between 1972 and 1992, when the TAC was operated by Tesoro, 244 production wells were drilled within the Takaran area and 135 production wells in the Sanga-Sanga and Samboja areas of the Kalimantan TAC. By December 31, 2002, more than 558 MMBbls of oil had been produced. Since acquiring the Kalimantan TAC, the Company has reactivated 57 wells, drilled an additional 62 production wells in the Sanga-Sanga and Samboja blocks and reactivated 72 wells in the portion of the Tarakan block within the Kalimantan TAC contract area. Declining daily oil production has been reversed and recoverable reserves upgraded through renewed investment. By 1997, the Company also drilled and developed gas reserves in the Sanga-Sanga field. The Company has compiled 53.5 square kilometers of 3D seismic data in relation to prospective gas zones in the Sanga-Sanga field.

*Production.* In the year ended December 31, 2005, the block averaged gross production of approximately 4,980 Bbls/d of oil and 11.3 MMcf/d of gas. Crude oil operations in the Sanga-Sanga and Samboja blocks consist of approximately 115 wells which were producing crude oil at approximately 4,500 Bbls/d. Crude oil operations in the Tarakan block within the Kalimantan TAC contract area consist of 53 wells in three fields which currently produce crude oil at approximately 480 Bbls/d.

*Sales.* Oil production from the Sanga-Sanga and Samboja fields is transferred to Pertamina's refinery in Balikpapan by barge. 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. Natural gas is sold to PLN's Tanjung Batu 60 MW power plant via a 30 kilometer pipeline owned by the Company. The gas sales contract with Pertamina lasts through March 2008 for total field gas volumes of approximately 18 MMcf/d at a price of US\$2.50/MBTU.

*Strategy.* Because of the limited depth and surface area of this block, the Company intends to focus on enhancing and maximizing the value of existing reserves. The Company has budgeted to spend approximately US\$17.8 million of capital expenditure on the block for development through 2008. This budget includes planned drilling for ten development wells in the North Kutai Lama ("NKL") field which now accounts for more than 60% of total production at the Sanga-Sanga, Samboja and Tarakan areas and replacing reserves. In terms of gas sales, the Company intends to pursue the monetization of gas reserves by expanding sales to existing consumers.

The Kalimantan TAC expires in 2008. Under Indonesian regulations, TACs may not be extended. Medco is currently in discussions with Pertamina and BPMigas on the possibility of extending its rights, operations and obligations in the block under a negotiated contract format yet to be determined.

#### *Tarakan PSC, East Kalimantan*

The Tarakan PSC block accounts for the Company's second largest gas production. The block is located on the island of Tarakan, off the northern part of East Kalimantan, and covers 180 square kilometers. The Company's gross production from the block was 7.7 Bcf of gas and 0.6 MMBbls of oil for the year ending December 31, 2005. The Company's gross proved reserves in the block were 17.0 Bcf of gas and 2.2 MMBbls of oil, while gross proved plus probable reserves were 17.0 Bcf of gas and 2.2 MMBbls of oil, as of January 1, 2006. The Company is currently the operator of the Tarakan PSC with a 99.99% effective interest.

*Background.* Between 1982 and 1992, Tesoro Tarakan discovered four gas fields and the Mamburungan oil field. As of December 31, 2004, 3.0 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. In April 1997, the Company commenced commercial production of natural gas under the Tarakan PSC. The Company has 503 kilometers of 2D seismic data covering the Tarakan PSC contract area.

*Production.* In the year ended December 31, 2005, the block averaged gross production of approximately 21.0 MMcf/d of gas and 1,596 Bbls/d of oil. Gas is produced from four natural gas fields consisting of seven commercially producing wells. Crude oil operations in the Mamburungan field in the Tarakan PSC contract area consist of 14 wells.

*Sales.* Under a contract with Pertamina which expires in 2007, the Company supplies up to 30 MMcf/d (take or pay at 21 MMcf/d) of natural gas to Pertamina's Bunyu methanol plant, which is operated by the Company under a long-term lease. See "— Gas Related Downstream Projects". The Company currently supplies approximately 21 MMcf/d of natural gas to the Bunyu methanol plant through a 25 kilometer pipeline with a 40 MMcf/d capacity. The pipeline is owned and operated by the Company. In November 2002, the Company and PLN signed a gas sales contract to supply 3.3 MMcf/d of natural gas for ten years to a 10 MW electricity generating plant in Tarakan city, East Kalimantan. The crude oil is stored at the same storage site as for the Tarakan block within the Sanga-Sanga TAC, and is sold to Pertamina, which arranges for its delivery to its Balikpapan refinery by shuttle tankers.

*Strategy.* Given declining gas production and few alternative sources of gas feedstock for the Bunyu methanol plant, the Company is keen to discover and prove-up in-field gas prospects. The Company is also in discussions with Anadarko, pursuant to the terms of the EJVA, for the drilling of exploration wells in the Tarakan PSC contract area by the end of the third quarter of 2006. The Company has budgeted approximately US\$22.4 million of capital expenditure in the blocks for exploration and development through 2008. This budget includes planned drilling for three development wells, and one exploration wells, through 2008. The Company recently entered into an agreement with Anadarko pursuant to which Anadarko would assume all costs for 2D and 3D seismic surveys in the Tarakan PSC commissioned by the Company and reimburse the Company for costs already incurred.

#### *Sembakung TAC, East Kalimantan*

*Background.* The Sembakung TAC block is located in East Kalimantan and covers 23 square kilometers and has been in production since 1977. The Company's gross proved oil and condensate reserves in the block were 4.8 MMBbls, while gross probable oil and condensate reserves were 0.6 MMBbls, as of January 1, 2006. The Company acquired a 100% effective interest in the Sembakung TAC in October 2005 and is the operator of the block. During the period from October 2005 to December 2005, the Sembakung block produced an average of 4.3 MBbls/day.

*Sales.* The Company sells its net crude oil entitlement from the Sembakung block to Pertamina Niaga pursuant to the terms of a crude oil sales agreement that expires in September 2006 and at ICP-SLC pricing. The average realized sales price for crude sold from the Sembakung block from October 2005 to December 2005 was US\$54.48/Bbl.

*Strategy.* The Company is focused on developing and commercializing the Sembakung TAC's fields and has budgeted to spend US\$28.1 million of capital expenditure for development through 2008, including four development wells in 2006, seven development wells in 2007 and four development wells in 2008. In addition, the Company is exploring plans to monetize gas that has historically been flared from the Sembakung wells at the rate of up to 10.0 Mcf per day by selling the flared gas to PT Medco Methanol Bunyu and is also considering exploring for gas prospects within the Sembakung TAC contract area.

#### *Brantas PSC, East Java*

The Brantas PSC block is located over a wide area onshore East Java and offshore Madura Strait, and covers an area of approximately 2,000 square kilometers. The Company's gross production from the block was 0.002 MMbbls and 6.0 Bcf for year ended December 31, 2005. The Company's gross proved reserves in the block were 1 MMBbls and 15.8 Bcf, while gross proved plus probable reserves were 3.2 MMBbls and 33.7 Bcf, as of January 1, 2006. The Company holds a 32.00% effective interest in the block, and Lapindo, a subsidiary of PT Energi Mega Persada Tbk, is the operator.

*Background.* The Brantas block is a relatively young block, with the Wunut gas field entering production in 1999. Most of the development of the gas field was delayed due to the 1998 Asia financial crisis. However, since the 2001 lifting of fuel oil subsidies, gas demand in the East Java market has increased, leading to the signing of a GSA in 2003 and a rapid completion of the development of the Wunut field. The Tanggulangin oil field and Carat gas fields were discovered in 2001 and 2002, respectively. The Company believes that a significant number of exploration leads and prospects remain in the onshore acreage.

*Production.* For the year ended December 31, 2005, the block averaged gross production of approximately 16.2 MMcf/d of gas. Production comes from 16 wells in the Wunut gas field.

*Sales.* Gas is sold to PGN under a GSA for the supply of up to 63 MMcf/d of total field gas on a reasonable endeavors basis by Lapindo Brantas from 2003 through the end of 2007.

*Strategy.* The Company is focused on ramping up gas production volumes in the Wunut field, bringing the Carat gas field on line and will continue evaluating the potential of the Tanggulangin field. It has budgeted to spend approximately US\$25.0 million of capital expenditure in the block for exploration and development through 2008. This budget includes planned drilling for 15 development wells and three exploration wells through 2008. The Carat gas field is expected to begin production during the second quarter of 2006, with 1.64 BTU of gas to be sold to Indogas at US\$3.05 per MMBTU under a gas sale and purchase agreement that expires in December 2008. The Tanggulangin commenced operations in September 2005, but production has been lower than expected. The operator of the block intends to drill additional wells to further evaluate the potential of the Tanggulangin field.

#### *Tuban, East Java*

The Tuban JOB consists of two oil fields located in East Java and currently covers 1,478 square kilometers. The Company's gross production from the block was 0.6 MMBbls for the year ending December 31, 2005. The Company booked gross proved reserves in the block as 7.4 MMBbls of oil as of January 1, 2006. The Company has a 25.00% effective interest in the Tuban JOB, which is operated by PetroChina and Pertamina under a JOB arrangement.

*Background.* From 1990 to 1993, six exploration wells were drilled, but the Mudi oil field was not discovered until 1994. Oil production from the Mudi field block began in December 1997. A total of 20 producing wells have been drilled in the Mudi field, with production reaching a peak of 22,000 Bbls/d in 1998. The cumulative oil production for the field was 22 MMBbls as of December 31, 2004. In 2001, the Sukowati field was discovered with the Sukowati-1 wildcat well and production from the Sukowati field began in the middle of 2004. Under the terms of an agreement between the Government and ExxonMobil, the Sukowati field, which had overlapped with ExxonMobil's adjacent Cepu block, has been expressly excluded from the Cepu block. The Pertamina-PetroChina JOB operates the Sukowati field pursuant to the terms of an appointment by BPMigas. Under this appointment, PetroChina and the Company finance all cash calls relating to the entire Sukowati field, including the expected share attributable to the Sukowati field that fell within the Cepu block in such cash calls, subject to reimbursement from the share of any production from the Sukowati field that fell within the Cepu block. The Company has a 25% interest in the portion of the Sukowati field attributable to the Tuban block.

*Production.* For the year ending December 31, 2005, the block produced an average of approximately 1,650Bbls/d.

*Sales.* The Mudi oil is transported by way of a 36.5 kilometer onshore pipeline and an 18.6 kilometer offshore pipeline to an FSO unit and is currently sold to China Oil.

*Strategy.* The Company and its partners are focused on finalizing the unitization agreement for the Sukowati field. In the meantime, the Company has budgeted US\$16.5 million of capital expenditure for development through 2008. This budget includes planned drilling for a total of four development wells and four exploration wells, including two wildcat wells, through 2008. The exploration drilling is expected to target both the Mudi and Sukowati structures.

#### *Kakap PSC, Natuna (offshore)*

The Kakap PSC block is located in the West Natuna Sea Basin, and exports natural gas to Singapore over 650 kilometers away. The Company's gross production from the block was 0.5 MMBbls and 5.3 Bcf for the year ended December 31, 2005. The Company's gross proved reserves in the block were 1.7 MMBbls and 30.1 Bcf, while gross proved plus probable reserves were 2.6 MMBbls and 39.3 Bcf, as of January 1, 2006. The Company has an 16.00% non-operating interest in the Kakap PSC. In December 2004, the Company sold a 6.25% interest to Santos and in October 2005 the Company sold an additional 2.75% interest to Santos for US\$13 million. The block is operated by Star Energy, and currently covers an area of approximately 3,041 square kilometers.

*Background.* The Kakap block was originally an oil-focused producing block, which started production in 1986. The Kakap block, along with the other two West Natuna blocks, Block A and Block B, jointly commenced exporting gas to Singapore in March 2001. The block is divided into South Kakap, which consists of all producing operations and most exploration activities, and North Kakap, which is

much larger and relatively unexplored. South Kakap's producing and prospective acreage has mostly been covered with 3D seismic, and has been drilled by 36 exploration and 41 development wells.

*Production.* For the year ended December 31, 2005, the Kakap block averaged gross production of approximately 1,370 Bbls/d of oil and 14.5 MMcf/d of gas. Producing operations in the Kakap block consist of four offshore platforms and six sub-sea satellites tied back to these platforms that together cover ten different fields. Production comes from approximately 34 oil wells and seven gas wells.

*Sales.* Gas is transported through a 654 kilometer pipeline and sold to SembCorp Utilities Pte Ltd, a gas distributor in Singapore. The gas is sold under a GSA, which indexes the gas price to a premium of High Sulfur Fuel Oil 180 centistokes traded in Singapore. The gas is sold by Pertamina, and it is supplied to Pertamina under a Gas Supply Agreement ("GSuA") by the West Natuna Transportation System ("WNTS") joint venture, a consortium of the three West Natuna blocks, in which Kakap Gulf Resources (Kakap) Ltd holds a 20% interest. Under the GSuA, the Kakap block has the right to supply 20% of the quantities of gas to Pertamina for sale under the GSA.

*Strategy.* The Company is focused on optimizing the oil production of the mature fields and meeting sales obligations under the GSA. It has budgeted to spend approximately US\$7.91 million of capital expenditure on the Kakap block for exploration and development through 2008. This budget includes planned drilling for one wildcat well in 2006, which is a commitment under the extension terms of the PSC. In order to enhance production performance, the budget also includes the installation of one gas lift compressor and two well workovers in 2006.

### ***Development Properties***

#### *Senoro-Toili, Sulawesi*

The Senoro-Toili JOB block holds the Company's largest gas reserves, accounting for nearly 62% of the Company's gross proved plus probable oil and gas reserves as of January 1, 2006. The block consists of two areas: Senoro (onshore) currently covering 188 square kilometers and Toili (offshore) currently covering 263 square kilometers. The Company has a 50.00% effective interest in the Senoro-Toili block, and together with Pertamina, operates the block under a JOB arrangement.

*Senoro Block.* The onshore Senoro gas field is the Company's largest gas reserve and was estimated by GCA in its technical reserve report as of January 1, 2003 to have gross probable reserves of approximately 1,291.5 Bcf. The GCA technical reserve report was done as part of the gas downstream utilization study. In addition, GCA estimated technical proved (non-commercial) gross reserves to be 766 Bcf. GCA also included in this report Senoro gross proved plus probable oil and condensates reserves of 27.9 MMBbls. Since such technical reserve report, the Company has completed one appraisal well, Senoro-4, in February 2006, near the center of the block, which failed to encounter any commercial hydrocarbons.

The Company received formal approval for its plan of development for the Senoro gas field in May 2005, for up to 230 MMcf/d of total field production capacity by 2008. The Company intends to develop the field by drilling nine development wells, recompleting one well and constructing production related facilities by 2008. The field is currently targeted to enter production in 2008, with total field initial rate up to 130 MMcf/d by 2009. Concurrent with the foregoing drilling program, the Company intends to further delineate the Senoro gas field through the Senoro-5 appraisal well with the objective to prove additional reserves for development.

*Toili Block.* The Tiaka oil field in the offshore Toili block is estimated to have gross proved oil reserves of 1.9 MMBbls and gross proved plus probable oil reserves of 4.8 MMBbls as of January 1, 2006. The oil has an API rating of 29 degrees. The Company is in the process of developing the Tiaka oil field by reclaiming a reef through a man made island, from which six multilateral directional production wells will be drilled and production facilities installed. One production well was drilled in 2004 and two were drilled in 2005. The field has entered production in June 2005. Produced crude oil will be stored in an FSO berthed at a jetty of the island.

In April 2006, the Company entered into a crude oil sales and purchase agreement with Petro Diamond Company Limited of Hong Kong ("Petro Diamond"). Under terms of this agreement, the Company will sell all crude oil available for export from the Tiaka field to Petro Diamond for a period of twelve months beginning on April 1, 2006, or until Petro Diamond lifts a total of 900 MBbls of crude oil, whichever comes first. The applicable price shall be based on the actual FOB selling price to Petro



Diamond's buyer, which shall be subject to the Company's approval. Petro Diamond will be entitled to a marketing fee equivalent to the actual selling price to the ultimate buyer less ICP-Tiaka (defined in the agreement as ICP-Duri less US\$3.00) at the time the crude oil is loaded. However, if 50% of the marketing fee is equal to or less than US\$0.04/Bbl, the marketing fee shall be US\$0.04/Bbl. Otherwise, the marketing fee shall be 50% of the actual selling price to the ultimate buyer less ICP-Tiaka.

Management has made the commercialization and development of the Senoro-Toili block a strategic focus of the Company. The Company has budgeted US\$180.2 million for Senoro block and US\$37.3 million for Toili block for development capital expenditures through 2008, primarily for development drilling and production facilities for both the Tiaka oil field and the Senoro gas field.

*Senoro Marketing.* Commercialization of the uncommitted Senoro gas reserves is a priority of the Company's management. The Company's strategy is to explore direct gas sales, working alliances with potential international downstream customers, and establishing gas transportation projects, such as Compressed Natural Gas ("CNG") and LNG. The Company is now committed to developing and selling the Senoro gas in reserves stages, with an emphasis on establishing the production infrastructure and drilling activity through the first phase, focusing on the development on LNG or LNG-related projects as a priority.

In June 2005 the Company entered into a MOU in the form of an Exclusivity Agreement with LNG International Pty Ltd ("LNGI") of Australia, to jointly undertake a feasibility study to develop a mini-LNG project at Senoro, which expired in March 2006.

As of the date of this Offering Circular, the Company and Pertamina are undertaking preliminary planning for a medium-sized LNG plant, with discussions being held with potential investors in the plant and potential LNG purchasers. This project is expected to utilize approximately 1.5 Tcf of Senoro's gas as feedstock. The proposed project would be subject to government approvals.

For additional gas volumes, the Company is exploring other potential commercial opportunities including petrochemical and fertilizer plants. The Company entered into a HOA with PT Panca Amara Utama ("PAU"), a subsidiary of the Malaysian company, Panca Amara Utama, on March 31, 2005. Under the HOA, 757.4 Bcf of total field gas volumes for up to 60 mmcf/d (approximately 30% of the Company's gross probable gas reserve volumes in the block) was to be sold from 2009 through 2027 as feedstock to PAU's prepared ammonia plant to be constructed near the Senoro gas field, at an escalated price of US\$1.55 to 2.50 per MMBTU. Although the HOA expired on September 30, 2005.

#### *Lematang, South Sumatra*

The Lematang PSC block is located in South Sumatra and covers 228 square kilometers. The Company's gross production from the block was 0.4 MMcf of gas and 0.012 MMBbls of condensate for the year ended December 31, 2005. The Company's gross proved gas reserves in the block were 0.2 Bcf, while gross probable gas reserves were 182.8 Bcf, as of January 1, 2006. The Company is the operator of the block and has a 74.12% effective interest in the Lematang PSC. The block is an important focus of management for the development of its gas reserves, along with the nearby South Sumatra Extension block.

*Background.* The Harimau gas field was discovered in 1989 with the drilling of Harimau-1 well. By the end of 1991, a total of 12 delineation and development wells had been drilled on it. The Singa gas field was discovered for Singa-1 well in 1997, and Singa-2 delineation well in 1999. The Company estimates that, as of January 1, 2006, the gross probable reserves for the Singa gas field are 182.6 Bcf of gas based on a certification of reserves as of December 2000 by an independent petroleum engineering consultant. The Company drilled one exploration well in the Banteng prospect in 2003 but discovered no commercial gas. Based on the uncertain results of this well, the Company believes further drilling and analysis is needed to better understand and estimate the recoverable reserve size of the Singa gas field. The Company has a total of 1,546 kilometers of 2D seismic and 188 square kilometers 3D seismic.

*Production.* For the year ended December 31, 2005, the block produced an average of 1.0 MMcf/d of gas and 30 Bbls/d of condensate from the Harimau field. The Singa gas field has not yet been developed.

*Sales.* Gas from the Harimau field is delivered by a 20 kilometer pipeline in Prabumulih to the PUSRI fertilizer plant. The Company has been focusing on finalizing gas sales arrangements for its



Singa gas field, currently under development. The Company has signed an HOA with PGN in January 2006 to supply 50 MMcf/d of natural gas at a price of US\$2.60 per MMBTU for nine years starting from 2008. The gas will be supplied to the West Java market using PGN's South Sumatra-West Java pipeline, which is under development. See "— Sales and Distribution".

*Strategy.* The Company is focused on developing and commercializing the Singa gas field's significant gross probable gas reserves of 182.6 Bcf. The Company has budgeted to spend US\$43.71 million of capital expenditure for development through 2008. This budget includes production facilities with a planned production capacity of up to 38 MMcf/d and planned drilling for one additional development well through 2008. The Singa gas field is targeted to enter production by 2008.

#### *Jeruk Field, Sampang Block, East Java*

*Background.* Santos (Sampang) Pty. Ltd. ("Santos (Sampang)") approached the Company with an opportunity to engage in sole risk exploration on the Jeruk field prospect after its Sampang PSC partners, Cue and SPC holding 15% and 40% stakes in the PSC, respectively, declined to participate. Upon analyzing the geological potential of the Jeruk prospect, the Company entered into the Jeruk Agreement with Santos (Sampang) on November 5, 2003 for the sole risk exploration of the Jeruk field on the Jeruk well operation, with both Cue and SPA retaining the right to back-in to any sole-risk discovery based on a contractually calculated penalty formula.

The Jeruk field is located offshore East Java, approximately 42 kilometers from Surabaya in approximately 44 meters of water. Santos (Sampang) spudded the successful Jeruk Well 1 wildcat well in November 2003 and completed testing in April 2004. Following this discovery, the Jeruk 2 delineation well was drilled approximately 1.6 kilometers east of Jeruk 1 to delineate the Jeruk field. Three flow tests were conducted on Jeruk 2 from November 2004 through February 2005, and Santos (Sampang) confirmed an oil column of at least 379 meters, with an API of 33 degrees and a single-well flow rate of 7,488 Bbls/d. In January 2005 Santos (Sampang) announced that it had made a large oil discovery. On April 29, 2005, SPC and Cue initially notified the Company of their intention to reinstate their interest in the Jeruk field under the terms of the Sampang JOA and the Company was required to return its 50% interest in the Jeruk well operation for compensation based on the penalty formula in the Sampang JOA. However, further analysis and appraisal through 3D seismic and further drilling led Cue and SPC to conclude that the potential Jeruk project economics may not justify paying the Company up to US\$209 million in penalties. The Company agreed to acquire a 25% economic interest in the Jeruk field from Cue and SPC at a cost of US\$21 million, or 25% of the total exploration costs for the field as of the date of the acquisition. The Sampang PSC is subject to a potential 10% local government share and the Company has been informed that the operation of the Sampang block has entered into an agreement with an Indonesian local government participant. This would reduce the Company's economic interest to 22.5%. The Jeruk-3 appraisal well was spudded by Santos in March 2006 and its results are pending.

*Strategy.* The Company has budgeted US\$171 million as its 25% share in the exploration and development capital expenditure for the Jeruk field through 2008. This budget consists of drilling four appraisal wells in 2006, with a further four wells being drilled through 2008, as well construction of FPSO facilities. The Company's preliminary estimates indicate the Jeruk Field should be operational by 2008.

#### *Block A PSC, North Sumatra*

*Background.* Block A is located onshore in Aceh province in North Sumatra and covers 3,687 square kilometers, approximately 45 kilometers east of the Arun Gas Field operated by ExxonMobil Oil Indonesia, Inc. Oil was discovered in Block A in the 1920's and Block A produced oil from eight fields, which are now depleted. Exploration for deeper gas in Block A took place in the 1970's through the 1990's, resulting in five discoveries — Alur Siwah, Alur Rambong, Julu Rayeu, Bata/Peulalu and Kuala Langsa. Plans of Development have been prepared for Alur Siwah, Alur Rambong and Julu Rayeu.

The Block A PSC was signed by Asamera on July 6, 1989, with an effective date of September 1, 1991 and an expiration date of August 31, 2011. In 1991, Japan Petroleum obtained a 50.00% working interest in the Block A PSC (which was subsequently transferred to an affiliate) after funding a US\$70 million exploration program. In January 1999, Japan Petroleum sold its 50.00% working interest to Mobil Oil Indonesia Inc., which was held by Mobil Block A Limited ("MBAL"). On April 26, 2006, a consortium comprised of the Company, Japan Petroleum Ltd. ("Japan Petroleum") and Premier Oil E

B.V. ("Premium Oil") acquired all of the share capital of MBAL from ExxonMobil Block A Investments Limited ("EMBAI") for a purchase price of US\$51 million, with each of the Company, Japan Petroleum and Premier Oil contributing one-third of the purchase price. The consortium also agreed to procure that MBAL would pay EMBAI production revenue payments equal to 2.0% of gross revenue (calculated on a monthly basis) from the Block A PSC for each calendar year the Block A PSC is in production, and for as long as the Block A PSC is in effect.

The remaining 50.00% working interest in the Block A PSC is held by Conoco Phillips, which is the operator of the block.

*Strategy.* Block A remains highly prospective, and the operation estimating 680 Bcf of proved and probable gas reserves for Alur Siwah, Alur Rambong, Julu Rayeu and Bata/Peulalu. Gas production is expected to be marketed to fertilizer plants located within Block A, with delivery to be undertaken by utilizing the existing gas delivery infrastructure between the Arun Gas Field and such fertilizer plants. In the meantime, Conoco Phillips is expected to initiate discussions with the BPMigas to extend the term of the Block A PSC.

### ***Exploration Properties***

#### *Exploration Properties for Future Development*

The Company has identified five exploration blocks to be targeted for future development. These blocks consist of known discoveries or highly probable commercial prospects, which need to be further delineated before any formal plan of development can be established. The Company has already begun the process of determining preliminary development plans for these blocks in the event that commercial discoveries are verified.

#### *Merangin Block, Jambi, South Sumatra*

The Merangin PSC block is located onshore in Jambi, Sumatra, and covers 3,226 square kilometers of exploration acreage. The Company has a 41.00% effective interest and is currently the operator of the block. The Company drilled the first exploration well in Pidawan-1 in 2002 which discovered gas but eventually suspended this gas discovery well. The Company has identified two prospects and eight leads in the block, being primarily oil focused.

*Strategy.* The Company has budgeted US\$8.0 million in exploration capital expenditure through 2008. This budget consists of drilling five exploration wells, including three wildcat well and two delineation wells through 2008, which are targeting oil prospects. A 2D seismic was shot in the second half of 2005. On July 18, 2005, the Company and its wholly-owned subsidiary, PT Medco E&P Merangin ("Medco Merangin"), entered into a Farmout Agreement with PTTEP Offshore Investment Company Limited ("PTTEPO"), a subsidiary of PTTEP, pursuant to which Medco Merangin assigned a 39.00% participating interest in the Merangin PSC to PTTEPO in exchange for PTTEPO's payment of Medco Merangin's sunk cost in the amount of approximately US\$1 million plus a premium up to US\$1.04 million. On July 27, 2005, the Company and Medco Merangin entered into a Farmout Agreement with MMC, pursuant to which Medco Merangin assigned a 20.00% participating interest in the Merangin PSC to MMC in exchange for MMC's payment of Medco Merangin's sunk cost in the amount of approximately US\$521,000 plus a 15% premium on all future cash calls up to a total amount (cash calls plus premium) of US\$1.47 million. The Company believes that the Merangin Farmout Agreements will minimize its exploration risk in the Merangin PSC block.

#### *Nunukan Block, East Kalimantan*

The Nunukan PSC block is located offshore northeast Kalimantan and covers 4,917 square kilometers of exploration acreage in approximately between 30 to 600 feet of water. The Company has a 100.00% effective interest and is the operator of the block. The block consists of the Serban-1 gas well, discovered by Total in 1980. The Company has identified four prospects and five leads remaining in the block, primarily being gas focused.

*Strategy.* The Company has budgeted US\$40.5 million in exploration and development capital expenditure through 2008. This budget consists of drilling two exploration wells, including one wildcat well and one delineation well (one for Serban-1), which are targeting gas prospects, as wells as three development wells, through 2008. The internal plan currently targets gas production to commence as early as 2008, with a planned production capacity of up to 30 MMcf/d, which could be sold either to a

nearby PLN power plant or piped to the Bunyu methanol plant. On December 7, 2005, the Company entered into a drilling agreement with Anadarko pursuant to which Anadarko has undertaken to fund the drilling of an exploration well in the Nunukan Block. Drilling is expected to commence in June 2006, with total costs estimated at US\$4.0 million, which will be borne by Anadarko. Under the terms of this agreement, any gas that can be commercially produced from the reservoirs that are in pressure communication with the wellbore of the exploration well will be sold to PT Medco Methanol Bunyu pursuant to the terms of a mutually acceptable gas sales agreement, at a price to be agreed upon ranging from US\$1.70 to US\$2.10 per MMBTU. The Nunukan block is located near the facilities used for the Tarakan block, which the Company believes will assist in monetizing any new discoveries in the Nunukan block.

#### *Simenggaris Block, East Kalimantan*

The Simenggaris JOB block is located onshore East Kalimantan, adjacent to the Company's existing operations on Tarakan Island, and covers 1,734 square kilometers of exploration acreage. The Company has a 37.50% effective interest in the Simenggaris JOB, and with Pertamina operates the Simenggaris block under a JOB arrangement. The block consists of the Sesayap and South Sembakung gas field discoveries. The Company has identified 21 leads and four prospects remaining in the block, being primarily gas focused.

*Strategy.* The Company has budgeted US\$10.7 million in exploration capital expenditure for the Simenggaris JOB through 2008. This budget consists of drilling two delineation wells for Sesayap and South Sembakung through 2008. If the delineation drilling is successful, the Company intends to start development by the end of 2006. The Company's internal plan currently estimates 18 development wells and targets gas production to commence as early as 2008, with a planned production capacity of up to 50 MMcf/d, which could be sold to the nearby PLN Nunukan power plant on to the Bunyu methanol plant. On December 7, 2005, the Company and Anadarko entered into an agreement whereby Anadarko has undertaken to fund the drilling of two exploration wells in the Simenggaris Block. See "— Anadarko Exploration Joint Venture Agreement — Recent Developments". In late December 2005, the Company drilled the Sesayap B-1 well, which has been plugged and abandoned.

#### *Madura, East Java*

The Madura JOB is located onshore on the Madura Island, East Java, and currently covers 2,729 square kilometers of exploration acreage. The Company has a 33.15% effective interest in the Madura block through its 51%-owned subsidiary, Medco Madura Pty. Ltd. ("MMPL"), and together with Pertamina, operates this block under a JOB arrangement. The Company has identified five prospects and two leads remaining in the block, primarily being gas focused.

*Background.* The Company drilled Sebaya-1 and Tambuku-1 in 2003 which discovered gas but eventually suspended these gas discovery wells. The Company drilled the Telaga-1 wild cat exploration well in 2003 and eventually suspended it as well. In 2003, the Company applied to BPMigas for and received postponement of the relinquishment of the Madura JOB until May 2005 on the condition that the Company undertakes a specified drilling program. The Company then conducted a study with GCA to evaluate the blocks prospects, which recommended the drilling of Sebaya-2 and Sebaya-3 wells. The Sebaya-2 drilling resulted in small gas flow. In 2005, the Company applied for and received approval from BPMigas to extend the relinquishment period for another two years through 2007. Despite still being in the exploration stage, the Company has already signed a non-binding MOU with PLN for delivery of up to 20 MMcf/d volumes to a power plant to be built in the vicinity of Sebaya. The MOU secures a market for Sebaya gas at a mutually acceptable price and provides justification for further appraisal and development actions in the block.

*Strategy.* The Company intends to continue exploration activities within the Madura JOB area. To this end, on February 22, 2006, the Company entered into a Farmout Agreement with Japan Petroleum. Under the Farmout Agreement, Japan Petroleum has committed to a work program to fund 100% of the costs associated with drilling a single exploration well in the Konang prospect located in the Madura Island PSC. Japan Petroleum has the option to earn up to 50% of the MMPL's interest in the Madura JOB when the exploration well has reached a specified vertical depth or when the cumulative drilling costs reach \$3.2 million, whichever comes first. Drilling of the Konang exploration well is expected to begin in the third quarter of 2006.

Like the EJVA with Anadarko, the Company believes the Farmout Agreement furthers the Company's strategic objective by forming an alliance with a substantial, well-regarded international operator, while at the same time helping the Company maintain financial flexibility and diversify risk through Japan Petroleum's funding of the Company's exploration activities.

#### *Other Exploration Properties*

The following block requires further exploration to become blocks consisting of known discoveries or highly probable commercial projects.

##### *Bengara, East Kalimantan*

The Bengara PSC block is located onshore in East Kalimantan near the Company's existing operations on Tarakan island, and covers 4,614 square kilometers of exploration acreage. The Company has a 95.00% effective interest in the Bengara PSC and is also the operator. Previous studies carried out by Pertamina on more than 1,300 kilometers of 2D seismic lines suggest that the area's geological structure may support significant gas accumulations. The Company acquired an additional 500 kilometers of 2D seismic data in 2003 for further analysis. The Company has identified two prospects and nine leads remaining in the block, being primarily oil focused.

The Company has budgeted US\$4.0 million in exploration capital expenditure for the Bengara PSC through 2008. The Company has submitted a request to BPMigas to delay exploration work commitments under the Bengara PSC until further analysis of the block can be completed. The Company is currently seeking a potential partner to farm-into the block to minimize exploration risk.

#### ***International Properties***

##### *United States*

The Company acquired its U.S. properties through the Novus acquisition in June 2004. In December 2004, the Company completed the divestment of its interest in the Stratton block to Apache Corporation ("Apache") for a purchase price of US\$47.0 million (before the working capital adjustment of US\$1.7 million). In July 2005, the Company completed the divestment of its interest in the Padre Island block to Long Flat Ltd. for a purchase price of US\$1.0 million. The Company has decided to retain the three remaining blocks for further exploration and development, until management can achieve what it believes are attractive valuations for the divestment of these assets.

The Company is the operator of all three remaining blocks, and has subcontracted these operating activities to Novus Operating Company ("NOC"), a company owned by former U.S.-based Novus employees. Under the operating agreement with NOC, the Company reimburses all operating costs and pays an annual 3% operating profit incentive fee to NOC management. NOC will also assist in any future divestment of U.S. assets under an incentive fee package. All three remaining U.S. blocks are producing.

*East Cameron (Block 317 and 318), Texas.* The East Cameron blocks are located offshore eastern Texas and western Louisiana in the Gulf of Mexico in approximately 70 meters of water. The Company's gross production from the blocks was 1.99 Bcf of gas for the year ended December 31, 2005, with production being suspended for three months in late 2005 due to the effects of Hurricane Katrina. The Company's gross proved gas reserves in the blocks were 27.8 Bcf, while gross proved plus probable gas reserves were 38.4 Bcf, as of January 1, 2006. Gas is produced from four wells and a single unmanned offshore platform in Block 317. The Company's plans in 2005 to drill one delineation well in Block 317 and two development wells in the adjacent Block 318 to complement a third recently completed production well, as well as its plan to install an unmanned platform in Block 318, were postponed due to the effects of Hurricane Katrina. The Company expects these plans to be implemented during 2006. Estimated capital expenditure for the drilling and platform is US\$38.3 million through 2008. The East Cameron field was discovered in 1988, with production starting in 1989. The Company owns between 50.00% to 100.00% effective interests in the East Cameron blocks and is the operator of these blocks.

*Main Pass (Block 64 and 65), Louisiana.* The Main Pass blocks are located offshore eastern Louisiana in the Gulf of Mexico in approximately 8 meters of water. The Company's gross production from the blocks was 0.23 Bcf of gas and 0.1 MMBbls for the year ended December 31, 2005, with production being suspended for three months in late 2005 due to the effects of Hurricane Katrina. The



Company's gross proved gas reserves in the blocks were 6.1 Bcf and 1.5 MMBbls oil and condensate, while gross proved plus probable gas reserves were 6.1 Bcf and 3.4 MMBbls, as of January 1, 2006. The field has two structures, consisting primarily of a gas cap and mature oil field. Gas is produced from 10 active wells of 29 wells, from two manned offshore platforms. The Company's plans in 2005 to restart a water flood program to enhance oil and gas recovery and drill four gas development wells, one delineation well, and four wildcat wells, were postponed due to the effects of Hurricane Katrina. The Company expects these plans to be implemented during 2006. Estimated exploration and development capital expenditure is US\$36.5 million through 2008. The East Cameron field was discovered in 1981, with production starting in 1983. The Company owns a 79.38% effective interest in the Main Pass blocks and is the operator.

*Sorrento Dome (Block NUL 13-1 and BUL 14-1), Louisiana.* Sorrento Dome is a salt-dome structured gas field located onshore in eastern Louisiana. The Company's gross production from the blocks was 0.05 Bcf of gas for the year ended December 31, 2005, with production being suspended for three months in late 2005 due to the effects of Hurricane Katrina. As of January 1, 2006, the Company's gross proved gas reserves in the blocks were 6.8 Bcf and 0.1 MMBbls oil and condensate, while gross proved plus probable gas reserves were 16.8 Bcf and 0.2 MMBbls. The field has two producing wells as well as separation, dehydration and oil storage facilities. Estimated exploration and development capital expenditure is US\$17.7 million through 2008. The Sorrento Dome field was discovered in 1929 and developed in the 1950's by Texaco. The Company owns a 100% effective interest in the Sorrento Dome-NUL13-1 block and a 63.17% interest in the Sorrento Dome-BUL14-1 block and is the operator.

*Libya.* In 2005, the Company successfully won a bid to explore for oil and gas in Block 47. Block 47 is located in the Ghadames Basin in Northwest Libya approximately 160 kilometers southwest of Tripoli, covering an area of 6,812 square kilometers. Subsequently, the Company signed an Exploration and Production Sharing Agreement ("EPSA") with Libya's National Oil Company. The EPSA provides each of the Company and Verenex Energy Inc. ("Verenex") with a 50.00% effective interest as well as the right to explore for oil and gas for a five-year period and to exploit any commercial discoveries over 25 years. Under the terms of the EPSA for Block 47, Verenex and Medco are required to acquire new seismic, including 1,000 square kilometers of 2D and 200 square kilometers of 3D, and drill three exploration wells during the five-year exploration and appraisal period. All exploration and appraisal costs during this period, including the minimum commitment program and any additional seismic and drilling, will be borne 100% by Medco and Verenex. Estimated costs for the minimum commitment program are approximately US\$20 million gross (US\$10 million net to Medco). Verenex is the operator of the block. The Company and its partner have identified several appraisal drilling opportunities on existing discoveries in Block 47 and has developed a robust inventory of exploration prospects and leads that will be matured with new seismic acquisitions and further geological studies. A 3D and 2D seismic program was completed in late 2005 and the Company plans to drill four exploration wells through 2008, which exceeds the Company's commitment under the EPSA. The drilling program for Block 47 has been pushed back to the third quarter of 2006, due to constraints in the availability of the necessary equipment in the market.

*Oman.* On January 25, 2006, the Company, through its 68%-owned subsidiary Medco LLC, was announced the winner of the tender to enter into a service contract with Petroleum Development Oman LLC ("PDO") for the purpose of operating and managing the Karim Small Fields in Oman. As a result on March 12, 2006, the Company and PDO entered into a 10-year service contract ("Service Contract") effective February 18, 2006. Under the terms of the Service Contract, Medco LLC will pay the PDO a signature bonus of US\$30 million, US\$15 million of which is payable in 2006 and US\$7.5 million payable in each of 2007 and 2008. The Service Contract allows Medco LLC to recover 100% of its costs, up to a level not to exceed 30% of production, and gives the Company a 3.98% share in the profits from oil sales.

The Omani government estimates that the Karim Small Fields has gross proved and probable reserves of 62 MMBbls of oil and production is currently at 18,000 BOPD. Total estimated costs for 2006 (including capital expenditures and operating expenses) is US\$11.5 million, with the Company expected to undertake workover and remedial activities for 101 wells in the Karim Small Fields and to undertake perforate, reperforate and other well-stimulation activities for a further 14 wells.

On March 20, 2006, the Company entered into a Participating and Economic Sharing Agreement ("PESA") with Oman Oil Company S.A.O.C. ("Oman Oil"). Under the terms of the PESA, the Company and Oman Oil agreed jointly to develop the Karim Small Fields and to share in the costs and expenses



relating to the Service Contract, with the Company taking a 75% participating interest and Oman Oil taking a 25% participating interest. As the Company is the responsible party under the Service Contract, under the PESA the Company has the exclusive right to provide the services as required by the Service Contract. However, all liabilities and expenses incurred by the Company in performing such services are charged to a joint account maintained by the Company and are to be borne by the Company and Oman Oil in accordance with their respective participating interests. The terms of the PESA also call for the establishment of an Operating Committee composed of two representatives of each of the Company and Oman Oil which is responsible for supervising the operations necessary to fulfill obligations under the Service Contract. The PESA also specifies that all work to be funded in connection the Service Contract (including, but not limited to, the drilling and operating of all wells and the handling, treating and storing of hydrocarbons extracted in connection therewith) must be performed and incurred only pursuant to an approved annual budget.

### ***Properties to be Acquired***

#### *Bangkanai PSC, Central Kalimantan*

In March 2006, the Company entered into an agreement with Mitra Energi Bangkanai Ltd. to acquire a 15.00% effective interest in the Bangkanai PSC held by Bangkanai Petroleum Berhad for US\$3.75 million. This transaction is still subject to BPMigas approval.

The Bangkanai block is located in Central Kalimantan, approximately 200 kilometers from Balikpapan, and covers 6,976 square kilometres. Elnusa Bangkanai Energy Ltd. ("EBE") holds a 51.00% working interest in the block and is the operator. The Bangkanai PSC was signed on December 30, 2003 and as of the date of this Offering Circular EBE has conducted few exploration activities. The Bangkanai PSC requires an exploration commitment of US\$15.1 million to have been expended by the end of 2006, with a further US\$8.7 million over the next three years. A gas field with significant potential, called the Karendan field, has been discovered. EBE has executed an HOA for the sale of gas produced by the Karendan field to the Company's wholly-owned subsidiary, PT Medco Power Indonesia.

### ***Properties Relinquished or Divested***

The Company embarked on a process of divesting certain non-core assets of the Novus Group it acquired in 2004. In September 2004, the Company relinquished a portion of the Novus assets in Oman (Block 15) to the Sultanate of Oman pursuant to the exploration and production sharing agreement signed on October 1, 2001. Other key asset sales of Novus properties include:

- In August 2004, the Company sold certain of its non-operating interest in Newfield wells to Darcy Energy Limited for a price of US\$1.4 million.
- In December 2004, the Company sold all of the Novus Group's assets in Australia and 36% of the Novus Group's interest in assets in Indonesia to Santos, a major Australian oil and gas exploration and production company, for a total price of US\$97.4 million pursuant to the Heads of Agreement dated June 4, 2004.
- The Company also sold the Novus Group's 30% non-operating interest in the Stratton gas field, which is located onshore in Texas in the Gulf of Mexico, to Apache for a price of US\$45.3 million (after working capital adjustment of US\$1.7 million) in December 2004.
- In April 2005, the Company sold all of its shares in Novus Pakistan Pty Ltd, which holds 7.89% and 47.5% interests in the Badar block and the Bolan block, respectively, to Eastern Petroleum Limited, a Mauritius company associated with Silk Route Investments, a Cayman Islands company, for a price of US\$1.00 and an additional working capital adjustment of US\$544,552.
- In July 2005, the Company sold all of the Novus Group's remaining Middle East assets, which consisted of one producing gas and condensate block and three exploration blocks, to Meridian Oil & Gas (Middle East) Limited, a Cayman Islands company associated with Silk Route Investments, a Cayman Islands company, for a price of US\$65 million (subject to working capital adjustments). The Company will retain the right to re-acquire a 10% interest in the assets if there is a commercial discovery within three years of the sale.
- On July 29, 2005, the Company finalized the sale of Padre Island (Coastal Bend blocks), one of Novus Group's United States assets, to Long Flat Ltd. for a price of US\$1.0 million.

In October 2005, the Company transferred an additional 2.75% non-operating interest in the Kakap PSC to Santos pursuant to the sale agreement dated December 22, 2004 for a price of US\$13.0 million.

In January 2006, the Company sold its 15% working interest in the Asahan PSC to Asian Petroleum Development (Asahan) Ltd., the operator of the Asahan PSC, for a price of US\$1.0 million.

### ***Properties to be Relinquished or Divested***

#### *Yapen, Papua*

The Yapen PSC block is located offshore North West Papua in 400 feet of water, and covers 9,500 square kilometers exploration acreage. On May 18, 2004, the Company held a 90.00% working interest in the Yapen PSC. However, due to high development and commercialization costs, the Company returned a 75.00% working interest to its partner, Continental Energy Yapen, in October 2004. Continental Energy Yapen's 85.00% working interest was subsequently transferred to Continental-GeoPetro (Yapen) Ltd. (10.00%) and Maraja (Yapen) Energy Ltd. (75.00%). As of December 31, 2005, the Company had a 15.00% effective interest in the Yapen PSC. On January 6, 2006, the Company was informed that Continental-GeoPetro (Yapen) Ltd.'s and Maraja (Yapen) Energy Ltd.'s combined 85.00% working interest was transferred to Nations Petroleum, a Canadian oil and gas exploration company.

The Company expects to fund a US\$0.5 million cash call in 2006. The Company plans to relinquish the block.

### **Drilling Activity**

The Company has an average success rate of 50% for its exploration drilling, including 46% for its wildcat wells and 60% for its delineation wells from 2001 through 2005. The following table sets forth the number of exploration wells completed by the Company on its properties for the periods indicated.

<u>Gross Wells</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Last 5 Year Total</u> (% in average)
Wildcat total . . . . .	5	9	10	4	7	35
Successful . . . . .	2	6	2	1	5	16
Success rate . . . . .	40%	67%	20%	25%	71%	46%
Delineation total . . . . .	4	2	2	2	5	15
Successful . . . . .	4	1	1	2	3	11
Success rate . . . . .	100%	50%	50%	100%	60%	73%
Total Exploration . . . . .	9	11	12	6	12	50
Successful . . . . .	6	7	3	3	6	25
Success rate . . . . .	67%	64%	25%	50%	50%	50%

The Company currently has seven exploration contract areas in Indonesia, and also has plans to explore seven of its eleven producing blocks. The Company has identified over 200 leads and prospects in its operated Indonesia producing, development and exploration blocks. The Company has budgeted for and plans to drill 47 exploration wells, including 32 wildcat wells and 15 delineation wells in Indonesia in 2006 through 2008. The Company's exploration program will primarily target drilling relatively lower-risk prospects in existing producing blocks near existing fields as well as delineation drilling around known discoveries in exploration blocks. For example, 25 of its 32 wildcat wells will be within producing blocks, near existing fields, and 8 of its 15 delineation wells are within exploration blocks targeting appraisals of known discoveries. Key areas of this strategy include:

- 12 and 7 wildcat wells targeting near-field oil and gas prospects in the producing Extension/Kampar and Rimau blocks, respectively, which, if successful, could be commercialized relatively quickly; and
- 6 wildcat wells and 6 delineation wells on existing discoveries in the exploration blocks of Nunukan, Madura, Simenggaris, Merangin, all of which are targeted for future development blocks.

The following table summarizes the Company's drilling plans for exploration wells (in gross wells) by block in the years 2006, 2007 and 2008:

Block	2006		2007		2008		Total	
	Wildcat	Delineation	Wildcat	Delineation	Wildcat	Delineation	Wildcat	Delineation
<b>Producing — Operated</b>								
Rimau .....	1	—	3	1	3	2	7	3
Extension/Kampar .....	6	1	2	1	4	—	12	2
Langsa .....	—	—	—	—	—	—	—	—
Kalimantan .....	—	—	—	—	—	—	—	—
Tarakan .....	—	—	—	1	—	—	—	1
Sembakung .....	—	—	—	—	—	—	—	—
<b>Producing — Non-Operated</b>								
Kakap .....	1	—	—	—	—	—	1	—
Brantas .....	2	1	—	—	—	—	2	1
Tuban .....	3	2	—	—	—	—	3	2
Subtotal .....	13	4	5	3	7	2	25	9
<b>Development</b>								
Senoro-Toili .....	—	—	—	—	—	—	—	—
Lematang .....	—	—	—	—	—	—	—	—
<b>Exploration</b>								
Merangin .....	1	1	—	1	1	—	2	2
Simenggaris .....	2	1	—	2	—	—	2	3
Nunukan .....	—	—	1	—	1	—	2	—
Bengara .....	1	—	—	—	—	—	1	—
Madura .....	—	1	—	—	—	—	—	1
Yapen .....	—	—	—	—	—	—	—	—
Subtotal .....	4	3	1	3	2	—	7	6
<b>Planned Wells to be Drilled .....</b>								
	<u>24</u>		<u>12</u>		<u>11</u>		<u>47</u>	

In addition, the Company is also drawing up preliminary plans to explore its newly acquired Libya block by drilling 4 exploration wells from 2006 to 2008, and may further delineate the Senoro gas field once production begins in the block.

The Company's development program will primarily target drilling 276 development wells in Indonesia in 2006 through 2008. Over 253 development wells will be drilled in producing blocks where production facilities and infrastructure already exist. Key areas of development drilling include:

- 144 wells planned for Rimau's oil fields, including 6 injector wells for the Kaji-Semoga waterflood and EOR programs, as well as 138 producing wells;
- 43 primarily gas focused wells in the producing Extension block;
- producing wells in the undeveloped gas fields of Lematang (Singa) and Nunukan blocks; and
- a total of 17 development wells in the United States, consisting of seven wells, eight wells and two wells in 2006, 2007 and 2008, respectively.

The following table summarizes the Company's drilling plans for development wells (in gross wells) in Indonesia by block in the years 2006, 2007 and 2008:

<b>Block</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>
<b>Operated</b>				
Rimau				
Producers .....	61	48	29	138
Injectors .....	6	—	—	6
Total for Rimau .....	67	48	29	144
Extension/Kampar .....	16	26	1	43
Langsa .....	2	—	—	2
Kalimantan .....	4	3	3	10
Tarakan .....	2	1	—	3
Sembakung .....	4	7	4	15
Senoro-Toili .....	4	3	5	12
Lematang .....	—	—	1	1
Merangin .....	—	—	6	6
Simenggaris .....	—	—	18	18
Nunukan .....	—	3	—	3
<b>Non-Operated</b>				
Brantas .....	4	7	4	15
Tuban .....	4	—	—	4
<b>Planned Wells to be Drilled</b> .....	<b>107</b>	<b>98</b>	<b>71</b>	<b>276</b>

## Sales and Distribution

### Crude Oil

The Company sells its net crude entitlement through a competitive tender process, subject to market conditions, and enters into short-term sales contracts with the winning bidder. Crude entitlement not sold pursuant to a sales contract can readily be sold in the spot market, albeit without the modest premium afforded by a sales contract.

The Company currently sells substantially all of its oil at prices based on the ICP-SLC, subject to adjustment depending on the quality of the crude oil. The cost recovery portion of net crude entitlement is also calculated based upon ICP-SLC prices. The ICP-SLC is the monthly average of the mean of three publications of independent oil traders and marketers in the Asia-Pacific region published twice a week by APPI, published daily by RIM, and published by Platts, in the following proportions: 20% APPI, 40% RIM and 40% Platts. The ICP-SLC is published by Pertamina every month. The Company's sales of oil from the Tuban block are based on the ICP-Arjuna, a similar indicator published monthly. See "Factors Affecting the Guarantor's Financial Condition and Results of Operations — Net Oil and Gas Sales".

Currently, a majority of the Company's net crude entitlement is exported to Itochu and the remainder is supplied to Pertamina's domestic refinery. On November 4, 2004, the Company launched a competitive tender process for 100% of the Company's net crude entitlement from Kaji-Semoga fields of Rimau PSC and from the South Sumatra Extension area. The bid was won by Itochu, which bid a premium of US\$2.69/Bbls above the ICP-SLC. On February 21, 2005, the Company entered into the crude oil sale and purchase agreement with Itochu which was initially for a term of one year effective from January 1 to December 31, 2005. On June 1, 2005, the effective dates of this agreement were amended to be from January 1, 2005 to December 31, 2006. Under the sale and purchase agreement, the Company has provided Itochu with 30 day payment terms. However, at the request of the Company, Itochu shall agree to arrange a shorter payment term for the crude oil which has already been loaded, at an interest rate of LIBOR plus 0.5% per annum, and, if required by the Company, Itochu will arrange advance payment before the loading of the crude oil of up to US\$2.0 million. For 2005, the agreed price was US\$2.69/Bbls above the ICP-SLC, F.O.B. FSO Laksmiati, Indonesia. For 2006, the agreed price is US\$2.37/Bbls above the ICP-SLC, F.O.B. FSO Laksmiati, Indonesia.

## Natural Gas

The Company sells its gas production under a number of long-term gas contractual arrangements. These arrangements are usually in the form of GSPAs, GSuAs, where Pertamina as the purchaser serves as an agent and on sells the gas to other customers, or binding HOAs. These agreements are signed directly with the customer, which previously consisted of either PLN or Pertamina, but more recently also include the Indonesian gas distribution company PGN, a Malaysian petrochemical company, and a Singapore-based gas utility. The Company also occasionally enters into non-binding MOU with potential customers prior to negotiating and entering into either an HOA or GSPA.

The Company typically enters into GSPAs and HOAs at the holding company level for each contract area, committing to specified total and daily gas sales volumes from the block or its specified fields. Under the agreements, these volumes are typically measured and priced in British Thermal Units (“BTU”). Twelve of the Company’s 13 agreements from its operated blocks have minimum take-or-pay (“TOP”) customer offtake volume requirements for 70% to 85% of contracted volumes. Of its operated-block GSPAs and HOAs, over 73% of 2005 contracted gas sales volumes are covered under TOP provisions. Gas prices under the Company’s agreements typically are either fixed or escalated at contracted rate. However, the Kakap PSC GSPA, which exports gas to Singapore, has its gas pricing indexed to a premium of the Singaporean-traded high sulfur fuel oil price. The terms for these agreements vary in periods of three to 20 years, with most averaging approximately ten years.

The following table summarizes the key terms and arrangements of the Company’s current material GSAs, binding HOAs and non-binding MOUs for its Indonesian operated blocks:

Block	Counterparty	Offtaker Industry	Agreement	Term	Pricing (US\$/ MMBTU)	Index	Signing Date	Gross	Take-or-
<b>South Sumatra</b>									
Rimau .....	PLN	Kaji MUBA Power Plant	GSPA	Oct 2003- Oct 2013	1.15	Indexed to Power tariff	Jul 19, 2003	11.0 BBTUD	—
Extension/Kampar...	Pertamina	LPG	GSPA	May 2004- May 2009	\$313/ton	N.A.	Jan 16, 2004	150 ton/day	80%
<b>South and Central Sumatra</b>									
.....	1. Pertamina	Fertilizer Plant	Amendment to GSUA	Sep 2004- Dec 2007	1.40-1.55	Escalated	Dec 12, 2004	45 BBTUD	85%
.....	2. PLN	Simpang Indralaya Power Plant	Amendment to GSPA	2002-2012	2.65	Flat	Dec 12, 2004	19 BBTUD	70%
.....	3. PLN	Keramasan Power Plant	GSPA	Jan 2007- May 2013	2.65-2.70	Flat	Jan 20, 2006	24 BBTUD	85%
.....	4. Meta Epsi/PJB	Gunung Megang Power Plant	GSPA	Feb 2006- May 2013	2.30	Flat	Jan 20, 2006	14.5 BBTUD	75%
.....	5. PLN	Borang Power Plant	GSPA	Sep 2004- May 2013	2.42-2.55	Flat	Dec 30, 2003	5-8 BBTUD	70%
.....	6. PLN	Borang Power Plant	Amendment to GSPA	Jan 2006- May 2013	2.55	Flat	Dec 12, 2004	5-21 BBTUD	70%
Lematang .....	PGN	Various buyers in West Java	HOA	Jul 2008- Apr 2017	2.60	Flat	Jan 20, 2006	50 MMcf/d	85%
<b>East Java</b>									
Madura .....	PJB	Sebaya Power Plant	MOU	2006-2021	N.A.	N.A.	Jul 9, 2004	5 MMcf/d	N.A.
<b>East Kalimantan</b>									
Sanga Sanga .....	Pertamina	Tanjung Batu Power Plant	GSUA	Jul 2003- Mar 2008	2.50	Flat	Jan 21, 2004	18.3 BBTUD	70%
Tarakan .....	Pertamina	Bunyu Methanol Plant	GSUA	1997-2007	1.42	Flat	Jan 1, 1997	30 BBTUD	80%
Tarakan .....	PLN	Gunung Belah Power Plant	Amendment to GSPA	2002-2012	1.00-2.74	Step-up	Jun 10, 2005	1.2-3.5 BBTUD	70%

Note:

(1) Total contract volume for the entire block.

## Gas Related Downstream Projects

With the enactment of the Oil and Gas Law under which domestic companies other than Pertamina as well as international companies may enter into downstream businesses, the Company intends to continue to seek to enter into working alliances with other companies as gas suppliers as well as invest in or acquire power plants with close geographical proximity to the Company. The objective is to obtain



long-term contracts with power plants and industrial users as new users of its natural gas reserves located in East Kalimantan, Sumatra and Sulawesi. The Company's current investments in methanol and power plants is reflective of this strategy.

### ***Bunyu Island Methanol Plant***

Pursuant to a 20-year agreement entered into with Pertamina in April 1997, the Company began operating a methanol plant owned by Pertamina on Bunyu Island, east of Kalimantan through its subsidiary, MMB. As compensation, since May 2003 the Company has been paying Pertamina a fixed rental fee of US\$2.2 million per annum, which is subject to review every two years, while the non-fixed rental fee in U.S. dollar is determined based on evaluation of the methanol standard price by the international market. The Company entered into a ten-year contract with Pertamina which expires in 2007 to supply up to 30 MMcf/d 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 MMcf/d of gas each year supplied from the Tarakan PSC area. The methanol plant, which has a capacity of 330,000 MT per year, requires 34 MMcf/d of gas to operate at maximum capacity. The plant acquires the balance of its gas requirement from Pertamina. The plant is currently operating at approximately 60% of designed capacity and using approximately 20 MMcf/d of gas.

The methanol produced by the plant is a high quality "AA" grade methanol of 99.98% purity. Approximately 50% of the production is sold domestically while 50% is for export. The methanol produced is largely used in the manufacture of formaldehyde thermosetting resins as glue for the plywood industry, and out of the approximately 50% domestic share, approximately 70% 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.

### ***Rimau LPG Plant***

In order to commercialize additional associated gas in the Kaji-Semoga oil fields, the Company began construction of an LPG plant in 2003, which entered production in October 2004. The plant has a capacity to produce 73,000 tons per annum, and cost approximately US\$22 million to construct. Based on feed-gas volumes of approximately 20 MMcf/d of Rimau gas, the plant is designed to produce approximately 200 MT per day, 400 Bbls/d of condensate, and 12 MMcf/d of dry gas. The Company utilizes the plant to strip LPG and condensate from its Rimau produced gas, and then sells the LPG and condensates to Pertamina, under a GSA entered into in January 2004. The remaining or dry gas is sold to a nearby PLN power plant, under a long-term GSA entered into in July 2003. The Company entered into agreements with PT Medco LPG Kaji and PT Citra Panji Manunggal in September 2003 to build and operate the LPG plant. Under the agreements, both will operate the plant for a ten-year term through 2014. For the year ended December 31, 2005, the Company sold 35,335 MT of LPG from the plant. See "— Sales and Distribution".

### ***Sengkang Electricity Power Plant***

In October 2003, the Company entered into a conditional sale and purchase agreement with PT Trihasra Sarana Jaya Purnama ("Trihasra") for the purchase of Trihasra's 5% shareholding interest in PT Energi Sengkang ("Energi Sengkang"). Energi Sengkang is currently the operator of the Sengkang Electricity Power Plant located in Sengkang, South Sulawesi. Sulawesi Energy Pty Ltd ("Sulawesi Energy") is currently the holder of the remaining 95% shareholding interest in Energi Sengkang. In January 2005, the Company entered into an addendum to the conditional sale and purchase agreement. Although two of Trihasra's obligations remain outstanding, the Company paid all of the purchase price of US\$3.8 million in January 2005. As of December 31, 2005, the Company has exercised contractual control over the 5% shareholding in Energi Sengkang. The Company, however, is not yet the legal owner of the shares. The Company is currently contemplating acquiring an additional interest in Energi Sengkang from Sulawesi Energy.

The 135 MW gas-fired power plant was built on a Build-Own-Operate ("BOO") basis, and came on line in September 1997. The plant is currently the largest thermal power plant on the island of Sulawesi and, under a gas purchase agreement, natural gas is delivered via pipeline to the combined cycle gas power station which has been built approximately 30 kilometers southwest of its source gas field, the Kampung Baru field. The plant supplies electricity to the Sulawesi grid, under a long-term power

purchase agreement with PLN. Development has been in two stages: (i) two 42.5 MW open-cycle gas turbines and a 32-kilometer transmission line came on-stream in September 1997; and (ii) an additional 50 MW steam turbine was brought on-stream in September 1998.

### ***Batam Phase I 55MW and Phase II 55MW Power Plants***

On March 29, 2004, the Company through its wholly-owned subsidiary, MEM, acquired a 54.0% interest in MEB, the operator of the 55MW power plant in Batam. The other shareholders of MEB are PT PLN Batam with a 30% interest and YPK PLN with a 16% interest. On April 29, 2004, MEB entered into a Transfer of Power Purchase Agreement with Menamas and PT PLN Batam pursuant to which the rights and obligations of PT Menamas to PT PLN Batam under the Power Purchase Agreement between Menamas and PLN Batam transferred to MEB. Under the Transfer of Power Purchase Agreement, MEB is required to fund, design, establish and operate two units of Gas Turbine Genset Dual Fuel. The parties entered into an additional Agreement I of Power Purchase Agreement dated July 14, 2004 pursuant to which the parties agreed, among others, to postpone the commercial operate dates for the two units. PLN Batam will purchase the electricity from the Batam power plant for a minimum of 408,391,200 kilowatt-hour per year at the price of Rp.190 per kilowatt-hour for 12 years. The parties further agreed that the costs incurred by MEB to install the PLN Switchyard shall be repaid by PLN Batam in installments at a price of Rp.7 per kilowatt-hour for a maximum of 408,391,200 kilowatt-hour per year over 12 years. MEB commenced the commercial operations of the Batam power plant on October 29, 2004. Revenue from electric power sales represents revenue derived from the Batam power plant since the commencement of its commercial operations.

On June 22, 2005, the Company through its wholly-owned subsidiary, PT Medco Power Indonesia, entered into a cooperation agreement with PT Dalle Energy, pursuant to which the parties agreed that PT Medco Power Indonesia shall own directly a 40% interest in PT Dalle Energy Batam, which is the owner and operator of Batam Power Plant Phase II. The other major shareholders of PT Dalle Energy Batam are PT Dalle Energy with a 41% interest and PT Dalle Panaran with a 19% interest.

Under the Phase II Power Purchase Agreement, PT PLN Batam will purchase the electricity from the Batam Power Plant Phase II for a minimum of 371,421,000 kilowatt-hour per year at the price of Rp.439 per kilowatt-hour for 12 years starting from the commercial operation date. The parties further agreed that the price will be partially indexed to the changes in the US dollar/Rupiah exchange rate. PT Dalle Energy Batam will be responsible for securing and providing gas supply for the project. The project is expected to be financed through project financing from a combination of local and overseas financial institutions. PT Dalle Energy Batam is currently negotiating with PT PLN Batam to amend the Phase II Power Purchase Agreement to reschedule the commercial operation date and other terms and conditions, including increasing the capacity and efficiency by installing chiller and combined cycle plant and potential gas pass through scheme to PT PLN Batam.

### ***Tanjung Jati B Steam Power Plant***

On June 9, 2005, the consortium of the Company and Fortum Service Oy ("Fortum"), a leading Nordic energy company headquartered in Finland, and PT PLN (Persero) signed the operation and maintenance agreement for PLTU Tanjung Jati B Coal Fired Steam Power Plant, which was approved by the shareholders of PT PLN (Persero) and became effective on September 19, 2005. The mobilization fee and operating fee for this project for 23 years from the commencement of operations inclusive of 10% VAT is approximately Rp.118 billion per annum.

### **Contract Drilling Operations**

The Company provides onshore and offshore oil, gas and geothermal drilling services through its 52.4%-owned subsidiary, Apexindo, by leasing drilling rigs (accompanied by trained personnel) to companies wishing to carry out oil, gas or geothermal exploration and production. All of the contract drilling operations of the Company are conducted by Apexindo. Apexindo's shares were listed on the JSX in July 2002. The Company's clients in the drilling business include many of the major international oil and gas exploration and production companies operating in Indonesia, such as Total E&P Indonesia, Statoil, PetroChina, Pertamina, Virginia Indonesia Co., LLC ("VICO") and Chevron Geothermal Salak, Ltd. 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 maximize the utilization 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.

In September 2005, SeaDrill Ltd., an offshore drilling company controlled by John Fredriksen, bought a 32.3% stake in Apexindo for US\$44.2 million through a rights issue, which reduced the Company's stake in Apexindo to 52.4%. Proceeds from the rights issue received by Apexindo were used to repay an intercompany debt facility owed by Apexindo to the Company. The Company plans, subject to market conditions, to further reduce its interest in Apexindo by disposing of shares in, and eventually deconsolidating, Apexindo.

### ***Drilling Rigs***

The Company, through Apexindo, currently owns and operates five offshore drilling rigs, comprising four submersible swamp barge rigs and one jack-up rig, as well as 9 onshore drilling rigs. Two onshore drilling rigs, Rig 3 and Rig 11, were retired at the end of 2005. The Company has ordered the construction of a second jack-up rig, to be named Soehanah, which is expected to be delivered in early 2007.

### ***Submersible Swamp Barges***

The Company's submersible rigs, Maera, Rasis, Raissa and Yani, are designed to work in water depths of up to 25 to 35 feet. 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 mobilize the rigs, they are floated on barges and towed by tugboats. Once positioned, the hulls are filled with water to sink the drill onto the sea bed. Two of the Company's submersible rigs, Raissa and Yani, were acquired in early 2003 and commenced operations in May and June 2003, respectively.

In March 2002, a gas blowout occurred on one of the Company's offshore rigs, the Maera, in Mahakam Delta in East Kalimantan. The rig, contracted to Total E&P Indonesia, was damaged due to fire caused by the blowout. The Company completed repairs on the rig and also performed some upgrading. The rig resumed operation for the same project in February 2003. The drilling rig equipment is mostly covered by insurance but loss of revenue is not. Total E&P Indonesia conducted an investigation as to the cause of the blowout and concluded that a kickback due to excess pressure buildup was the probable cause. The Company has received US\$15.2 million in compensation from the insurer to date. The total refurbishment cost for the Maera rig was US\$37.7 million.

### ***Jack-Up Rigs***

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, Raniworo, can operate in water depths of up to 350 feet. 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.

In January 2005, the Company awarded a contract to construct a new jack-up rig for US\$133.7 million, of which 20% of total construction cost have been paid by the Company. The Company is in the process of obtaining up to US\$120.0 million in financing to cover the balance of the costs of this new drilling rig, which is to be named Soehanah. Financing arrangements are expected to be completed by the end of the second quarter of 2006. Rig Soehanah is being constructed by the Singapore-based engineering group, Sembcorp Marine Ltd, through its subsidiary, PPL Shipyard Pte. Limited. The super-premium Soehanah jack-up rig will be cantilevered, with capabilities of operating in 375 feet of water depth and drilling high pressure and high temperature wells of more than 25,000 feet. It is expected to be delivered to the Company by January 2007. The Company plans to deploy the rig in the Indonesian offshore market upon commissioning.

## Utilization

The profitability of the Company's contract drilling operations depends upon maximizing the contracted out period ("utilization") of its fleet at the highest achievable dayrate. A fixed dayrate is charged while the rig is in operation, with a standby rate, generally between 75% and 90% of the dayrate, depending on the contract, 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 98% of the period during which its offshore rigs are under contract. Rental rates for the Company's drilling rigs are payable in U.S. dollars and approximately 40% of operating costs are payable in U.S. dollars. The Company's onshore and offshore drilling rig utilization for the periods indicated is shown in the following table:

	For the Year Ended December 31,	
	2004	2005
	In percentages (%)	
Onshore rigs .....	53	51
Offshore rigs .....	100	100

Contract drilling industry conditions in Indonesia, and resulting drilling rig utilization 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 utilization and dayrates, as well as land rig dayrates, improved substantially in the mid-1990s.

## Drilling Rig Contracts

Drilling contracts in Indonesia are awarded through competitive bidding. Contracts outside Indonesia are generally concluded through competitive bidding or, occasionally, 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 or building a new rig, as the case may be. Substantial outfitting, upgrading and building of rigs is generally project financed by the Company.

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 remuneration 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 remuneration if the Company does not achieve specified timetables, particularly in relation to the date the rig commences operations under the contract and for extended breakdown time.

The rate of remuneration 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 mobilization and demobilization 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.

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 remuneration for the extension period must be agreed upon before commencement of the extension or the parties may have negotiated the extension period remuneration at the time of the initial contract. The Company prefers either to negotiate provisions which require mutual agreement upon remuneration for the option term (to obtain prevailing market rates) or to establish a means of increasing remuneration for the option term to reflect cost escalation and anticipated market conditions.

On March 9, 2006, the Company entered into a 730-day drilling contract with Chevron Geothermal Salak Ltd. Pursuant to this contract, the Company will undertake geothermal drilling in the Gunung Salak region in West Java. The contract has a total value of US\$21.6 million.

Generally, the Company's offshore drilling contracts are for three-year terms and onshore drilling contracts are for terms of less than one year. However, the Company has entered into a five-year drilling contract (with an option to renew for a further three years) for rig Raissa in October 9, 2002, and a three-year drilling contract (with an option to renew for a further three years) for rig Yani in August 8, 2002, with Total E&P Indonesia, a leading oil company in Indonesia. The summary contract terms for the Company's offshore rigs are shown in the following table:

<u>Name of Offshore Rig</u>	<u>Contract Term</u>	<u>Contract Value<sup>(2)</sup></u>	<u>Name of Company</u>
Raniworo <sup>(1)</sup> . . . . .	Total of three wells	US\$15.8 million	Crescent Petroleum Inc. and Indago Oman Ltd
Raisis . . . . .	36 months (from December 2005)	US\$46.99 million	Total E&P Indonesia
Maera . . . . .	36 months (from August 2004)	US\$49.97 million	Total E&P Indonesia
Raissa . . . . .	60 months (from March 2003)	US\$93.83 million	Total E&P Indonesia
Yani. . . . .	36 months (from April 2006)	US\$53.06 million	Total E&P Indonesia

Note:

(1) Raniworo is currently in Oman, under a drilling contract with Crescent Petroleum Inc. and Indago Oman Ltd. On March 20, 2006, the Company received a contract award from Santos Sampang, operator of the Sampang block, for a 36 months offshore drilling contract valued at US\$166.7 million. The Company expects to have Raniworo in place in the Sampang block by November 2006, after approximately three months of refurbishment and mobilization in Singapore.

(2) The contract value represents the maximum amount of the contract.

### **Ethanol Project**

The Company is in the process of initiating its entry into the renewable energy sector by developing Indonesia's first multi-feedstock bio-ethanol production facility in Lampung, Sumatra. The main feedstock to be utilized is cassava-roots, with molasses as buffer-feedstock. As currently contemplated, the plant would have an installed capacity of 180 KL per day of industrial-grade ethanol (ethanol content of 96%), or up to 60,000 KL per year. Production at peak capacity would require approximately 1,200 tons of cassava-roots per day, which is expected to be supplied from the established cassava market in the Lampung region. The Company has entered into an agreement with Praj Industries to provide the technology needed for ethanol production and an agreement with Global Water Engineering to provide the technology for the plant's waste-to-energy facility.

The Company is in the process of obtaining financing for the project, the total cost for which is estimated at US\$31.1 million. Assuming financing is obtained by mid-2006, the Company estimates that the plant should begin commercial operations by the end of 2007.



## **Competition**

### ***Oil and Gas Exploration and Production***

The Company faces competition from other oil and gas companies including Pertamina, the state-owned national oil and gas company, as a consequence of the Oil and Gas Law, in all areas of its operations, including the acquisition of production sharing arrangements. The Company's competitors in Indonesia and South East Asia include international oil and gas companies, many of which are large, well-established companies with substantially greater capital resources and larger operating staffs than the Company's and many of which have been engaged in the oil and gas business for a longer period than the Company. Such companies may be able to offer more attractive terms when bidding for 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, technical or personnel resources permit. The Company's ability to acquire production sharing arrangements and to discover, develop and produce reserves in the future will depend upon its ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. However, given the importance of the oil and gas industry to the Indonesian 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 when seeking to expand its business in this sector.

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 which it believes have exploratory potential, 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 favorable position, either alone or together with a major international oil and gas company, to win further contract areas from the Government upon implementation of the 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***

Drilling contractors for onshore work in Indonesia are generally domestic operators. The Company believes that it has an advantage over its domestic competitors as a result of being the only fully-integrated local operator with both onshore and offshore capability and experience. In addition, the Company's fleet has the greatest drilling capacity among Indonesian competitors, and is the only one capable of directional drilling. 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 to operate them. 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.

Offshore drilling contractors are generally international companies working through agencies on a contract basis. Foreign drillers operating in Indonesia generally have larger fleets, more international experience and greater resources than local operators. However, because their rigs are generally not located in Indonesia and may have to be transported from greater distances, and also because their rigs tend to be more customized and may therefore be more expensive to refit for a particular project, such foreign drillers can be more expensive than local operators. In addition, foreign operators have generally less experience in operating in the diverse regional and local environments in Indonesia.

The Company expects that competition for onshore drilling rig contracts from foreign operators or domestic operators rigs imported temporarily will increase significantly. However, the Company 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.

### **Operating Hazards, Insurance 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 coverage for its oil and gas exploration and production activities includes, but is not limited to, loss of wells, blowouts and certain costs of pollution control, physical damage on certain assets, employer's liability, comprehensive general liability, automobile and worker's compensation.

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 an offshore drilling rig where it is a term of the financing for such rigs that such coverage be in place for the benefit of the lenders. The Company believes that its insurance coverage is adequate and is comparable to 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 central safety manual of detailed operating procedures is available at the operations level, with another, more specific, manual maintained by each operating subsidiary, which together govern the Company's procedures. Certain procedures must be approved by a safety officer in advance before they can be undertaken.

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 services are contracted out to international companies, the Company must be able to demonstrate that its procedures meet international standards before the contract will be awarded. In addition, the Company must comply with the contractor's safety standards during the contract period. The Company believes that its safety record has generally met or exceeded international standards over the past decade, as compiled by the International Association of Drilling Contractors. Government officials make both scheduled and random checks at the Company's operating facilities to ensure that safety procedures are being followed.

### **Employees**

The following table sets forth the number of Medco Energi's regular employees, temporary employees and total employees for the periods indicated below:

<u>As of December 31,</u>	<u>Regular Employees</u>	<u>Temporary Employees</u>	<u>Total</u>
2004 .....	65	19	84
2005 .....	68	23	91

The following table sets forth the number of the Company's regular employees, temporary employees and total employees for the periods indicated below:

<u>As of December 31,</u>	<u>Regular Employees</u>	<u>Temporary Employees</u>	<u>Total</u>
2004 .....	1,856	340	2,196
2005 .....	1,795	548	2,343

The following table sets forth the Company's regular employees and temporary employees by categories of activity as of December 31, 2005:

<u>Employees</u>	<u>Exploration and Development Activities</u>	<u>Drilling</u>	<u>Methanol</u>	<u>Power</u>	<u>Total</u>
Regular Employees .....	1,153	325	284	33	1,795
Temporary Employees .....	179	103	104	163	548
Total .....	<u>1,332</u>	<u>428</u>	<u>387</u>	<u>196</u>	<u>2,343</u>

All full-time employees of companies involved in oil and gas exploration and production are employees of such companies. However, prior to the enactment of Oil and Gas Law, the practice arose whereby such employees were also subject to the employment policies of Pertamina. For example, Pertamina approved the hiring, termination and other material decisions with respect to employees under production sharing arrangements. At this time, it appears that for the existing production sharing arrangements, BPMigas will continue this practice.

In February 2001, the Company's employees formed five location specific labor unions at the encouragement of the Company. The Company and its employees have a corporate labor agreement and its two-year term will expire on May 31, 2006. In anticipation of the expiration of this agreement, a draft corporate labor agreement has been agreed to between the Company and the Company's employees. Once signed, this new agreement will be in force from June 2006 until June 2008. As of March 31, 2005, the union has approximately 1,200 members, or 59.3% of the Company's regular workforce in the aggregate. The Company has not been subject to any material strikes or other labor disturbances that have interrupted its operations. The Company believes its relationship with its employees is good. See "Risk Factors — Risk Relating to Indonesia — Labor activism could adversely affect the Company, the Company's customers and Indonesian companies in general, which in turn could affect the Company's business".

## **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 resulting 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 limit the rate of oil and natural gas production to levels 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 in all material respects and that continued compliance with existing requirements will not have a material adverse impact on the Company. See "Risk Factors — Risks Relating to the Oil and Gas Industry — The Company's business operations may be adversely affected by current and future regulations."

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. Under the Oil and Gas Law, BPMigas has direct control over operators to ensure that they meet Government regulations. The Company is required to provide a report containing an environmental impact analysis to the Indonesian environmental agency on a bi-annual basis.

The Company is in the process of undertaking remedial activities to upgrade the environmental rating of the Sembakung TAC. While the Sembakung TAC has not received an environmental rating from the Government, because of the practices of the prior operator, the Company believes that the Sembakung TAC would receive a rating that would be lower than the “blue” ratings received by the Company’s other producing blocks. The remedial activities include the construction of a waste-water treatment facility and disposal facilities for lubricants used in the contract area. The Company estimates total remedial costs will be approximately US\$2.0 million.

### **Legal Proceedings**

From time to time, the Company may be a party to various legal proceedings.

Most recently, on November 22, 2005, Medco International Ventures Limited (“MIV”), the Company’s wholly-owned subsidiary, and Camar Resources Company Inc. (“CRC”) which holds a 70% working interest in the Bawean Block and which operates the Bawean Block, were named as co-defendants in a lawsuit filed in the Court of Queen’s Bench, Calgary, Alberta Province, Canada, by Indo-Pacific Resources (Java) Limited (“IPR”), a wholly-owned subsidiary of Fortune Oil and Gas Inc. (“Fortune”), a Canadian oil and gas contractor company which holds 30% interest of Bawean Block. The lawsuit arose in relation to IPR’s objection to the dilution of its 22.88% working interest in Bawean Block. Under an agreement between CRC and IPR, CRC is entitled to dilute IPR’s working interest in the Bawean Block as compensation for any failure by IPR to refund amounts spent by CRC to settle IPR’s obligations to the Government in relation to the Bawean Block. CRC had spent approximately US\$3.4 million to settle such obligations of IPR and consequently diluted IPR’s working interest in the Bawean Block. MIV was included as a co-defendant because MIV has supported CRC financially and technically as operator in Bawean Block.

The first trial date was on December 5, 2005. The Company’s management believes that MIV and CRC have valid defenses against IPR’s claims and is hopeful that a settlement favorable to MIV and CRC will be obtained. The Company’s management does not believe that the lawsuit against MIV will have a material adverse effect on the Company’s business, financial condition or results of operations.

The Company is not currently a party to any other pending legal proceedings that it believes will have a material adverse effect on the Company’s business, financial condition or results of operations.

### **Tax Matters**

In 2002, two of the Company’s oil and gas subsidiaries received tax assessments from the Indonesian Directorate General of Taxation for the payment of approximately US\$2.2 million of value added tax, plus related penalties and interest. Such subsidiaries have disputed the assessments and accordingly the Company has not accrued a liability for their payment.

## Subsidiaries

The following table sets forth details of the Company's material subsidiaries as of December 31, 2005.

Company <sup>(1)</sup>	Business Activity	Net Income for the Year Ended December 31, 2005	Capital Stock	Retained Earnings	Reserves as of January 1, 2006		
					(% Gross Working Interest (in MMBOE))		
					Gross Proved Reserves	Proved and Probable Reserves	Percentage of Effective Ownership
PT Medco E&P Kalimantan <sup>(2)</sup>	Oil and gas exploration and production	15,474,443	12,463,025	41,869,301	6.2	8.0	100.00
PT Medco E&P Indonesia <sup>(3)</sup>	Oil and gas exploration and production	27,851,433	12,998,320	56,273,659	49.4	90.0	100.00
Exspan Aircenda, Inc <sup>(4)</sup>	Oil and gas exploration and production	23,930,352	19,000	177,782,241	N.A.	N.A.	100.00
Exspan Airlimau, Inc <sup>(4)</sup>	Oil and gas exploration and production	23,930,352	1,000	177,800,241	N.A.	N.A.	100.00
PT Medco E&P Tuban <sup>(5)</sup>	Oil and gas exploration and production	7,580,298	29,295	4,399,448	7.4	7.4	99.99
Medco Energi (Australia) Pty., Ltd. <sup>(6)</sup>	Oil and gas exploration and production	1,704,871	306,474,072	32,275,166	15.3	23.4	100.00
MEI Euro Finance Ltd. <sup>(7)</sup>	Raise funds through issuance of debt securities	(32,587,354)	1	(100,208,914)	N.A.	N.A.	100.00
PT Apexindo Pratama Duta Tbk <sup>(8)</sup>	Contract drilling	2,901,359	117,823,045	62,518,885	N.A.	N.A.	52.38
PT Medco E&P Rimau <sup>(9)</sup>	Oil and gas exploration and production	10,747,057	13,027	10,748,921	78.0	97.5	99.99
PT Medco E&P Brantas <sup>(10)</sup>	Oil and gas exploration and production	(3,948,385)	108,861	(3,948,385)	3.7	8.9	99.99
PT Medco E&P Sembakung <sup>(11)</sup>	Oil and gas exploration and production	—	101,729	—	4.8	5.4	100.00

### Notes:

\* Proportion of ownership interest is the same as proportion of voting power held.

- (1) The subsidiaries disclosed in the table are those whose total assets are greater than or equal to 10% of the Company's shareholders' equity.
- (2) Formerly known as PT ExspanKalimantan. Party to Kalimantan TAC with Pertamina until 2009. The registered office is located at Bidakara Office Building 12th-17th Floor, Jl. Gatot Subroto Kav. 71-73, Pancoran, Jakarta 12870, Indonesia.
- (3) Formerly known as PT Exspan Nusantara. Operator of Extension/Kampar PSC with BPMigas until 2013. The registered office is located at Bidakara Office Building 12th-17th Floor, Jl. Gatot Subroto Kav. 71-73, Pancoran, Jakarta 12870, Indonesia.
- (4) As of October 27, 2005, the working interest for the Rimau PSC has been transferred to PT Medco E & P Rimau. The registered office is located at Bidakara Office Building 12th-17th Floor, Jl. Gatot Subroto Kav. 71-73, Pancoran, Jakarta 12870, Indonesia.
- (5) Formerly known as PT Exspan Tuban. Party to Tuban PSC-JOB with Pertamina until 2018. The registered office is located at Bidakara Office Building 12th-17th Floor, Jl. Gatot Subroto Kav. 71-73, Pancoran, Jakarta 12870, Indonesia.
- (6) Holding company of Novus Petroleum Limited which is a holding company for Novus companies. The registered office is located at Level 20, Tower 2, Darling Park Tower, 201 Sussex Street, Sydney, New South Wales, 2000, Australia.
- (7) The registered office is located at c/o Citco (Mauritius) Limited, Cathedral Square, Port Louis, Mauritius.
- (8) Onshore and offshore drilling operations and related services for companies involved in the oil and gas industry. The registered office is located at Medco Building 2nd Floor, Jl. Ampera Raya no. 20, Jakarta 12560, Indonesia. In June 2002, Apexindo completed an initial public offering of its shares and listing on the JSX, resulting in the sale of 11.46% of such shares to the public, the balance remaining owned by Medco Energi and other shareholders. In October 2005, SeaDrill Ltd., an offshore drilling company controlled by John Fredriksen, bought a 32.3% stake in Apexindo for US\$44.2 million through a rights issue, which reduced the Company's stake in Apexindo to 52.4%. Proceeds from the rights issue received by Apexindo were used to repay an intercompany debt facility owed by Apexindo to the Company. The Company plans, subject to market conditions, to further reduce its interest in Apexindo by disposing of shares in, and eventually deconsolidating, Apexindo.
- (9) Working interest holder for the Rimau PSC with BPMigas until 2023. The registered office is located at Bidakara Office Building 12th-17th Floor, Jl. Gatot Subroto Kav. 71-73, Pancoran, Jakarta 12870, Indonesia.



- (10) The interest holder at Brantas PSC. The registered office is located at Bidakara Office Building, 12-17th Floor, Jl Gatot Subroto Kav 71-73, Pancoran, Jakarta 12870, Indonesia.
- (11) Assignee of working interest of PES in Sembakung until 2013. The registered office is located at Menara Ravindo Building, 10th Floor, Jl. Kebon Sirih No. 75, Jakarta 10340.

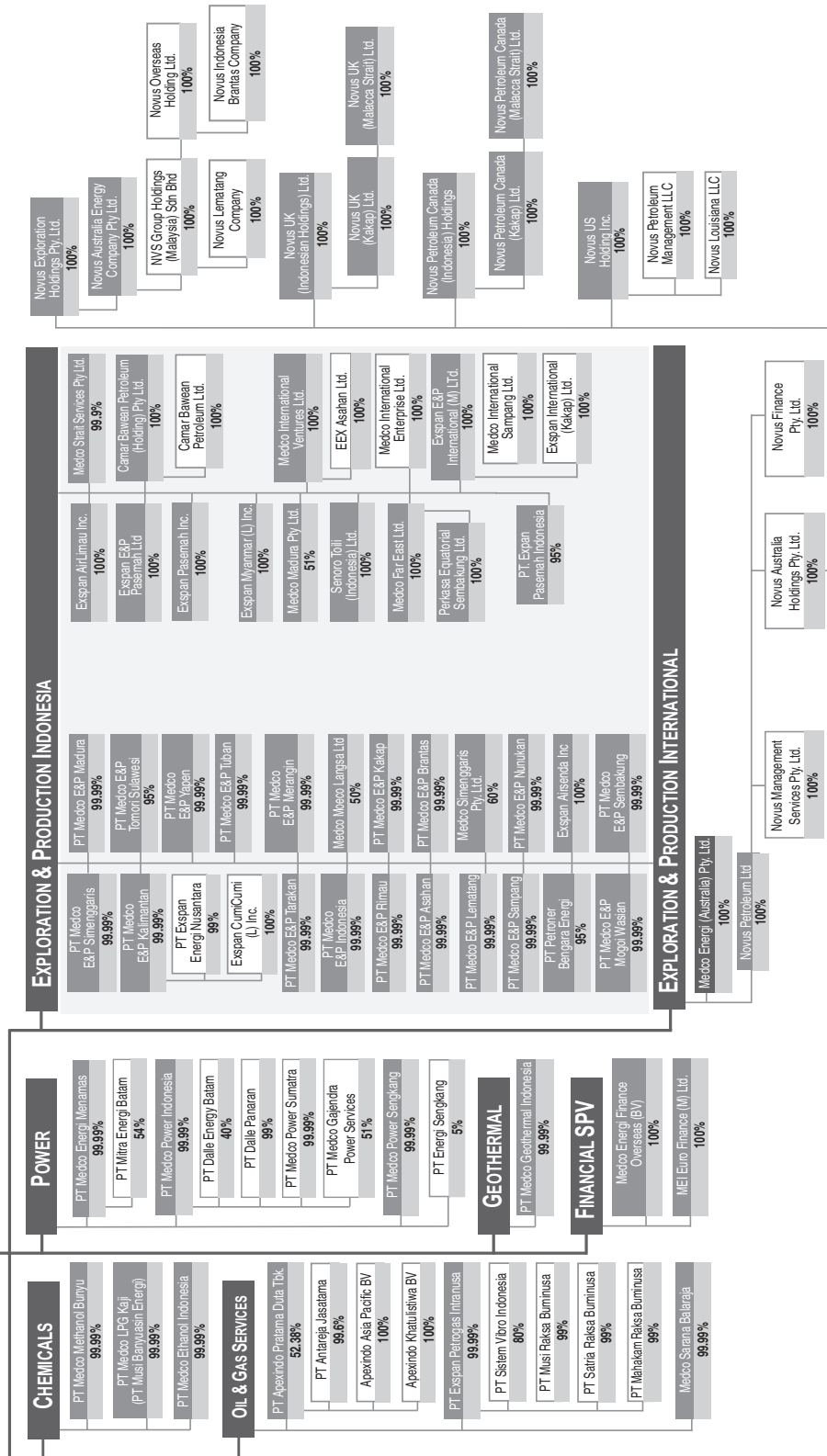
For a description of transactions with the Company's subsidiaries or investees, see "Related Party Transactions".

The following chart sets forth the Company's group structure as of December 31, 2005.

**PT Medco Energi Internasional Tbk**

**Struktur Perseroan**

Corporate Structure



## THE ISSUER

### General

The Issuer, Medco CB Finance B.V., was incorporated under the laws of The Netherlands on April 28, 2006. The registered office of the Issuer is Rokin 55, 1012 KK Amsterdam, The Netherlands. The Issuer has been registered with the trade register of the Chamber of Commerce in Amsterdam under registration number 34247442. As at the date of this Offering Circular, the authorized share capital of the Issuer consist of EUR 90,000 divided into 900 ordinary shares of EUR 100 each. The issued share capital consist of EUR 18,000 divided into 180 ordinary shares of EUR 100 each. All of the issued shares are fully paid up.

The Issuer is a private company with limited liability and is a wholly-owned subsidiary of the Guarantor. The Issuer will notify the Dutch Central Bank (*De Nederlandsche Bank N.V.*, "DCB") of its activities as an exempted credit institution under the Dutch Act on the Supervision of the Credit System 1992 (*Wet toezicht kredietwezen 1992*).

The Issuer may be appointed by DCB as a reporter, pursuant to the Regulation of 4 February 2003, issued by DCB, implementing reporting instructions under the Act on Financial Foreign Relations 1994 (*Wet financiële dienstbetrekkingen buitenland 1994*), and if so appointed, the Issuer has to file reports with DCB for the benefit of the composition of the balance of payments for The Netherlands by DCB.

The principal objects of the Issuer are set out in Article 3 of its Articles of Association and are, *inter alia*, to issue the Bonds, to enter into an agency agreement, a trust deed and a subscription agreement in connection with the issue of the Bonds and the other transaction documents to which it is or will be a party, and to undertake activities pursuant to or that are not inconsistent with the documents and transactions referred to in this Offering Circular to which it is or will be a party.

### Management

Vreewijk Management B.V. is the managing director L of the Issuer. Vreewijk Management B.V. was incorporated under the laws of The Netherlands on July 10, 2002. The registered office of Vreewijk Management B.V. is Kingsfordweg 151 (1043 GR) Amsterdam, The Netherlands. Vreewijk Management B.V. has been registered with the trade register of the Chamber of Commerce in Amsterdam under registration number 09129526.

Mr. D. Cyril Noerhadi is the managing director S/R of the Issuer. He is currently a member of the Board of Directors of Medco Energi and is also Medco Energi's Chief Financial Officer. He graduated with an Engineering Degree in Geology from the Bandung Institute of Technology in 1985 and received an MBA degree, major in finance and economics, from the University of Houston, United States, in 1988. Previously held the positions of Executive Director of PT (Persero) Danareksa and Director of PT Danareksa Finance (March 1991-January 1993), President of the Indonesian Securities Clearing Depository (January 1993-May 1996), President of the Jakarta Stock Exchange (April 1996-April 1999) and Corporate Finance Partner in the financial advisory services group of PricewaterhouseCoopers (June 1999 to September 2005).

As at the date of this Offering Circular, Vreewijk Management B.V. and Mr. D. Cyril Noerhadi do not have any interest or short position in the shares or debentures of the Issuer.

### Share Ownership

The following table sets forth certain information of the Issuer, as at the date of this Offering Circular, with respect to the shares held by each person or entity who or which held more than 5 per cent. of the issued shares of the Issuer.

<u>Shareholder</u>	<u>Place of Incorporation</u>	<u>Number of Ordinary Shares Held in the Capital of the Issuer</u>	
		<u>Direct</u>	<u>%</u>
PT Medco Energi Internasional Tbk .....	Indonesia	180	100

### Material Contracts

The Issuer has not engaged, since its incorporation, and will not engage in any material activities other than those relating or incidental to the issue of the Bonds.

### Material Litigation

There are no litigation or arbitration proceedings or claims, material in the context of the Bonds, pending or, to the Issuer's or Guarantor's knowledge, threatened against the Issuer.

### Capitalization of the Issuer

Except as described below, there has been no material change in the capitalization and indebtedness of the Issuer since its incorporation.

The following table sets forth the Issuer's total capitalization as at April 28, 2006 and as adjusted to give effect to the issue of the Bonds:

	<u>As at April 28, 2006</u>	<u>As at April 28, 2006</u>
	<u>Actual</u>	<u>As Adjusted</u>
	U.S. dollars	
Long-term debt (the Bonds now being offered).....	—	176,900,000
Shareholders' equity .....	<u>22,657</u>	<u>2,525,601</u>
Total capitalization .....	<u>22,657</u>	<u>179,425,601</u>

## MANAGEMENT OF THE GUARANTOR

### Commissioners, Directors and Advisors

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 Company's Articles of Association and by the decisions of the Company's shareholders in a general meeting. Under the Articles of Association, 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 five members. The Board of Directors is currently composed of three members. Commissioners and Directors are elected for a term of office of five years, which may be extended, 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. The Company also has three advisors, each of whom advises the Board of Commissioners and Board of Directors concerning the latest development within the oil and gas industry.

None of the Commissioners, Directors and Advisors of the Company have any convictions in relation to fraudulent offenses, were associated with any bankruptcies, receiverships or liquidations while acting in the capacity of such positions, had any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies), or were disqualified by a court from acting as a member of the Board of Commissioners or the Board of Directors of the Company or from acting in the management or conduct of the affairs of the Company during the prior five year period.

Information regarding the Commissioners, Directors and Advisors of the Company is set forth below. The business address of all Commissioners, Directors and Advisors of the Company is the address of Medco Energi's registered and principal executive office at 16th Floor, Graha Niaga, Jl. Jend. Sudirman Kav. 58, Jakarta 12190, Indonesia.

#### ***Board of Commissioners***

<u>Name</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Date of Expiration of Term</u>
Mr. Arifin Siregar . . . . .	President, Independent Commissioner	5 May 2006	2008
Mr. Sudono N.S . . . . .	Independent Commissioner	April 29, 2003	2008
Mr. Gustiawan Deru . . . . .	Independent Commissioner	February 8, 2001 April 29, 2003	2008
Ms. Yani Yuhani Rodyat* . . . .	Commissioner	June 1998	2008
Ms. Retno Dewi Z. Arifin . . . .	Commissioner	April 29, 2003	2008

\* Ms. Yani Yuhani Rodyat, Medco Energi's Commissioner, Mr. Hilmi Panigoro, Medco Energi's President Director and Chief Executive Officer, and Mr. Arifin Panigoro, Medco Energi's Advisor, are siblings.

*Mr. Arifin Siregar.* Joined the Company in 2006. Graduated with a Bachelor of Arts degree from the Nederlandsche Economische Hogeschool, The Netherlands, in 1956. Received a Masters Degree in Economics in 1956 and a Received a Ph.D in Economics (Magna Cum Laude) in 1960 from Munster University, Germany. Mr. Siregar has held many positions with international organizations and with the Indonesian Government, including Economics Affairs Officer, United Nations Bureau of General Economic Research and Policies (June 1960 to July 1965), as economist, resident representative in Laos and alternate governor for the International Monetary Fund (July 1965 to March 1983), Managing Director and Governor of Bank Indonesia (September 1971 to March 1993), Alternate Governor of the



Islamic Development Bank (April 1983 to March 1988), Governor for Indonesia of the International Bank for Reconstruction and Development (March 1983 to March 1988), Minister of Trade for Indonesia (March 1988 to March 1993), and Indonesian Ambassador to the United States, St. Vincent and the Grenadines, St. Lucia and the Commonwealth of Dominica (September 1993 to November 1997). Since 1998 to the present, he has served in many capacities in the private sector, including International Advisor to Goldman Sachs (Asia Pacific) LLC and as a Member of the Board of Commissioners of PT Cabot Indonesia and of PT Austindo Nusantara Jaya. Currently the Company's President and an Independent Commissioner.

*Mr. Sudono N.S.* Joined the Company in 1992. Graduated in Mining Engineering, Bandung Institute of Technology in 1960. Has 40 years of experience in the oil and gas industry and previously held several managerial positions in petroleum engineering, projects and logistics in PT Stanvac Indonesia and Huffco Indonesia (now VICO), President Director of Medco E&P Indonesia (2001-2002). Currently Independent Commissioner of Medco Energi and Commissioner of Medco E&P Indonesia.

*Mr. Gustiawan Deru.* Joined the Company as a Commissioner in 2000. Graduated in Civil Engineering, Universitas Katolik Parahyangan 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. Previously a Director of Peregrine, Hong Kong (1994-1996), a Director of ING Barings, Hong Kong (1996-1998) and a Director of Credit Suisse First Boston, Hong Kong (1998-2002). Currently Partner of Matlin Patterson Global Opportunities Fund I & II and Independent Commissioner of Medco Energi.

*Ms. Yani Yuhani Rodyat.* Joined the Company in 1994. Graduated in Electrical Engineering, Bandung Institute of Technology in 1975 and received a Master's Degree in Management from the Bandung Graduate School of Management in 1997. Previously the President Director at PT Ega Kineta (1989-1994) and President Director at PT Sarana Jabar Ventura (1994-2001). Currently Commissioner of Medco Energi and director and commissioner at various of the Company's subsidiaries, and Lecturer at Indonesia University since 2000.

*Ms. Retno Dewi Z. Arifin.* Joined the Company in 1990. Graduated in Architectural Engineering, Bandung Institute of Technology in 1972. Previously held several managerial positions in architectural and civil consulting, Commissioner of Medco Energi (1990-1995), Director of PT Trikonsdaya Cipta Tanna (1994-1996), Commissioner of PT Kreasi Megah Cipta Sarana (2000-Present). Currently Commissioner of Medco Energi.

### **Board of Directors**

<u>Name</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Date of Expiration of Term</u>
Mr. Hilmi Panigoro* . . . . .	President Director/Chief Executive Officer	June 1998 April 29, 2003	2008
Mr. Rashid I. Mangunkusumo . .	Director, Chief Growth Officer	June 25, 2001 April 29, 2003	2008
Mr. Darmoyo Doyoatmojo . . . . .	Director, Chief Planning Officer	March 10, 2005	2008
Mr. D. Cyril Noerhadi . . . . .	Director, Chief Financial Officer	November 24, 2005	2008

\* Ms. Yani Yuhani Rodyat, Medco Energi's Commissioner, Mr. Hilmi Panigoro, Medco Energi's President Director and Chief Executive Officer, and Mr. Arifin Panigoro, Medco Energi's Advisor, are siblings.

*Mr. Hilmi Panigoro.* Joined the Company in 1997. Graduated in Geological Engineering, Bandung Institute of Technology in 1981, attended the MBA Core Program at Thunderbird University, United States in 1984 and received a MSc degree in Science from Colorado School of Mines, United States in 1988. Held various key positions at Huffco Indonesia (now VICO) for 14 years since 1982 until becoming Vice President of VICO (1996-1997). Currently President Director and Chief Executive Officer of Medco Energi since 2001, Chief Executive Officer of Medco Holding since 1998, and Commissioner of several of Medco Energi's subsidiaries since 1998.

*Mr. Rashid I. Mangunkusumo.* Joined the Company in 1995. Graduated in Engineering, Delft Institute of Technology in 1960 and received a B.Sc degree in Petroleum Engineering from Oklahoma

University, United States in 1963 and a Master's degree in Engineering from Oklahoma University in 1965. Previously held the position of President Director of Medco E&P Indonesia (1996-2001). Currently Director and Chief Operating Officer of Medco Energi since 2001.

*Mr. Darmoyo Doyoatmojo.* Joined the Company in 1997. Graduated in Electrical Engineering, Bandung Institute of Technology in 1975, received an MBA degree and an MSc degree from the University of Southern California, United States, in 1990 and 1991, respectively. Previously held the position of President Director of Medco E&P Indonesia and Directors in other Medco E&P Indonesia subsidiaries (2003-March 2005). Currently Director and Chief Planning Officer of Medco Energi since March 2005, Commissioners of Medco E&P Indonesia subsidiaries since April 2004 and Apexindo since December 2004.

*Mr. D. Cyril Noerhadi.* Joined the Company in November 2005. Graduated with an Engineering Degree in Geology from the Bandung Institute of Technology in 1985 and received an MBA degree, major in finance and economics, from the University of Houston, United States, in 1988. Previously held the positions of Executive Director of PT (Persero) Danareksa and Director of PT Danareksa Finance (March 1991-January 1993), President of the Indonesian Securities Clearing Depository (January 1993-May 1996), President of the Jakarta Stock Exchange (April 1996-April 1999) and Corporate Finance Partner in the financial advisory services group of PricewaterhouseCoopers (June 1999 to September 2005).

### **Advisors**

<u>Name</u>	<u>Position</u>	<u>Date of Appointment</u>	<u>Date of Expiration of Term</u>
Mr. Ismail Saleh .....	Advisors	1993	—
Mr. Arifin Panigoro* .....	Advisors	1998	—
Mr. Subroto .....	Advisors	1997	—

\* Ms. Yani Yuhani Rodyat, Medco Energi's Commissioner, and Mr. Hilmi Panigoro, Medco Energi's President Director and Chief Executive Officer, and Mr. Arifin Panigoro, Medco Energi's Advisor, are siblings.

*Mr. Ismail Saleh.* Joined the Company 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. Chairman of the Board of Advisors of Medco Energi since 1993. Previously Cabinet Secretary of Indonesia (1978-1979), Head of the Investment Co-ordinating Board (1979-1981), Attorney General of Indonesia (1981-1984) and Minister of Justice of Indonesia (1984-1993). Member of the advisory team to the President of Indonesia since 1993, with responsibility for advising on the application of Pancasila (P4), the state ideology.

*Mr. Arifin Panigoro.* Founder of the Company and involved in the drilling and oil and gas industry since 1980. Withdrew from the Company's management in 1998 and has been an Advisor to Medco Energi since.

*Mr. Subroto.* Joined the Company 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). Previously also acted as Dean of the Economics Faculty of Pancasila University and the Dean of the Economics Faculty of the University of Indonesia.

### **Compensation and Share Ownership**

The aggregate of the remuneration paid (including any contingent and deferred compensation) and benefits in kind granted to the Commissioners, Directors and Advisors in 2004 and 2005 totaled approximately US\$6.2 million and US\$5.0 million, respectively.

As of December 31, 2005, excluding the interests of Mr. Hilmi Panigoro through Encore, the Company's Commissioners, Directors and Advisors as a group hold less than 1% of the Shares. See

“Principal Shareholders of the Guarantor”. None of the Company’s Commissioners, Directors and Advisors will be selling any of their Shares in the offering in their individual capacity.

## **Board Practices**

The Company complies with corporate governance requirements applicable to public companies in Indonesia.

### ***Termination of Employment***

Commissioners and Directors are given a severance payment upon termination of employment in accordance with the Company’s severance compensation policy for Commissioners and Directors.

### ***Audit Committee***

Under the Company’s audit committee charter, the audit committee of the Company and its members are established, appointed and removed by the Commissioners and shall comprise at least three members consisting of one Independent Commissioner and two independent external parties. All audit committee members must be financially literate and at least one member shall have accounting and/or related financial management expertise. The Company’s audit committee is currently composed of four members, including two Independent Commissioners, Mr. Sudono N.S. and Mr. Gustiawan Deru, and two independent external parties, Mr. Djoko Sutardjo and Mr. Zulfikri Aboebakar. Mr. Sudono N.S. is the chairman of the Company’s audit committee.

### ***Remuneration Committee***

The Company’s remuneration committee, among other things, reviews and reports to the Commissioners on compensation and personal policies, programs and plans and proposes compensation and benefit programs for Commissioners and Directors to be approved at the shareholders’ meeting. Under the Company’s remuneration committee charter, the remuneration committee of the Company shall consist of Commissioners and may include Directors. The Company’s remuneration committee is currently composed of four members, including two Commissioners, Mr. Sudono N.S. and Ms. Yani Yuhani Rodyat, and two Directors, Mr. Rashid I. Mangunkusumo and Mr. Darmoyo Doyoatmojo. Mr. Sudono N.S. is the chairman of the Company’s remuneration committee.

## PRINCIPAL SHAREHOLDERS OF THE GUARANTOR

The authorized share capital of Medco Energi is Rp.400 billion (US\$101.2 million) comprising 4,000,000,000 shares of Rp.100 each, of which 3,332,451,450 Shares (including treasury stock) were issued and outstanding and were fully paid up, as of December 31, 2005.

The following table sets forth certain information, as of December 31, 2005, with respect to the ownership of the Shares by each person who, according to the records of Medco Energi, owned more than 1% of Medco Energi's Shares, and ownership by the public and treasury stock held by Medco Energi.

<u>Name of Shareholder</u>	<u>Number of Shares Held</u>	<u>Percentage of Total Outstanding Shares</u>
Densico Energy Resources Pte Limited <sup>(1)</sup> .....	1,113,641,792	33.42
Aman Energy Resources Pte Limited <sup>(1)</sup> .....	575,751,214	17.28
Public (including founders) .....	1,419,461,444	42.60
Treasury Stock .....	223,597,000	6.71

Note:

(1) Encore owns 100% of the shares of Densico Energy Resources Pte Limited and Aman Energy Resources Pte Limited. The business address of the Selling Shareholders is c/o 21st Floor, Graha Niaga, Jl. Jend. Sudirman Kav. 58, Jakarta 12190, Indonesia.

Encore currently owns 50.7% of the Shares through its wholly-owned subsidiaries, Densico Energy Resources Pte Limited and Aman Energy Resources Pte Limited. Encore is a corporation incorporated in the British Virgin Islands and 100% owned by Mr. Hilmi Panigoro, a member of the Panigoro family and the President Director and Chief Executive Officer of the Company. On February 17, 2005, Encore acquired 19.9% of the shares of NewLinks Energy Resources Limited owned by Cumin Limited, a special purpose vehicle incorporated in the Cayman Islands and wholly-owned by Credit Suisse First Boston ("CSFB"), and 40.0% of NewLinks Energy Resources Limited shares owned by PTTEPO, a subsidiary of PTTEP and PTT, and became the sole shareholder of New Links. On February 17, 2005, the shareholders agreement dated December 12, 2001 between Encore, Cumin, PTTEPO, New Links, CSFB, PTTEP and PT Medco Duta was terminated. New Links transferred 33.03% of the Shares to Aman Energy Resources Pte Limited on March 18, 2005, and on April 19, 2005 Aman Energy Resources Pte. Limited sold approximately 3.78% of its Shares to MLFPSI Securities Account. As of May 31, 2005, Aman Energy Resources Pte. Limited owns 29.26% of the Shares. The remaining 52.47% of New Links Shares were transferred to Densico Energy Resources Pte Limited on May 26, 2005.

Encore may from time to time dispose of additional shares in the Company, including to strategic investors in private placements or market transactions. Currently, Encore has no plans to dispose of any shares which would reduce its percentage ownership of the Shares below a level at which it can control the Company. In addition, Encore is subject to certain covenants and restrictions with respect to its shareholding in Medco Energi pursuant to financing arrangements with its lenders. See "Risk Factors — Risks Relating to the Company — The interests of Medco Energi's controlling shareholders may differ from those of the Company".

As of December 31, 2005, excluding the interests of Mr. Hilmi Panigoro through Encore, the Company's Commissioners and Directors as a group hold less than 1% of the Shares. Except as described in this Offering Circular, the Company is not aware of the beneficial ownership of its securities. There are no outstanding options, warrants or other securities convertible into or exercisable for the Company's capital stock.

## RELATED PARTY TRANSACTIONS

The Company enters into transactions with certain of its subsidiaries, investees and other related parties in the ordinary course of business. All of these commercial arrangements are entered into on an arm's-length basis.

In connection with these related party transactions, it is the Company's policy to comply with Indonesian securities laws, the rules and regulations of the BAPEPAM, as well as the accounting standards regarding disclosure of information concerning related persons and companies as determined by the Indonesian Institute of Accountants. It is the Company's policy to conduct these transactions on normal commercial terms and on an arm's-length basis. Any of the Company's future transactions with persons with possible conflicts of interest will be reviewed by the Company's audit committee to consider the reasonableness of any such transaction. In addition, in order to protect the rights of minority shareholders, the rules of BAPEPAM require the Company's independent shareholders to vote to approve or disapprove any transactions, whether or not material, which entail a "conflict of interest" under BAPEPAM rules. See "Risk Factors — Risks Relating to the Bonds and the Shares — The application of BAPEPAM conflict of interest rules may cause the Company to forego transactions that are in its best interests".

The following transactions represent transactions which are construed as conflict of interest between the Company and its subsidiaries under BAPEPAM Regulation No. IX.E.1 concerning "Certain Conflict of Interest Transaction", and represent material transactions as discussed in BAPEPAM Regulation No. IX.E.2 concerning "Material Transactions and Change in Main Business Activity":

### Transactions with Related Parties

In the normal course of business, the Company and its subsidiaries entered into certain transactions with related parties. These transactions included the following:

- Placement of time deposits and current account in PT Bank Himpunan Saudara 1906.
- Engaging PT Andrawina Praja Sarana to render catering services, which according to management, were made at same prices and conditions as those with third parties. Catering services from a related party for the years ended December 31, 2005 and 2004 amounted to US\$3,403,299 and US\$3,771,232, respectively. At balance sheet date, outstanding liabilities for these services were presented as Trade Payables which constituted 1.2% and 1.4% of the total trade payables as of December 31, 2005 and 2004, respectively.
- Apexindo rents office building from PT Medco Inti Dinamika at an annual rental fee of US\$123,223 and US\$114,376 in 2005 and 2004, respectively.
- On May 1, 2003, the Company entered into a secondment agreement with PTT Exploration and Production, which ended in February 2005.

### Conflicts of Interest

The transactions below represent transactions which are construed as conflicts of interest between the Company and Subsidiaries as discussed in BAPEPAM regulation No. IX.E.1 concerning "Certain Conflict of Interest Transactions", and represent material transactions as discussed in BAPEPAM Regulation No. IX.E.2 concerning "Material Transactions and Change in Main Business Activity".

- The plan for compensation payment by AAP, a wholly owned subsidiary of Apexindo, to MEFO for its share in the construction cost of the Submersible Swamp Barge Raissa and the Yani Rig. This plan was approved by the Company's independent stockholders in their Third Extraordinary Stockholders' Meeting held on April 21, 2004 and in Apexindo's General Independent Stockholders' Meeting held on April 28, 2003.

On April 11, 2005, Apexindo has repaid its insurance claim on the Maera rig to MEFO based on a previous signed Insurance Claim Purchase Agreement involving an amount of US\$18,511,010.

- Apexindo's drilling services rendered or to be rendered to related parties are as follows:

The execution of agreement with JOB PERTAMINA — Medco Madura Pty. Limited based on contract No. K026R/JOBM/EXPL on August 26, 2002 covering the use of rig No. 2.



The execution of an agreement with PT Medco E&P Tomori Sulawesi to provide drilling services using rig No. 10.

The execution of agreements dated May 1 and 2, 2003 with PT Medco E&P Indonesia (MEPI) to provide drilling services using land rigs.

The above transactions were approved by the independent stockholders of Apexindo in their general meeting held on April 28, 2003.

- Loan Agreement between Medco Moeco Langsa Ltd. (“MML”), MEFL and Mitsui Oil Exploration Co. Ltd. (“Moeco”), whereby MEFL and Moeco agreed to provide MML with an unsecured US\$15 million revolving credit facility on a 50:50 basis. The facility which shall be available to MML from January 31, 2004 up to January 31, 2009 shall bear interest of 1% above the cost of funds of MEFL, which was 9.5% per annum as of December 31, 2005 and 2004.

On December 31, 2004, the parties have agreed to amend the loan agreement to increase the loan from US\$15 million to US\$22 million. As of December 31, 2005 and 2004, the outstanding balance of the loan (including interest) amounted to US\$7,853,052 and US\$19,435,530 respectively, and is reported under Other Receivables — Non Current.

This transaction is exempted from the requirement of obtaining the approval of majority independent stockholders by virtue of Article 3.b of BAPEPAM Regulation No. IX.E.1.

For more information, see note 34 to the Company’s consolidated financial statements as of and for the year ended December 31, 2005 included in this Offering Circular.

## TERMS AND CONDITIONS OF THE BONDS

*The following other than the words in italics is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:*

The issue of US\$176,900,000 in aggregate principal amount of zero-coupon Guaranteed Convertible Bonds due 2011 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any further Bonds issued in accordance with Condition 16 and consolidated and forming a single series therewith) of Medco CB Finance BV (the “**Issuer**”), was authorised by a resolution of the Board of Directors of the Issuer passed on May 8, 2006. The guarantee of the Bonds was authorised by resolutions of the Board of Directors and Board of Commissioners of PT Medco Energi Internasional Tbk (the “**Guarantor**”), each passed on May 8, 2006. The Bonds are constituted by a trust deed (as amended or supplemented from time to time) (the “**Trust Deed**”) to be dated on or about May 12, 2006 and made between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited as trustee for the holders of the Bonds (the “**Trustee**”, which term shall, where the context so permits, include all other persons for the time being acting as trustee or trustees under the Trust Deed). The Issuer and the Guarantor have entered into a paying, conversion and transfer agency agreement (as amended or supplemented from time to time, the “**Agency Agreement**”) to be dated on or about May 12, 2006 with the Trustee, Deutsche Bank AG, Hong Kong Branch, as principal paying, conversion and transfer agent (the “**Principal Agent**”), Deutsche Bank Luxembourg S.A., as registrar (the “**Registrar**”) and the other paying, conversion and transfer agents appointed under it (each a “**Paying Agent**”, “**Conversion Agent**”, “**Transfer Agent**” (references to which shall include the Registrar) and together with the Registrar and the Principal Agent, the “**Agents**”) relating to the Bonds. References to the “**Principal Agent**”, “**Registrar**” and “**Agents**” below are references to the principal agent, registrar and agents for the time being for the Bonds. The statements in these terms and conditions (these “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection during normal business hours at the registered office of the Trustee being at the date hereof at 55<sup>th</sup> Floor, Cheung Kong Center, 2 Queen’s Road, Central, Hong Kong and at the specified offices of each of the Agents. The Bondholders (as defined in Condition 2.2) are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. The issue date of the Bonds shall be May 12, 2006 (the “**Issue Date**”).

### 1 GUARANTEE AND STATUS

#### 1.1 Guarantee

The Guarantor has unconditionally and irrevocably guaranteed (the “**Guarantee**”) the due payment of all sums, including principal, premium and interest and of any additional amounts expressed to be payable by the Issuer under the Trust Deed and the Bonds, and the due and punctual performance of all the Issuer’s obligations under the Trust Deed and the Bonds. The obligations of the Guarantor in respect of the Guarantee are contained in the Trust Deed.

#### 1.2 Status

The Bonds and the Guarantee constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and the Guarantor, respectively, and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer and the Guarantor under the Bonds and the Guarantee, respectively shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all of their respective other present and future direct, unsubordinated, unconditional and unsecured obligations.

### 2 FORM, DENOMINATION AND TITLE

#### 2.1 Form and Denomination

The Bonds are issued in registered form in the denomination of US\$100,000 each or integral multiples thereof. A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an

identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar.

*Upon issue, the Bonds will be represented by a Global Certificate deposited with a common depository for, and representing Bonds registered in the name of a common nominee of, Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, société anonyme. The Conditions are modified by certain provisions contained in the Global Certificate.*

*Definitive Certificates in respect of the Bonds will not be issued in exchange for the Global Certificate, except in very limited circumstances.*

## **2.2 Title**

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 3. The holder of any Bond will (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 interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Terms and Conditions “**Bondholder**” and (in relation to a Bond) “**holder**” means the person in whose name a Bond is registered.

## **3 TRANSFERS OF BONDS; ISSUE OF CERTIFICATES**

### **3.1 Register**

The Issuer will cause to be kept at the specified office of the Registrar and in accordance with the terms of the Agency Agreement a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds (the “**Register**”). Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding.

### **3.2 Transfers**

Subject to Condition 3.5 and the terms of the Agency Agreement, a Bond may be transferred or exchanged by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Transfer Agents. No transfer of title to a Bond will be valid unless and until entered on the Register.

*Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

### **3.3 Delivery of New Certificates**

3.3.1 Each new Certificate to be issued upon a transfer or exchange of Bonds will, within seven Transfer Business Days of receipt by the Registrar or, as the case may be, any other relevant Transfer Agent of the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder) to the address specified in the form of transfer. The form of transfer is available at the specified office of the Transfer Agent.

*Except in the limited circumstances described herein (see “Summary of Provisions Relating to the Bonds while in Global Form”), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.*

3.3.2 Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, exchanged or converted, a new Certificate in respect of the Bonds not so transferred, exchanged or converted will, within seven Transfer Business Days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, exchanged or converted (but free of charge to the holder) to the address of such holder appearing on the Register.

3.3.3 For the purposes of these Conditions, “**Business Day**” shall mean a day other than a Saturday or Sunday on which banks are open for business in the specified place or, if no such place is specified, in London, New York City and Jakarta. “**Transfer Business Day**” shall mean a Business Day in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent, with whom a Certificate is deposited in connection with a transfer or conversion, is located.

### 3.4 Formalities Free of Charge

Registration of a transfer of Bonds will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; and (ii) the Issuer or the relevant Transfer Agent being satisfied that the regulations concerning transfer of Bonds have been complied with.

### 3.5 Closed Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the dates for redemption pursuant to Condition 8.2 and Condition 8.3; (ii) after a Conversion Notice (as defined in Condition 6.2) has been delivered with respect to a Bond; (iii) after a Put Option Notice (as defined in Condition 8.4) has been deposited in respect of such a Bond; (iv) after a Change of Control Put Exercise Notice (as defined in Condition 8.5) has been deposited in respect of such a Bond; or (v) after a Delisting Put Exercise Notice (as defined in Condition 8.6) has been deposited in respect of such a Bond, each such period being a “**Closed Period**”.

### 3.6 Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

## 4 NEGATIVE PLEDGE

### 4.1 Creation of Security

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will create or permit to subsist, and each of the Issuer and the Guarantor will procure that none of their respective Subsidiaries (as defined below) will create or permit to subsist, any Security (other than Permitted Security) to secure any International Investment Securities (as defined below) or to secure any guarantee of or indemnity in respect of any International Investment Securities, unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Trust Deed or, as the case may be, the Guarantor's obligations under the Guarantee (a) are secured equally and rateably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

### 4.2 Definitions

For the purposes of these Conditions:

4.2.1 “**International Investment Securities**” means any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities payable or optionally payable in a currency other than Rupiah or which are denominated in Rupiah and more than 50 per cent. of the aggregate principal amount of which is initially distributed outside Indonesia, which are for the time being, or are intended to be or capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or other securities market.

4.2.2 “**Permitted Security**” means:

(a) any Security over any asset securing the payment of all or part of any International Investment Securities issued to finance the exploration and development of the Senoro-Toili

Joint Operating Body project, including but not limited to, the development of LNG and other offtake facilities in connection thereto;

(b) any Security over any asset securing the payment of all or part of any International Investment Securities issued to finance the exploration and development of oil and gas projects outside Indonesia; and

(c) any Security over any asset acquired or investment made after the Issue Date and securing the payment of all or part of any International Investment Securities issued to finance the acquisition of such asset or investment (and/or any International Investment Securities issued (i) in respect of such purchase price; or (ii) to refinance International Investment Securities issued in respect of such purchase price),

provided that:

(1) the aggregate principal amount of the International Investment Securities secured by Permitted Security incurred pursuant to this Condition 4.2.2 shall not exceed 85 per cent. of: (i) in the case of (a) and (b) above, the relevant project's estimated cost as determined by the Company from time to time; or (ii) in the case of (c) above, the purchase price of such assets;

(2) such Permitted Security is limited to encumbering only the assets of Subsidiaries permitted to create Permitted Security in accordance with (a), (b) and (c) above and shall not encumber any assets of the Guarantor or any other Subsidiary;

(3) other than in relation to Subsidiaries permitted to create Permitted Security in accordance with (a), (b) and (c) above, the International Investment Securities relating to such Permitted Security shall not have any recourse to the Guarantor or any other Subsidiary.

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

4.2.4 **"Subsidiary"** or **"subsidiary"** of any person means any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. 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 or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws of the Republic of Indonesia, regulations or generally accepted accounting principles from time to time, should have its accounts consolidated with those of that person.

## 5 INTEREST

5.1 The Bonds shall bear no interest, except as provided below.

5.2 If the Issuer or, as the case may be, the Guarantor fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest will accrue (both before and after any judgment) at the rate of 8 per cent. per annum, from the due date up to but excluding the date on which payment in full of all sums due in respect of such Bonds. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year. Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

Payments of interest will be made by transfer to the registered account of the Bondholder or by United States dollar cheque drawn on a bank in New York mailed to the registered address of the Bondholder if it does not have a registered account.

## 6 CONVERSION

### 6.1 Conversion Right

6.1.1 *Conversion Period:* Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares at any time during the Conversion Period referred to below.



The right of a Bondholder to convert any Bond into Shares is called the “**Conversion Right**”. Subject to and upon compliance with the provisions of this Condition and Condition 3.5, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on and after 41 days after Issue Date up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) 30 days prior to the Maturity Date (but, except as provided in Condition 6.1.4, in no event thereafter) or if such Bond shall have been called for redemption before May 12, 2011, then up to the close of business (at the place aforesaid) on a date no later than ten Business Days (at the place aforesaid) prior to the date fixed for redemption thereof (the “**Conversion Period**”).

The number of Shares to be delivered on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted (translated into Rupiah at the fixed rate of Rp.8,750 = US\$1.00 (the “**Exchange Rate**”)) by the Conversion Price in effect at the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be delivered upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

6.1.2 *Fractions of Shares*: Fractions of Shares will not be delivered on conversion and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after the Issue Date which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash (in U.S. Dollars by means of a U.S. Dollar cheque drawn on a bank in New York) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6.1.1, as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification if such sum exceeds US\$10.00.

6.1.3 *Conversion Price and Conversion Ratio*: The price at which Shares will be delivered upon conversion, as adjusted from time to time (the “**Conversion Price**”) will initially be Rp.6,923.75 per Share but will be subject to adjustment in the manner provided in Condition 6.3. The “**Conversion Ratio**” as at any date is equal to the principal amount of the Bonds divided by the then Conversion Price in effect on such date translated into U.S. Dollars at the Exchange Rate.

6.1.4 *Revival and/or survival after Default*: Notwithstanding the provisions of Condition 6.1.1, if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date (as defined in Condition 8.1) by reason of the occurrence of any of the events referred to in Condition 10 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8.1, the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6.1.1, any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined in Condition 6.2.1(ii)) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

6.1.5 *Meaning of “Shares”*: As used in these Conditions, the expression “**Shares**” means:

(i) ordinary shares with a par value of Rp.100 each of the Guarantor (which include ordinary shares of the Guarantor listed on the Jakarta Stock Exchange) or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor; and

(ii) fully-paid and non-assessable shares of any class or classes of the share capital of the Guarantor authorised after the date of the Trust Deed which as between themselves have no

preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor;

provided that Shares to be issued upon conversion of the Bonds means only “Shares” as defined in sub-paragraph (i) above.

6.1.6 *Mandatory Cash Settlement.* To the extent that the Guarantor:

(i) does not hold sufficient Shares held as treasury stock to deliver to a converting Bondholder upon exercise of a Conversion Right; and

(ii) is unable to issue Shares which are, from the date such Shares are issued or delivered to a converting Bondholder upon exercise of a Conversion Right, freely transferable in Indonesia across, and listed and admitted for trading on, the Jakarta Stock Exchange or an Alternative Stock Exchange,

the Issuer shall pay to the relevant Bondholder an amount of cash in U.S. Dollars equal to the Mandatory Cash Settlement Amount (as defined below) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares). In such event, the Issuer shall provide notice of such mandatory cash settlement to the relevant Bondholder with a copy to the Principal Paying Agent (a “**Mandatory Cash Settlement Notice**”) as soon as practicable but no later than the fifth Business Day following the date of delivery of the Conversion Notice (a “**Mandatory Cash Settlement Notice Date**”). The Mandatory Cash Settlement Notice must specify the number of Shares in respect of which the Issuer will make a cash payment in the manner described in this Condition. The Issuer shall pay the Cash Settlement Amount on a Payment Business Day (as defined in Condition 7.5) not less than five Trading Days but no more than 13 Trading Days following the Mandatory Cash Settlement Notice Date. If the Issuer is required pursuant to this Condition to mandatorily settle in cash Conversion Rights in respect of Bonds held by more than one Bondholder which are to be converted on the same Conversion Date, the Issuer shall make the same proportion of cash and Shares available to such converting Bondholders.

“**Mandatory Cash Settlement Amount**” means the product of (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s) to which the Conversion Notice applies, and in respect of which the Issuer is mandatorily required to settle in cash, and (ii) the arithmetic average of the volume weighted average price derived from Bloomberg of one Share for each day during the five Trading Days immediately after the Mandatory Cash Settlement Notice Date, converted into U.S. Dollars by applying the Exchange Rate.

## 6.2 Conversion Procedure

6.2.1 *Conversion Notice:*

(i) To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Conversion Agent a notice of conversion (a “**Conversion Notice**”) in duplicate in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and any amounts required to be paid by the Bondholder under Condition 6.2.2.

A converting Bondholder will be required to represent in the Conversion Notice that he is not: (a) a Major Shareholder (as defined under Indonesian capital market regulations), a director or commissioner of the Guarantor, nor a director or commissioner of an Affiliate (as defined under Indonesian capital market regulations) of a Major Shareholder; or (b) a U.S. person or located in the United States (within the meaning of Regulation S of the U.S. Securities Act of 1933, as amended).

(ii) The conversion date in respect of a Bond (the “**Conversion Date**”) must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6.1.4 above) and will be deemed to be the Trading Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise

of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer and the Guarantor consent in writing to such withdrawal.

**6.2.2 Stamp Duty and other expenses.:** A Bondholder delivering a Certificate in respect of a Bond for conversion must pay to the relevant Conversion Agent any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in The Netherlands or the Republic of Indonesia and, if relevant, in the place of the Alternative Stock Exchange (as defined below), by the Guarantor in respect of the transfer of Shares by the Guarantor on conversion) (the “**Taxes**”) and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be transferred) must provide the Agent with details of the relevant tax authorities to which the Agent must pay moneys received in settlement of Taxes payable pursuant to this Condition 6.2.2. The Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes including stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6.2.2.

The Guarantor shall pay all other costs and expenses arising on the delivery of Shares on conversion of the Bonds, including all brokerage fees and transaction costs in connection with the delivery of the Shares.

**6.2.3 Registration:**

(i) As soon as practicable, and in any event not later than 10 Trading Days after the Conversion Date, the Guarantor will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice has been delivered and the relevant Certificate and amounts payable by the relevant Bondholder deposited or paid as required by Conditions 6.2.1 and 6.2.2, (A) procure that the relevant number of Shares are credited to the Sub-Account (as defined below) or (if the Shares are listed on an Alternative Stock Exchange) such other relevant securities account designated in the Conversion Notice, (B) instruct its broker or custodian, to instruct the Indonesian Central Securities Depository (the “**KSEI**”) or such other depository to deliver the Shares free of payment to the relevant Sub-Account or (if the Shares are listed on an Alternative Stock Exchange) other relevant securities account of the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares, and (C) make available for collection at the specified office of the Guarantor in Indonesia or, if so required in the relevant Conversion Notice, mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of such person) the relevant notice(s) of transfer to the person or persons and at the place specified in the Conversion Notice within 10 Trading Days after the Conversion Date, together with any cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof. No share certificates will be issued to the converting Bondholder(s) for so long as Shares are deposited with the KSEI or such depository. Subject to the above, where Shares in certificated form are allotted and issued, certificates for Shares issued on conversion will be made available for collection at the specified office of the Guarantor or, if so requested in the relevant Conversion Notice, will be mailed (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) to the person and at the place specified in the Conversion Notice, within 14 Trading Days after the Conversion Date.

(ii) Notwithstanding the foregoing, if the Conversion Date in respect of a Bond falls during a period in which the register of shareholders of the Guarantor is closed generally or for the purpose of establishing entitlement to any dividend, distribution or other rights attaching to the Shares (a “**Book Closure Period**”), the delivery of Shares as set out above shall be postponed to the later of (a) ten Trading Days after the Conversion Date and (b) the first Trading Day after the expiry of such Book Closure Period. The Guarantor undertakes to ensure that the Book Closure Period is as short a period as is reasonably practicable, having regard to applicable Indonesian law.

(iii) If the Conversion Date in relation to any Bond shall be after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6.3, but before the relevant adjustment becomes effective under

the relevant Condition, the Guarantor shall procure in respect of such Bond and upon the relevant adjustment becoming effective the delivery to the converting Bondholder (subject to applicable exchange control or other laws or other regulations), of such additional number of Shares or, at the Guarantor's option, the cash equivalent amount in U.S. Dollars (calculated by multiplying such number of Shares by the arithmetic average of the relevant volume weighted average price derived from Bloomberg of one Share for each day during the five Trading Days ending on the Conversion Date, converted into U.S. Dollars by applying the Exchange Rate) as, together with the Shares delivered or to be delivered on conversion of the relevant Bond, is equal to the number of Shares which would have been required to be delivered on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and had become effective immediately after the relevant record date.

(iv) The person or persons designated in the relevant Conversion Notice will be deemed to be the holder of record of the number of Shares deliverable upon conversion with effect from the date the relevant Shares are credited into his or their Sub-Account or (if the Shares are listed on an Alternative Stock Exchange) other relevant securities account or, if the Shares are no longer deposited with the KSEI or the depository for the Alternative Stock Exchange, the date on which he is or they are registered as such in the Guarantor's shareholders' register (the "**Registration Date**"). The Shares delivered upon conversion of the Bonds will in all respects rank *pari passu* with the Shares in issue on the relevant Registration Date. Save as set out in these Conditions, a holder of Shares delivered on conversion of Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

(v) If the record date for the payment of any dividend or other distribution (other than a distribution in respect of which an adjustment has been or is to be made) in respect of the Shares to be delivered to the converting Bondholder is on or after the Conversion Date in respect of any Bond but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in Condition 6.2.3(iii) prior to the time such retroactive adjustment shall have become effective), the Guarantor will pay to the converting Bondholder in lieu of such dividend or distribution an amount in Rupiah (the "**Equivalent Amount**") equal to the amount of any such dividend or other distribution to which he would have been entitled had he on that record date been a shareholder of record of such Shares less any withholding or deductions that would have been required by law to be made from such payment and will make the relevant payment to the relevant Bondholder at the same time that it makes payment of the dividend or other distribution. The Equivalent Amount shall be paid to the Sub-Account specified in the relevant Conversion Notice.

(vi) As used in these Conditions, "**Sub-Account**" means, with respect to any Bondholder, any securities sub-account of such Bondholder's broker's or custodian's Securities Account, registered under the name of the relevant Bondholder, which sub-account is intended to receive Shares delivered pursuant to a Conversion Right and "**Securities Account**" means, with respect to a broker or a custodian, the securities account registered under the name of such broker or custodian with KSEI which details, *inter alia*, the ownership of certain securities and/or funds belonging to such broker or custodian or administered by such broker or custodian on behalf of any of its clients.

**6.2.4 Cash Settlement Option:** Notwithstanding the Conversion Right of each Bondholder in respect of each Bond, at any time when the delivery of Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a Conversion Notice, the Issuer shall have the option to pay to the relevant Bondholder an amount of cash in U.S. Dollars equal to the Cash Settlement Option Amount (as defined below) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares) (the "**Cash Settlement Option**"). In order to exercise the Cash Settlement Option, the Issuer shall provide notice of the exercise of the Cash Settlement Option (the "**Cash Settlement Option Notice**") to the relevant Bondholder as soon as practicable but no later than the fifth Business Day following the date of delivery of the Conversion Notice (the "**Cash Settlement Option Notice Date**"). The Cash Settlement Option Notice must specify the number of Shares in respect of which the Issuer will make a cash payment in the manner described in this Condition. The Issuer shall pay the Cash Settlement Option Amount on a Payment Business Day (as defined in Condition 7.5) not less than five Trading Days but no more than 13 Trading Days following the Cash Settlement Option Notice Date. If the Issuer exercises its Cash Settlement Option in respect of Bonds held by more than one



Bondholder which are to be converted on the same Conversion Date, the Issuer shall make the same proportion of cash and Shares available to such converting Bondholders.

“**Cash Settlement Option Amount**” means the product of (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s) to which the Conversion Notice applies, and in respect of which the Issuer has elected the Cash Settlement Option and (ii) the arithmetic average of the volume weighted average price derived from Bloomberg of one Share for each day during the five Trading Days immediately after the Cash Settlement Option Notice Date, converted into U.S. Dollars by applying the Exchange Rate.

### 6.3 Adjustments to Conversion Price

The Conversion Price will be subject to adjustment in certain events set out in the Trust Deed, including the following events:

**6.3.1 Consolidation, Subdivision or Reclassification:** If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification of Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

**6.3.2 Capitalisation of Profits or Reserves:** If and whenever the Guarantor shall issue any Shares credited as fully paid to the holders of the Shares (the “**Shareholders**”) by way of capitalisation of profits or reserves (including any share premium account) including Shares paid up out of distributable profits or reserves and/or share premium account issued and which would not have constituted a Capital Distribution (as defined herein) and except for Shares issued in lieu of a cash Dividend at the shareholder’s option, which shall be deemed to be a cash Dividend in accordance with Condition 6.4.6(i), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

**6.3.3 Capital Distribution:** If and whenever the Guarantor shall pay or make any Capital Distribution (as defined below) to the Shareholders (except where the Conversion Price falls to be adjusted under Condition 6.3.2 above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced; and



B is the Fair Market Value on the date of such announcement, as determined in good faith by an Independent Financial Institution (acting as an expert) of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the record date for the determination of shareholders entitled to receive such Capital Distribution.

**6.3.4 Extraordinary Cash Dividends:** If and whenever the Guarantor shall distribute a cash Dividend (excluding any Dividend or distribution that is not an Extraordinary Cash Dividend) to all holders of Shares, then (except where the Conversion Price falls to be adjusted under Condition 6.3.3 above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the record date for the determination of shareholders entitled to received such Extraordinary Cash Dividend, by the following fraction:

$$\frac{A - B}{A}$$

where:

- A = is the Current Market Price of one Share on such record date (or if such record date is not a Trading Day, on the Trading Day immediately preceding such record date); and
- B = such portion of such cash Dividend that constitutes an Extraordinary Cash Dividend applicable to one Share.

Such adjustment shall become effective on the record date for the determination of shareholders entitled to receive such Extraordinary Cash Dividend.

**6.3.5 Rights Issues of Shares or Options over Shares:** If and whenever the Guarantor shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than 95 per cent. of the Current Market Price (as defined below) per Share on the last Trading Day preceding the date of the announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

**6.3.6 Rights Issues of Other Securities:** If and whenever the Guarantor shall issue any securities (other than Shares or options, warrants or other rights to subscribe for or purchase Shares) to all or substantially all Shareholders as a class, by way of rights, or the grant to all or substantially all Shareholders as a class by way of rights, of any options, warrants or other rights to subscribe for or purchase, any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement, as determined in good faith by a Independent Financial Institution (acting as an expert), of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

**6.3.7 Issues at less than Current Market Price:** If and whenever the Guarantor shall issue (otherwise than as mentioned in Condition 6.3.5 above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, or on exercise of options to subscribe for Shares) or the issue or grant of (otherwise as mentioned in Condition 6.3.5 above) options, warrants or other rights to subscribe or purchase Shares in each case at a price per Share which is less than 95 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Guarantor of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued, or otherwise made available, assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the grant of such options, warrants or other rights.

**6.3.8 Other Issues at less than Current Market Price:** Save in the case of an issue of securities arising from a conversion or exchange or exercise of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this Condition 6.3.8, the issue wholly for cash by the Guarantor or any Subsidiary (otherwise than as mentioned in Conditions 6.3.5, 6.3.6 or 6.3.7 above) or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary) any other company, person or entity of any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Guarantor upon conversion, exchange or subscription at a consideration per Share which is less than 95 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Guarantor for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

**6.3.9 Modification of Rights of Conversion etc:** Any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6.3.8 above (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95 per cent. of the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification.

In such an event, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration (if any) receivable by the Guarantor for the Shares to be issued, or otherwise made available, on conversion or exchange or on exercise of the right of subscription attached to the securities, in each case so modified, would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and
- C is the maximum number of Shares to be issued, or otherwise made available, on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as a Independent Financial Institution (acting as an expert) considers appropriate (if at all) for any previous adjustment under this Condition 6.3.9 or Condition 6.3.8 above.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

**6.3.10 Other Offers to Shareholders:** The issue, sale or distribution by or on behalf of the Guarantor or any Subsidiary or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary) any other company, person or entity of any securities in connection with an offer by or on behalf of the Guarantor or any Subsidiary or such other company, person or entity pursuant to which offer the Shareholders generally (meaning for these purposes the holders of at least 51 per cent. of the Shares outstanding at the time such offer is made) are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Conditions 6.3.5, 6.3.6, 6.3.7 or 6.3.8 above).

In such an event, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and

B is the Fair Market Value on the date of such announcement, as determined in good faith by a Independent Financial Institution (acting as an expert), of the portion of the securities attributable to one Share less any consideration payable for the same by the Shareholders.

Such adjustment shall become effective on the date of issue of the securities.

**6.3.11 Other Events:** If the Guarantor determines that an adjustment that would result in a reduction in the Conversion Price should be made as a result of one or more events or circumstances not referred to in this Condition 6.3, the Guarantor shall at its own expense request a Independent Financial Institution (acting as an expert), to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination **PROVIDED THAT** where the circumstances giving rise to any adjustment pursuant to this Condition 6.3 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6.3 as may be advised by a Independent Financial Institution (acting as an expert), to be in their opinion appropriate to give the intended result.

#### **6.4** For the purposes of these Conditions:

**6.4.1 “Alternative Stock Exchange”** means at any time, in the case of the Shares, if they are not at that time listed and traded on the Jakarta Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

**6.4.2 “Capital Distribution”** means: any distribution by the Guarantor of evidences of its indebtedness, or shares of capital stock of the Guarantor (excluding Shares), assets (excluding any cash Dividends) or rights and warrants to subscribe for Shares or securities (other than those rights or warrants covered in Conditions 6.3.5 and 6.3.6) for any financial period whenever paid or made and however described (and for these purposes a distribution of assets includes without limitation a distribution in specie, a purchase or redemption of Shares followed by the cancellation of such Shares by the Guarantor, an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalisation of reserves).

**6.4.3 “Average Closing Price”** is the arithmetic average of the closing price per Share for each Trading Day during the Relevant Period.

**6.4.4 “closing price”** for the Shares for any Trading Day shall be the closing market price derived from the Jakarta Stock Exchange (or the equivalent quotations sheet of the Alternative Stock Exchange, as the case may be) for such Trading Day.

**6.4.5 “Current Market Price”** means, in respect of a Share at a particular time on a particular date, the average of the closing prices derived from the Jakarta Stock Exchange (or the equivalent quotations sheet of the Alternative Stock Exchange, as the case may be) for one Share (being a Share carrying full entitlement to dividend) for the 20 consecutive Trading Days ending on the Trading Day immediately preceding such date; provided that if at any time during the said 20 Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

(i) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the Fair Market Value thereof reduced by an amount equal to the amount of that dividend per Share; or

(ii) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Shares on each of the said 20 Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the

purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that dividend per Share.

and provided further that:

(i) if such closing prices are not available on each of the 20 Trading Days during the Relevant Period, then the arithmetic average of such closing prices which are available in the Relevant Period shall be used (subject to a minimum of two such closing prices); and

(ii) if only one or no such closing prices is available in the Relevant Period, then the Current Market Price shall be determined in good faith by an Independent Financial Institution (acting as an expert).

6.4.6 “**Dividend**” means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described (and for these purposes a distribution of assets includes, without limitation, an issue of Shares or other securities credited as fully or partly paid up) provided that:

(i) where a cash Dividend is announced which is to be, or may at the election of a holder or holders of Shares be, satisfied by the issue or delivery of Shares or other property or assets, then, the Dividend in question shall be treated as a cash Dividend of (a) the cash Dividend so announced or (b) the Current Market Price on the date of announcement of such Dividend, of such Shares or the Fair Market Value of other property or assets to be issued or delivered in satisfaction of such Dividend (or which would be issued if all holders of Shares elected therefor, regardless of whether any such election is made) if the Current Market Price of such Shares or the Fair Market Value of other property or assets is greater than the cash Dividend so announced;

(ii) any issue of Shares falling within Condition 6.3.2 shall be disregarded.

6.4.7 “**Extraordinary Cash Dividend**” means a cash Dividend paid or declared by the Guarantor on the Shares, where, at the effective date, the total amount of:

(i) any cash Dividends paid or declared by the Guarantor on the Shares, prior to deduction of any withholding tax attributable to that Dividend; and

(ii) all other cash Dividends paid or declared on the Shares in the 365 consecutive day period prior to the effective date (other than any dividend or portion thereof previously deemed to be an Extraordinary Cash Dividend) (the “**previous dividends**”), except that where the date of announcement for Dividends for two different fiscal years has occurred in such 365 day period, such dividends relating to the earlier fiscal year will be disregarded for the purpose of determining the previous dividend

((i) and (ii) together being the “**total current dividend**”), equals or exceeds on a per Share basis, 3.5% of the Average Closing Price during the Relevant Period. For the avoidance of doubt, all amounts in this definition are on a per Share basis.

6.4.8 “**Fair Market Value**” means, with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by a Independent Financial Institution (acting as an expert), acting as experts; provided that (i) the Fair Market Value of a cash Dividend paid or to be paid per Share shall be the amount of such cash Dividend per Share determined as at the date of announcement of such Dividend; and (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such Independent Financial Institution) the Fair Market Value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five Trading Days on the relevant market commencing on the first such Trading Day such options, warrants or other rights are publicly traded.

6.4.9 “**Independent Financial Institution**”, means an investment banking firm of international standing selected by the Guarantor and approved in writing by the Trustee.

6.4.10 “**Prevailing Price**” means with respect to any Trading Day the closing rate for the purchase of U.S. Dollars with Rupiah, expressed as the number of Rupiah per US\$1.00 on such Trading Day by a bank of international repute, selected by the Guarantor and approved in writing by the Trustee.



6.4.11 “**Relevant Period**” means the period beginning on the 30th Trading Day prior to the record date for the first Dividend or distribution aggregated in the total current Dividend, and ending on the Trading Day immediately preceding the record date for the latest dividend or distribution, which when aggregated with any intervening dividends or distributions, causes an adjustment to the Conversion Price to be required to be made pursuant to Condition 6.3.4. However, if there were no cash dividends declared during the 365 consecutive day period prior to the record date for the cash Dividend which caused the adjustment to the Conversion Price, the relevant period will be the entire period of 365 consecutive days.

6.4.12 “**Trading Day**” means a day when the Jakarta Stock Exchange or, as the case may be, an Alternative Stock Exchange is open for dealing business, provided that if no closing price is reported in respect of the relevant Shares on the Jakarta Stock Exchange or, as the case may be, the Alternative Stock Exchange for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days.

6.4.13 On any adjustment, the relevant Conversion Price, if not an integral multiple of one Rupiah, shall be rounded up to the nearest one Rupiah. No adjustment shall be made to the Conversion Price where such adjustment (rounded up if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded up, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 17 as soon as practicable after the determination thereof.

6.4.14 The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their nominal value or would require shares to be issued in any other circumstances not permitted by applicable law.

6.4.15 Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Financial Institution (acting as an expert), the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by an Independent Financial Institution (acting as an expert), to be in their opinion appropriate in order to give such intended result.

6.4.16 No adjustment shall be made to the Conversion Price where Shares or other securities (including rights, warrants or options are issued, offered, exercised, allotted, appropriated, modified or granted to or for the benefit of employees or former employees (including directors) of the Guarantor or any Subsidiary of the Guarantor pursuant to any employees' share scheme or plan (including a dividend reinvestment plan) provided that such issues do not amount to, relate to, or entitle such persons to receive, Shares in excess of 5 per cent. of the issued and paid-up Shares.

6.4.17 No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6.3.1 above or to correct an error.

6.4.18 If the Guarantor fails to select an Independent Financial Institution when required for the purposes of Condition 6.3, the Trustee may select such Independent Financial Institution. The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

6.4.19 If, at the time of computing an adjustment (the “**later adjustment**”) of the Conversion Price pursuant to any of Conditions 6.3.3, 6.3.4, 6.3.5, 6.3.6, 6.3.7, 6.3.8 and 6.3.9, the Conversion Price already incorporates an adjustment made to reflect an issue of Shares or of securities convertible into or exchangeable for Shares or of rights or warrants to subscribe for or purchase Shares or securities, to the extent that the number of Shares or securities taken into account for the purposes of calculating such adjustment exceeds the number of shares in issue at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such excess Shares shall be deemed to be outstanding for the purposes of making such computation.

6.4.20 If, in connection with a grant, issue or offer to the Shareholders of Shares or of securities convertible into or exchangeable for Shares or of rights or warrants to subscribe for or

purchase Shares or securities (“**offered securities**”), any such offered securities which are not subscribed for or purchased by the persons entitled thereto are underwritten by other persons prior to the latest date for the submission of applications for such offered securities, adjustments to the Conversion Price made in accordance to Condition 6.3 shall become effective immediately after the date underwriters agree to underwrite the same or (if later) immediately after the Guarantor fixes the said consideration for such offered securities but retroactively to immediately after the relevant record date set in respect of the grant, issue or offer of such offered securities.

If, in connection with a grant, issue or offer to the Shareholders of offered securities, any such offered securities which are not subscribed for or purchased by underwriters who have agreed to underwrite as referred to above or by the Shareholders entitled thereto (or persons to whom Shareholders have transferred such rights) who have submitted applications for such offered securities as referred to above are offered to and/or subscribed by others, no further adjustment referred to Condition 6.3 shall be made to the Conversion Price by reason of such grant, issue or offer.

## 6.5 Undertakings

6.5.1 The Guarantor has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or with the approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of Bondholders to give such approval:

(i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the Jakarta Stock Exchange and (b) if the Guarantor is unable to obtain or maintain such listing, to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights on an Alternative Stock Exchange as the Guarantor may from time to time determine and will forthwith give notice to the Bondholders in accordance with Condition 17 below of the listing or delisting of the Shares (as a class) by any of such stock exchanges;

(ii) it will pay the expenses of the transfer and delivery of, and all expenses of obtaining or maintaining the listing (if any) for, Shares arising on conversion of the Bonds;

(iii) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund (except, in each case, as permitted by law); and

(iv) it will use its best endeavours to maintain the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”).

6.5.2 In the Trust Deed, the Guarantor has represented and/or undertaken to the Trustee that:

(i) as at the Issue Date it has in aggregate 223,597,000 Shares held as treasury stock;

(ii) so long as any Bond remains outstanding and to the extent that Shares held as treasury stock as of the Issue Date have not been delivered to Bondholders upon exercise of their Conversion Rights, it will hold such Shares through PT Mandiri Sekuritas, as custodian;

(iii) so long as any Bond remains outstanding, it will not assign, sell, transfer, settle upon trust or otherwise dispose of, or grant or permit to exist any option over, any interest in the Shares held as treasury stock by it pursuant to (i) above or any document of title relating thereto or purport to do so, or permit any person to be registered as the holder of any such Shares, other than in each case in accordance with the Trust Deed; nor grant any third party any interest in or rights in respect of such Shares which are inconsistent with the Trust Deed; and

(v) it will not make any offer, issue or distribution or take any action the effect of which would be to reduce the Conversion Price below the minimum price at which the Shares held as treasury stock deliverable upon conversion of the Bonds may be resold under prevailing Indonesia laws or regulations,

provided always that the Guarantor shall not be prohibited from purchasing its Shares to the extent permitted by law.

6.5.3 The Guarantor has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

## **6.6 Notice of Change in Conversion Price**

The Issuer shall give notice to the SGX-ST, the Bondholders and the Trustee in accordance with Condition 17 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

## **7 PAYMENTS**

### **7.1 Principal and Premium**

Payment of principal and premium will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account. Payment of principal and premium will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

### **7.2 Registered Accounts**

For the purposes of this Condition, a Bondholder's registered account means the U.S. dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second Payment Business Day before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

### **7.3 Fiscal Laws**

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

### **7.4 Payment Initiation**

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a Payment Business Day, the immediately following Payment Business Day) or, in the case of a payment of principal, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

### **7.5 Payment Business Day**

In this Condition, "**Payment Business Day**" means a Business Day in New York City and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

## **8 REDEMPTION, PURCHASE AND CANCELLATION**

### **8.1 Maturity**

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 142.77 per cent. of its principal amount on May 12, 2011 (the "**Maturity Date**"). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8.2 or Condition 8.3 below (but without prejudice to Condition 10).

### **8.2 Redemption at the Option of the Issuer**

8.2.1 On or at any time after May 12, 2009 but not less than 20 days prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Trustee and the Principal Agent (which notice will be irrevocable), redeem the Bonds in whole or in part (at the Issuer's sole discretion) at their Early Redemption Amount, provided that no such redemption may be made unless the closing price of the Shares (translated into U.S. Dollars

at the Current Rate), for each of 25 consecutive Trading Days immediately prior to the date upon which notice of such redemption is published is at least 130 per cent. of the applicable Early Redemption Amount divided by the Conversion Ratio. If there shall occur an event giving rise to a change in the Conversion Price during any such 25 consecutive Trading Day period, appropriate adjustments for the relevant days approved by a Independent Financial Institution (acting as an expert) shall be made for the purpose of calculating the closing price for such days. If the closing price cannot be determined for one or more consecutive Trading Days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 25 consecutive Trading Day period. The "Current Rate" for the translation of the closing prices shall be the arithmetic average of the Prevailing Price on each day of the relevant 25 Trading Day period.

8.2.2 Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds at their Early Redemption Amount at the date fixed for such redemption.

8.2.3 If at any time the aggregate principal amount of the Bonds outstanding is ten per cent. or less of the aggregate principal amount originally issued (including any Bonds issued pursuant to Condition 16), the Issuer shall have the option to redeem such outstanding Bonds in whole but not in part at their Early Redemption Amount. The Issuer will give at least 30 days' but not more than 60 days' prior notice to the holders for such redemption.

### 8.3 Redemption for Taxation Reasons

8.3.1 At any time the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Trustee and the Principal Agent (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at their Early Redemption Amount, if:

(i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer or, if the Guarantee were called, the Guarantor has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of The Netherlands or the Republic of Indonesia (or any political subdivision or any authority thereof or therein having power to tax), or any change in the position regarding the application, administration or any new or different interpretation of such laws, treaties, regulations or rulings, which change, amendment, application or interpretation becomes effective on or after the Issue Date, PROVIDED that where any such additional amounts due in accordance with Condition 9 are in consequence of laws and treaties of the Republic of Indonesia, this Condition 8.3 shall only have effect to permit the Bonds to be redeemed in the event that the rate of withholding or deduction required by such law or treaty is in excess of 20% ("**Minimum Withholding Level**"), and

(ii) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided 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, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Bonds or the Guarantee, as the case may be, then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee:

(a) a certificate signed by two directors of the Issuer or the Guarantor, as the case may be, stating that the obligation referred to in (i) above cannot be avoided by the Issuer or the Guarantor, as the case may be (taking reasonable measures available to it), and

(b) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and, if applicable, that the Minimum Withholding Level has been exceeded,

and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders.

8.3.2 Upon the expiry of any such notice (such date, the "**Tax Redemption Date**"), the Issuer will be bound to redeem the Bonds at their Early Redemption Amount.

8.3.3 If the Issuer gives a notice of redemption pursuant to Condition 8.3.1, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal or premium to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by The Netherlands or the Republic of Indonesia (or any political subdivision or any authority thereof or therein having power to tax). For the avoidance of doubt, any additional amounts which had been payable in respect of the Bonds as a result of the laws or regulations of The Netherlands or the Republic of Indonesia (or any political subdivision or any authority thereof or therein having power to tax) prior to the Closing Date, will continue to be payable to such Bondholders. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying Agent together with the Certificate evidencing the Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

#### **8.4 Redemption at the Option of the Bondholders**

The Issuer will, at the option of the holder of any Bond, redeem all or some of that holder's Bonds on May 12, 2009 (the "**Put Option Date**"), at 123.82 per cent. of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice, in the forms for the time being current, obtainable during normal business hours from the specified office of any Paying Agent (the "**Put Option Notice**") together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 20 days prior to the Put Option Date.

A Put Option Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of a Put Option Notice delivered as aforesaid on the Put Option Date.

#### **8.5 Redemption for Change of Control**

8.5.1 Following the occurrence of a Change of Control (as defined below), the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem in whole but not in part such holder's Bonds on the Change of Control Put Date at their Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable during normal business hours from the specified office of any Paying Agent ("**Change of Control Put Exercise Notice**") together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 17. The "**Change of Control Put Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

8.5.2 A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

8.5.3 The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred.

8.5.4 Not later than seven days after becoming aware of a Change of Control, the Issuer shall procure that notice regarding the Change of Control shall be delivered to Bondholders (in accordance with Condition 17) and the SGX-ST stating:

- (i) the Change of Control Put Date;
- (ii) the date of such Change of Control and, briefly, the events causing such Change of Control;
- (iii) the date by which the Change of Control Put Exercise Notice must be given;
- (iv) the redemption amount and the method by which such amount will be paid;



- (v) the names and addresses of all Paying Agents;
- (vi) a brief summary of the Conversion Right and the then current Conversion Price;
- (vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Change of Control Put Right or Conversion Right; and
- (viii) that a Change of Control Put Exercise Notice, once validly given, may not be withdrawn.

## 8.6 Delisting Put Right

8.6.1 In the event the Shares are not listed or admitted to trading on the Jakarta Stock Exchange, and are not listed on an Alternative Stock Exchange or, if applicable, cease to be listed or admitted to trading on an Alternative Stock Exchange (a “**Delisting**”) each Bondholder shall have the right (the “**Delisting Put Right**”), at such Bondholder’s option, to require the Issuer to redeem all (but not less than all) of such Bondholder’s Bonds on the 20th Business Day after notice has been given to Bondholders regarding the Delisting referred to under Condition 8.6.2 below or, if such notice is not given, the 20th Business Day after the Delisting (the “**Delisting Put Date**”) at their Early Redemption Amount (the “**Delisting Put Price**”).

8.6.2 Promptly after becoming aware of a Delisting, the Issuer shall procure that notice regarding the Delisting Put Right shall be given to Bondholders, the Principal Paying Agent and the Trustee (in accordance with Condition 17) and the SGX-ST stating:

- (i) the Delisting Put Date;
- (ii) the date of such Delisting and, briefly, the events causing such Delisting;
- (iii) the date by which the Purchase Notice (as defined below) must be given;
- (iv) the Delisting Put Price and the method by which such amount will be paid;
- (v) the names and addresses of all Paying Agents;
- (vi) a briefly summary of the Conversion Right and the then current Conversion Price;
- (vii) the procedures that Bondholders must follow and the requirements that Bondholders must satisfy in order to exercise the Delisting Put Right or Conversion Right; and
- (viii) that a Purchase Notice, once validly given, may not be withdrawn.

8.6.3 To exercise its rights to require the Issuer to redeem its Bonds, the Bondholder must deliver a written irrevocable notice of the exercise of such right (a “**Delisting Put Exercise Notice**”), in the then current form obtainable during normal business hours from the specified office of any Agent, to any Paying Agent on any Business Day prior to the close of business at the location of such Paying Agent on such day and which day is not less than 10 Business Days prior to the Delisting Put Date.

8.6.4 A Delisting Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of the Delisting Notices delivered as aforesaid on the Delisting Put Date.

8.6.5 The Trustee shall not be required to take any steps to ascertain whether a Delisting or any event which could lead to the occurrence of a Delisting has occurred.

## 8.7 Yield Step Up

8.7.1 Notwithstanding anything herein provided, in the event that the rating of MEI Euro Finance Limited’s 8.75% Guaranteed Notes due 2010, unconditionally and irrevocably guaranteed by the Guarantor (the “**High Yield Notes**”) falls below B+ (in the case of the rating issued by Standard and Poor’s Ratings Group) or B2 (in the case of the rating issued by Moody’s Investor Service, Inc.) (a “**HY Rating Downgrade**”), the redemption prices to be paid to Bondholders set

forth in each of Condition 8.1 and Condition 8.4 and any Early Redemption Amount shall be increased so as to reflect an aggregate redemption price as follows:

- (i) from the Issue Date up to but excluding the date of the HY Rating Downgrade, a gross yield per annum of 7.25 per cent, and
- (ii) from the date of the HY Rating Downgrade up to and including the date of redemption, a gross yield per annum of 7.75 per cent.

8.7.2 If after the Issue Date no High Yield Notes are outstanding by reason of any early redemption or maturity thereof, the Guarantor will use reasonable efforts to procure that either Standard and Poor's Ratings Group or Moody's Investor Service, Inc shall issue a rating for the Bonds within 60 days of such event occurring, provided that (a) a HY Rating Downgrade has not previously occurred, and (b) any Bonds are still outstanding. In the event that:

- (i) a rating for the Bonds is not issued within 60 days;
- (ii) the rating for the Bonds falls below B+ (in the case of the rating issued by Standard and Poor's Ratings Group) or B2 (in the case of the rating issued by Moody's Investor Service, Inc.) (a "**CB Rating Downgrade**"), the redemption prices to be paid to Bondholders set forth in each of Condition 8.1 and Condition 8.4 and any Early Redemption Amount shall be increased so as to reflect an aggregate redemption price as follows:

- (a) from the Issue Date up to but excluding the date of the CB Rating Downgrade, a gross yield per annum of 7.25 per cent, and

- (b) from the date of the CB Rating Downgrade up to and including the date of redemption, a gross yield per annum of 7.75 per cent.

8.7.3 For the avoidance of doubt, Conditions 8.7.1 and 8.7.2 shall only be invoked once. After an adjustment to the redemption prices of the Bonds set forth above following a HY Rating Downgrade or a CB Rating Downgrade, as applicable, no further adjustments shall be made to the redemption prices of the Bonds, regardless of any subsequent upgrade or downgrade in the credit ratings of any debt securities of the Guarantor.

## 8.8 Redemption following exercise of a Put Option

Upon the exercise of any put option specified in Conditions 8.4, 8.5 or 8.6, payment of the applicable redemption amount shall be conditional upon delivery of the Bondholder's Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day (at the place where the Certificate evidencing such Bond is deposited for redemption) together with the delivery of any other document(s) required by these Conditions, and will be made promptly following the later of the date set for redemption and the time of delivery of such Certificate. If the Paying Agent holds on the Put Date (as defined below) money sufficient to pay the applicable redemption moneys of Bonds for which notices have been delivered in accordance with the provisions hereof upon exercise of such right, then, whether or not such Certificate is delivered to the Paying Agent, on and after such Put Date, (i) such Bond will cease to be outstanding; (ii) such Bond will be deemed paid; and (iii) all other rights of the Bondholder shall terminate (other than the right to receive the applicable redemption moneys upon delivery of such certificate). "**Put Date**" shall mean the Change of Control Put Date, the Put Option Date or the Delisting Put Date, as applicable.

## 8.9 Purchases

The Issuer, the Guarantor or any of their respective Subsidiaries may at any time and from time to time purchase Bonds at any price in the open market or otherwise. Bonds purchased by the Guarantor or any of its Subsidiaries or by any Subsidiary of the Issuer at its option, may be held, resold or cancelled. Bonds purchased by the Issuer shall not be reissued or resold and shall be cancelled upon purchase. The Bonds so acquired, while held on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries, shall not entitle the holders thereof to exercise any voting rights with respect to such Bonds.

## 8.10 Cancellation

All Bonds which are redeemed or converted by the Issuer, the Guarantor or any of their respective Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

## 8.11 Redemption Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition will be given in accordance with Condition 17, and specify the Conversion Price as at the date of the relevant notice, the closing price of the Shares (as quoted on the Jakarta Stock Exchange as at the latest practicable date prior to the publication of the notice, the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

## 8.12 Definitions

For the purposes of this Condition 8:

(i) “**control**” means the acquisition of more than 50 per cent. of the voting rights of the issued share capital of the Guarantor or the right to appoint and/or remove all or the majority of the members of the Guarantor’s Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

(ii) a “**Change of Control**” occurs when:

(a) any person or persons (other than Hilmi Panigoro, Densico Energy Resources Pte Limited, Aman Energy Resources Pte Limited or Encore Int’l Limited or any of their affiliates), acting together, acquires control of the Guarantor; or

(b) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Guarantor or the successor entity; or

(c) Hilmi Panigoro ceases to be the single largest holder, whether directly or indirectly (including, without limitation, through Densico Energy Resources Pte Ltd, Aman Energy Resources Pte Ltd or Encore Int’l Limited), of voting rights of the issued share capital of the Guarantor;

(iii) a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Issuer’s Board of Directors or any other governing board and does not include the Issuer’s wholly-owned direct or indirect subsidiaries;

(iv) “**voting rights**” means the right generally to vote at a general meeting of shareholders of a company (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency); and

(v) “**Early Redemption Amount**” of a Bond, for each US\$100,000 principal amount of the Bonds, is determined so that it represents for the Bondholder a gross yield of 7.25 per cent., on a semi-annual basis. The applicable Early Redemption Amount for each US\$100,000 principal amount of Bonds is calculated on a semi-annual basis in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (*provided* that if the date fixed for redemption is the Semi-Annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-Annual Date):

$$\text{Early Redemption Amount} = \text{Previous Redemption Amount} \times (1 + r/2)^{d/p}$$

**Previous Redemption Amount** = the Early Redemption Amount for each US\$100,000 principal amount on the Semi-Annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to November 12, 2006, US\$100,000)

<u>Semi-Annual Date</u>	<u>Early Redemption Amount</u>
November 12, 2006 .....	103,625.00
May 12, 2007 .....	107,381.41
November 12, 2007 .....	111,273.98
May 12, 2008 .....	115,307.66
November 12, 2008 .....	119,487.57
May 12, 2009 .....	123,818.99
November 12, 2009 .....	128,307.43
May 12, 2010 .....	132,958.57
November 12, 2010 .....	137,778.32

$r = 7.25$  per cent., expressed as a fraction.

$d$  = number of days from and including the immediately preceding Semi-Annual Date (or if the Bonds are to be redeemed on or before November 12, 2006, from and including the Closing Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

$p = 180$

## 9 TAXATION

9.1 All payments of principal, premium or interest made by the Issuer or, as the case may be, the Guarantor will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or the Republic of Indonesia (or any political subdivision or any authority thereof or therein having power to tax), unless deduction or withholding of such taxes, duties, assessments or governmental charges is required by law. In such event, the Issuer or the Guarantor, as the case may be, will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bond:

9.1.1 to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with The Netherlands or the Republic of Indonesia, as the case may be, otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond or where the withholding or deduction could be avoided by the holder making a declaration of non-residence or other similar claim for exemption to the appropriate authority which such holder is legally capable and competent of making but fails to do so; or

9.1.2 (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or

9.1.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

9.1.4 presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Payment Agent or Conversion Agent in a Member State of the European Union.

**9.2** For the purposes hereof, “**relevant date**” means the date on which such payment first becomes due except that if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

**9.3** References in these Conditions to principal and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **10 EVENTS OF DEFAULT**

**10.1** If any of the following events (each an “**Event of Default**”) occurs, the Trustee at its discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or been provided with security by the Bondholders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at their Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if any of the following events has occurred:

10.1.1 a default is made in the payment of any principal due in respect of the Bonds and such default is not rectified within a period of 5 Business Days from such default;

10.1.2 the Issuer or the Guarantor does not perform or comply with one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 20 days after written notice of such default shall have been given to the Issuer or the Guarantor, as the case may be, by the Trustee;

10.1.3 the Issuer, the Guarantor or any of its Material Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend, payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of its Material Subsidiaries;

10.1.4 (i) any other present or future indebtedness of the Issuer, the Guarantor or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual default, event of default (howsoever described), or (ii) any such indebtedness is not paid when due, following any applicable grace period, or (iii) the Issuer, the Guarantor or any of its Subsidiaries fails to pay when due, following any applicable grace period, any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph have occurred or is continuing equals or exceeds US\$10.0 million or its equivalent (as reasonably determined on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any bank of international repute selected by the Trustee on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantee or indemnity);

10.1.5 a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer, the Guarantor or any of its Material Subsidiaries, which is material to the Issuer, the Guarantor and any of its Material Subsidiaries as a whole, and is not discharged or stayed within 30 days;

10.1.6 an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer, the Guarantor or any of its Material Subsidiaries, or the Issuer, the Guarantor or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed



by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Bondholders;

10.1.7 an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the property, assets or revenues of the Issuer, the Guarantor or any of its Material Subsidiaries (as the case may be) and is not discharged within 30 days;

10.1.8 it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed;

10.1.9 the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of its Material Subsidiaries, which is material to the Issuer, the Guarantor and its Material Subsidiaries taken as a whole;

10.1.10 the entire share capital of the Issuer ceases to be wholly owned, directly or indirectly, by the Guarantor;

10.1.11 the Guarantee of the Bonds is not (or is claimed by the Guarantor not to be) in full force or effect; or

10.1.12 any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

For the purposes of this Condition 10.1, “**Material Subsidiary**” means any Subsidiary of the Guarantor from time to time whose (i) gross revenues, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 5 per cent. of the consolidated gross revenues of the Guarantor as show in the latest audited consolidated accounts of the Guarantor, (ii) pre-tax profits, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 5 per cent. of the consolidated pre-tax profits of the Guarantor as show in the latest audited consolidated accounts of the Guarantor; or (iii) gross assets, as shown by the latest audited accounts (consolidated in the case of a company which itself has subsidiaries) of such Subsidiary, are at least 5 per cent. of the consolidated gross assets of the Guarantor as show in the latest audited consolidated accounts of the Guarantor.

## 11 CONSOLIDATION, AMALGAMATION OR MERGER

Each of the Issuer and the Guarantor will not consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a “**Merger**”), unless:

(i) the corporation formed by such Merger or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed, all obligations of the Issuer or the Guarantor under the Trust Deed and the performance of every covenant and agreement applicable to it contained therein;

(ii) immediately after giving effect to any such Merger, no Event of Default shall have occurred or be continuing or would result therefrom; and

(iii) the corporation formed by such Merger, or the person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such Merger with respect to the payment of principal, premium and interest on the Bonds.

## 12 PRESCRIPTION

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years from the relevant date (as defined in Condition 9) in respect thereof.

## **13 ENFORCEMENT**

At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer or the Guarantor as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or been provided with security to its satisfaction. No Bondholder will be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

## **14 MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

### **14.1 Meetings**

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the due date for any payment in respect of the Bonds, (ii) to change the currency of payment of the Bonds, (iii) to modify or cancel the Conversion Rights or the put options specified in Condition 8, (iv) to modify or cancel the Guarantee or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than  $66\frac{2}{3}$  per cent., or at any adjourned such meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

### **14.2 Modification and Waiver**

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 14.1 above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter.

### **14.3 Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds. In such event, the Issuer shall give notice to Bondholders in accordance with Condition 17 and, so long as the Bonds are listed on the SGX-ST, shall inform the SGX-ST and prepare a supplemental offering circular.

### **14.4 Interests of Bondholders**

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation, waiver or substitution) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee, any indemnification or payment in

respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

#### **14.5 Certificates/Reports**

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in absence of manifest error, be conclusive and binding on all parties) notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Issuer or the Guarantor, as the case may be, in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof.

#### **15 REPLACEMENT OF CERTIFICATES**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and such Agent may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

#### **16 FURTHER ISSUES**

The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the Bonds. Such further bonds may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed.

#### **17 NOTICES**

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*) and, so long as the Bonds are listed on the SGX-ST and the rules of that Exchange so require, published in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*). Such notices shall be deemed to have been given on the later of the date of such publications. Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed, as the case may be.

#### **18 AGENTS**

The names of the initial Agents and the Registrar and their specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) a Principal Agent, (ii) a Registrar, (iii) an Agent having a specified office in a major financial centre in Europe and (iv) a Paying Agent and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax 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 comprising with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Bondholders in accordance with Condition 17 and in any event not less than 45 days' notice will be given.

#### **19 INDEMNIFICATION**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer or the Guarantor without accounting for any profit.

Any certificate or report of any expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein and shall, in absence of manifest error, be conclusive and binding on all parties notwithstanding that such certificate or report and/or engagement letter or other document entered into by the Trustee and/or the Issuer or the Guarantor, as the case may be, in connection therewith contains a monetary or other limit on the liability of the relevant expert or person in respect thereof and the Trustee shall not be responsible for any loss occasioned by acting on any such certificate or report. The Trustee shall be obliged to accept and entitled to rely on any report of accountants, financial advisers or Independent Financial Institution where the Issuer or the Guarantor procures the delivery of the same pursuant to its obligations to do so under the Conditions and such report shall be binding on the Issuer, the Trustee and the holders in the absence of manifest or proven error.

## **20 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Bond under the Contracts (Rights of Third Parties) Act 1999.

## **21 GOVERNING LAW**

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds, each of the Issuer and the Guarantor will in the Trust Deed irrevocably submitted to the courts of England and in relation thereto has appointed Law Debenture Corporate Services Limited, now at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent for service of process in England.

## **SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM**

*The Global Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:*

### **Exchange**

The Global Certificate is exchangeable in whole but not in part (free of charge to the holder) for the Definitive Bonds described below (i) if the Global Certificate is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if the Issuer would suffer a material disadvantage in respect of the Bonds as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 9 which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two directors of the Issuer is delivered to the Trustee for display to Bondholders. Thereupon (in the case of (i) above) the holder may give notice to the Trustee, and (in the case of (ii) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Global Certificate for Definitive Bonds on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Global Certificate may surrender the Global Certificate to or to the order of the Principal Agent. In exchange for the Global Certificate the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds.

“Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

### **Payments**

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the Bonds. Condition 9.1.4 will apply to the Definitive Bonds only.

### **Notices**

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Terms and Conditions of the Bonds.

### **Prescription**

Claims against the Issuer in respect of principal, premium and interest on the Bonds while the Bonds are represented by this Global Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and 5 years (in the case of interest) from the appropriate relevant date (as defined in the Conditions).

### **Meetings**

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US\$1,000 in principal amount of Bonds for which the Global Certificate may be exchanged. The Issuer may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of holders on appropriate proof of his identity and interest.



### **Purchase and Cancellation**

Cancellation of any Bond required by the Terms and Conditions of the Bonds to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Certificate on its presentation to or to the order of the Principal Agent for notation in the appropriate schedule to the Global Certificate.

### **Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is held on behalf of a clearing system the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holder of the Global Certificate.

### **Redemption at Option of the Holder**

The Bondholders' put options in Conditions 8.4, 8.5 and 8.6 may be exercised by the holder of this Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting this Global Certificate for endorsement or exercise within the time limits specified in such Conditions.

### **Transfers**

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

### **Conversion**

Subject to the requirements of the clearing system, the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued, may be exercised by the presentation to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in the Bond. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice shall not be required. In such a case, the delivery of the Conversion Notice will constitute or be deemed to constitute confirmation by the beneficial owner of the Bonds to be converted that the information and representation in the Conversion Notice are true and accurate on the date of delivery. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

## DESCRIPTION OF CAPITAL STOCK

*The following is a summary of material rights and restrictions related to the Shares under applicable provisions of Indonesian law and the provisions of the Company's Articles of Association. This description does not purport to be complete.*

The Company's authorized capital as of December 31, 2005 is Rp.400 billion (US\$101.2 million) divided into 4,000,000,000 Shares, each with a par value of Rp.100 per Share. Prior to this offering, 3,332,451,450 Shares (including treasury stock) were fully subscribed and paid for as of the date hereof, and have been listed on JSX.

### Shares

All transfers of the Shares must be evidenced by an instrument of transfer signed by or on behalf of the transferor and by or on behalf of the transferee and such instrument shall be in the form as determined and/or acceptable to the Board of Directors. In addition, any transfer of the Shares must comply with rules and regulations applicable in the Indonesian capital markets and of the JSX. Transfers of Shares take effect only after the transfer is registered in the Company's register of shareholders (the "Register"). The transferor of any Shares will be treated as the owner of such Shares until the name of the transferee has been recorded in the Register by the Board of Directors. Under the scrippless system, KSEI will be registered as the holder of the Shares in the Register, in its capacity as the central securities depository institution that holds the Shares on behalf of KSEI participants that in turn hold the Shares on behalf of the investors ("Beneficial Shareholders").

The holders of Shares whose names are recorded in the Register ("Registered Shareholders") are entitled to pre-emptive rights in proportion to their share ownership in the event the Company issues new Shares, convertible bonds, warrants or other securities convertible into equity securities, except as provided below. For Shares deposited with KSEI, all ownership rights are automatically distributed by KSEI, through KSEI participants, to investors ultimately holding the Shares as Beneficial Shareholders (or their assignees). Such pre-emptive rights may be sold and transferred to third parties without the Company's consent to the extent permitted by the rules and regulations applicable in the Indonesian capital markets and of the JSX. If the Registered Shareholders or the Beneficial Shareholders (or their respective assignees) do not exercise their pre-emptive rights within a period of time determined by the Board of Directors (in accordance with the prevailing regulations), the Board of Directors may issue such shares, convertible bonds, warrants or other similar securities to other shareholders who wish to purchase them in excess of their entitlement. If, after allocation, there remains any pre-emptive rights that have not been exercised after the issuance of new securities, the Board of Directors may issue such Shares, convertible bonds, warrants or other securities to third parties on the same terms and conditions.

In accordance with the Company's Articles of Association, the Company may increase its capital subject to Registered Shareholders' and Beneficial Shareholders' preemptive rights. As a public company, the Company must also comply with applicable laws and regulations. For example, Rule IX.D.4 issued by BAPEPAM provides that the Company may increase its capital without providing a preemptive right to the Registered Shareholders or the Beneficial Shareholders:

- if within any three-year period, the increase in the Company's authorized share capital without pre-emptive rights attaching does not exceed 5.0% of the paid-in capital; or
- for shares issued pursuant to debt-to-equity conversions, if the main objective of the increase in the Company's authorized share capital is to improve its financial position, and the Company has defaulted or is not capable of avoiding default in payment of its liabilities with a non-affiliated provider of a loan, and the non-affiliated loan provider or creditor agrees to receive shares or convertible bonds to settle such loan.

### Shareholders' Meetings and Voting Rights

Each Share entitles the owner thereof to cast one vote in general meetings of shareholders. In the case of Shares held by KSEI, prior to the Company's taking any corporate action, KSEI must provide details to the Company concerning the share entitlements of all the Beneficial Shareholders on whose behalf Shares are held. A KSEI participant holding the Shares on behalf of a Beneficial Shareholder is obliged to notify such Beneficial Shareholder of the exercise of any pre-emptive rights, delivery of annual reports and other notices issued by the Company as well as notices of general meetings of

shareholders. Beneficial Shareholders or their legal representatives have the right to be present and vote at the Company's general meetings of shareholders. See "Indonesian Securities Markets".

The Company's annual general meeting of shareholders must be held by no later than June 30 of each year. At such annual general meeting, the board of directors must (i) submit an annual report on the Company's affairs and management and the results for the most recent financial year, as well as a business forecast for the next year; (ii) submit for approval and ratification the audited balance sheet and audited profit and loss statement for the prior financial year; (iii) submit a plan for the use of profits and the amount of dividends, if any, to be declared with respect to the prior financial year; (iv) to the extent necessary, propose for election and appointment members of the board of commissioners and the board of directors; (v) submit all other matters to be addressed in the meeting; and (vi) propose the appointment of the Company's registered public accountant. All matters described above must be made available in the Company's office for inspection by any shareholder from the day such shareholder is notified of the annual general meeting through the date of the annual general meeting. Proposals duly submitted by shareholders representing at least 20% of the Company's issued Shares must be included in the agenda of such meeting, provided that such proposals are received by the board of directors at least ten days prior to such notification and in the board of directors' opinion such proposal is directly connected to the business of the Company.

Either the board of directors or the board of commissioners may convene an extraordinary general meeting of shareholders. An extraordinary general meeting of shareholders may also be convened upon receipt of written notice requesting a meeting from one or more shareholders owning an aggregate of at least 10% of the Company's issued Shares. In the event neither the board of directors nor the board of commissioners convenes such a meeting within 30 days of receipt of such written notice, the applicable shareholders may call a meeting at the Company's expense after obtaining the approval of the District Court having jurisdiction over the Company.

At least 14 days prior to the issuance of notice of both extraordinary general meetings and annual general meetings of shareholders, an announcement must be made by placing an advertisement in at least two daily newspapers published in Indonesia, one of which must have a wide circulation in Indonesia and the other circulating in the Company's domicile, that a shareholders' meeting is to be called. Notice to the shareholders of the meeting must also be by newspaper advertisement, as described above, published at least 14 days before the date of the meeting (excluding the date of the notice and the date of the meeting).

The quorum for a general meeting of shareholders is the presence of shareholders representing more than 50% of the Company's issued Shares (either in person or by proxy) at such meeting. General meetings of shareholders where transaction such as the transfer or disposal of rights or encumbrances of all or more than 50% of the Company's total assets requires the presence of shareholders and/or authorized proxies representing at least 75% of the Company's issued Shares. General meetings where amendments to the Company's Articles of Association are to be voted on requires the presence of shareholders and/or authorized proxies representing at least 66 $\frac{2}{3}$ % of the Company's issued Shares. General meetings where a merger, consolidation or acquisition is to be voted on requires the presence of shareholders and/or authorized proxies representing at least 75% of the Company's issued Shares.

Shareholders may be represented in a general meeting of shareholders by another shareholder or by a proxy holding a power of attorney, provided that if the proxy is the Company's commissioner, director or employee then the vote of any such proxy shall not be counted. In order to be adopted, resolutions require the affirmative votes of shareholders holding more than 50% of the Shares who are either present or represented in the meeting. Resolutions for the transfer or disposal of rights or encumbrances of all or more than 50% of the Company's total assets requires the votes of at least 75% of the Shares legally cast at such meeting. Amendments to the Company's Articles of Association requires the votes of at least 66 $\frac{2}{3}$ % of the Shares legally cast at such meeting. A merger, consolidation or acquisition requires the votes of at least 75% of the Shares legally cast at such meeting.

## **Dividends**

A portion of the Company's net profits, as determined by the annual general meeting of shareholders, after deduction of corporate tax, must be used as a reserve fund and for dividends and certain other purposes.

Dividends, if any, are paid in accordance with a resolution adopted during the annual general meeting of shareholders, which resolution must establish the dividend payment amount. All Shares that are fully paid and outstanding at the time a dividend is declared are entitled to share equally in such dividend. Dividends are payable to the persons whose names are recorded in the Register. The Company's Articles of Association provide that dividends unclaimed after a period of five years will be placed in a special reserve fund. However, shareholders may still exercise their rights to collect dividends from the special reserve fund within the five-year period from the date dividends are first payable.

A reserve fund, up to an amount of 20% of the Company's issued capital, may be established to cover future losses and the amount to be placed in such reserve fund is determined during the general meeting of shareholders. Amounts in the reserve fund that exceed 20% of the Company's issued capital may be used for working capital or other purposes, subject to the approval of the Company's general meeting of shareholders. Any interest or other profit earned from such reserve fund must be entered in the Company's profit and loss account.

### **Amendments to the Articles of Association**

Amendments to the Company's Articles of Association can only be effected pursuant to a resolution at an extraordinary general meeting of shareholders attended and approved by shareholders or their proxies representing at least 66<sup>2</sup>/<sub>3</sub>% of the votes legally cast at such meeting. Any amendment that would change the Company's name, objectives and purpose, or increase or decrease the Company's authorized capital, reduce the issued and paid in capital or change the Company's status will only be effective upon approval by the Minister of Justice and Human Rights. Any other amendments will only be effective if such amendments have been reported to the Ministry of Justice and Human Rights (which report must occur at least 14 days after the resolution is passed at the general meeting) and registered at the Company register maintain at the Department of Trade. A resolution reducing the Company's authorized and issued and paid in capital must be notified to the Company's creditors and published in the State Gazette of the Republic of Indonesia and in at least two newspapers in Indonesia, one of which must have a wide circulation and the other one must be published in the domicile of the Company, within seven days after such resolution is passed. If the meeting fails to reach such quorum, then no earlier than 10 days and no later than 21 days after the date of such original extraordinary general meeting, a second meeting may be held to render a legal and binding resolution on matters that were not resolved at the first meeting. The second meeting must be attended by shareholders representing at least two-thirds of the total issued Shares and the resolution must be approved by a majority of shareholders present.

### **Liquidation**

A resolution for the Company's dissolution must be approved at a general meeting of shareholders attended by holders of at least three-quarters of the total number of Shares outstanding and approved by at least three quarter of the total votes legally cast at the meeting. In the event the Company is wound up, dissolved or declared bankrupt, subject to insolvency or for any other reason provided under the Law No. 1 (1995) on Limited Liability Company (the "Company Law"), the general meeting of shareholders must appoint a liquidator to perform the liquidation procedures. If the general meeting of shareholders fails to appoint a liquidator, the board of directors shall act as the liquidator.

The liquidators must register the resolution for the Company's dissolution in the Company Register, publish such resolution in the State Gazette and two daily newspapers published in Indonesia and notify the Company's creditors, the Minister of Justice and Human Rights, the JSX and BAPEPAM.

### **Rights of Shareholders**

In general, Indonesian law has traditionally afforded shareholders fewer rights than those available in common law jurisdictions such as the United States and the United Kingdom. The Company Law affords certain rights to shareholders, and certain additional rights to one or more shareholders collectively holding at least 10% of all voting Shares of a company ("Minority Shareholders").

A shareholder generally has the right to lodge a legal action against the Company if it has been harmed by any unfair and unreasonable action the Company has taken. In addition, each shareholder of a public listed company has the right to request the Company to repurchase the shareholder's Shares at the then prevailing market price if such shareholder has been deemed to have been harmed by certain

of the Company's actions subject to certain limitations. These actions include the amendment of the Company's Articles of Association; the sale, pledge or exchange of all or a substantial amount of the Company's assets; or the Company's merger, consolidation or acquisition. Under the Company Law, the Company may repurchase Shares, provided that such repurchase (i) may only be made out of the Company's net profits and does not cause the Company's net assets (as stated in the Company's most recent balance sheet, as approved by the shareholders within the last six months) to fall below paid-in capital and reserves; and (ii) does not cause the Company and the Company's subsidiaries to own more than 10% of the Company's outstanding Shares. To the extent that a request to repurchase Shares exceeds these limitations, the Company is required to seek a third-party purchaser for such Shares. Under Article 33 of the Company Law, Shares repurchased by the Company may not be used to cast a vote in a general meeting of shareholders, and will not be counted in determining the quorum that has to be achieved in accordance with the Company Law and the Company's Articles of Association. Such a limitation also applies to the Company's Shares that are purchased by the Company's subsidiaries.

The Company's Minority Shareholders have certain other rights, which include the right to call a general meeting of shareholders in the event that the directors or commissioners fail to convene such meeting within the stipulated time and the right to lodge a derivative action on the Company's behalf against directors or commissioners who, through error or negligence, have caused the Company losses. Under the Company Law, directors and commissioners are obliged to act in good faith, with full responsibility and in the Company's best interests when carrying out their corporate duties. The Minority Shareholders may request that the Company be examined by a court-appointed third party if there is suspicion that the Company or any of the Company's directors or commissioners has committed an act contrary to law. Minority Shareholders may also apply to a court for the Company's dissolution. However, the Company Law does not specify the circumstances for which such application may be made.



## TAXATION

### Indonesian Taxation

The following is a summary with respect to taxes imposed by 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. Further, the following summary deals principally with Indonesian tax implications relevant to prospective Bondholders that are not resident in Indonesia and have no permanent establishment in Indonesia.

The summary also represents a general guide only and should not be relied upon by individual Bondholders. It is recommended that Bondholders seek independent tax advice relevant to their facts and circumstances.

#### **General**

Generally, an individual is considered a non-resident of Indonesia if the individual is not physically present in Indonesia or is present in Indonesia for not more than 183 days in any 12-month period. An entity will be considered a non-resident of Indonesia if it is established or domiciled outside of Indonesia.

In determining the residency and tax status of an individual or entity, consideration will also be given to the provisions of any applicable double tax treaty which Indonesia has concluded with other jurisdictions. In this section, both a Non-resident individual and a Non-resident entity will be referred to as “Non-resident Taxpayers”.

Subject to the provisions of any applicable double taxation treaty, Non-resident Taxpayers that derive income sourced in Indonesia which arises from (amongst other matters):

- (i) the sale of assets situated in Indonesia;
- (ii) interest, or payments in the nature of interest, such as premiums; and
- (iii) royalties or dividends

are generally subject to a withholding tax on that income at the final rate of 20 per cent.

With regard to asset sales by Non-Resident Taxpayers without a Permanent Establishment to resident taxpayers, the 20 per cent. withholding tax is based on the estimated net income. However, there are no implementing regulations yet setting out the calculation of estimated net income, or the withholding tax mechanism, for such sale of assets, except for the sale of shares in an Indonesian non-public company by Non-resident Taxpayers. There is a separate tax treatment for the sale of shares in listed companies, which is described in “— Taxation of Disposition of Shares”.

#### **Double Tax Treaties**

Indonesia has concluded double tax treaties with over 50 countries, including Australia, Belgium, Canada, France, Germany, Japan, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America.

Where a double tax treaty exists and the eligibility requirements of that treaty are satisfied, a reduced rate of withholding tax may be applicable in the case of interest (or payments in the nature of interest such as premiums) and dividends. Some tax treaties also provide an exemption from Indonesian tax on any capital gains of non-residents arising from the sale of shares in an Indonesian entity.

To obtain the benefit of an applicable treaty, the Non-resident Taxpayer must comply with the eligibility requirements of the treaty and the specific requirements in Indonesia (see “— Taxation of Premiums”).

For example, the double tax treaty between Indonesia and the Netherlands (the “Netherlands — Indonesia Treaty”) reduces the withholding tax on payments of interest (and probably payments in the nature of interest such as premiums as discussed below), to ten per cent. This is if the persons receiving the payments (or accruals) are eligible residents of the Netherlands, and these persons deliver to the appropriate tax office, an original Certificate of Domicile (issued by the Dutch tax authorities) prior to payment (or accrual).

There is also a Circular of the Directorate General of Taxes No. SE-04/PJ.34/2005 dated 7 July 2005, indicating that the mere holding of a Certificate of Domicile by a resident taxpayer whose country has a tax treaty with Indonesia does not automatically give such taxpayer the benefit of a reduced tax rate, unless such taxpayer is the beneficial owner of the income in question. The Circular provides that the criteria of beneficial ownership are as follows:

i) The beneficial owner shall be the ultimate owner of the dividend, interest or royalty. This understanding is applicable for individual as well as corporate taxpayers.

ii) Special Purpose Vehicles in the form of a “Conduit Company”, “Paper Box Company”, “Pass-through Company”, and other similar types, shall not be considered as beneficial owners.

iii) Payments of dividend, interest or royalty income from an Indonesian source to parties, who are not considered as the beneficial owner, are subject to 20% withholding tax, applied on the gross value in accordance with Article 26 of Indonesia’s domestic income tax law.

### ***Taxation of Premiums***

Payments of principal or premiums (where treated as interest) under the Bonds by the Issuer should not be subject to withholding tax in Indonesia (i.e. as the Issuer will be a Dutch entity).

The amount of any payment by the Guarantor to the Issuer attributable to a premium could be subject to withholding tax (that is, as equivalent to interest) in Indonesia at 20% unless reduced by an applicable income tax treaty. In this regard, the term “interest” as used in the Netherlands-Indonesia Treaty means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor’s profits, and, in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest.

The 20% withholding tax is a final tax. The lower rate of withholding tax to non-residents located in a tax treaty country is also subject to satisfying the eligibility and reporting requirements for the relevant treaty (see “— Double Tax Treaties”).

In addition, under the Netherlands-Indonesia treaty which was adopted on January 1, 2004, payments (or accruals) of interest (and therefore probably premiums) may be exempted from such withholding tax on the assumption that:

- (i) the Issuer (in this case) is a beneficial owner of the interest; and
- (ii) the Loan (in this case) has a period of more than two years.

However, in June 2005, the Indonesian tax authorities issued a ruling in which they stated that the exemption from withholding tax as mentioned above cannot be implemented prior to the conclusion of a specific “mode of application” as required under Article of 11 paragraph 5 of the treaty, which has yet to be issued. The Indonesian tax authority has since taken a position that, in absence of such, payments of interest (and therefore probably premiums) to a non-resident entity (that is, the Issuer in this case) would be subject to ten per cent. withholding tax.

### ***Taxes from Capital Gains from the Disposal of Bonds***

Non-resident Taxpayers without a Permanent Establishment in Indonesia deriving capital gains from the disposal of the Bonds to Non-resident Taxpayers without a Permanent Establishment should not be subject to any Indonesian tax, as the Bonds will be issued by a Dutch entity.

### ***Withholding Tax On Dividends***

A lower rate of withholding tax shall apply to non-residents located in a tax treaty country if they satisfy the eligibility and reporting requirements referred to in the section above on double tax treaties.

### ***Taxation of Disposition of Shares***

Pursuant to Government Regulation No. 41 of 1994 regarding Withholding Tax on Income from Share Trading Transactions on the Stock Exchange dated December 23, 1994 and its amendments in Government Regulation No. 14 of 1997 dated May 29, 1997, the sale or transfer of shares that are listed

on an Indonesian stock exchange should be subject to final withholding tax of 0.1 per cent of the gross amount of the transaction value. This tax should be withheld by the broker handling the transaction.

An additional 0.5 per cent. final tax (amounting to a total tax of 0.6 per cent.) is imposed on the share value for the holding of most “founder shares” (except for the founder shares of a mutual fund). The imposition of 0.5 per cent. withholding tax will occur at the time of the initial public offering for shares traded on the stock exchange on or after January 1, 1997.

### ***Stamp Duty on Sales of Shares***

According to Government Regulation No. 24 of 2000, agreements or other documents which would be used as legal evidence in Indonesia, including, a document that effects a sale of Indonesian shares is subject to stamp duty at the current rate of Rp.6,000. Generally, the stamp duty is due at the time the document is executed. The nominal amount of the Indonesian stamp duty for any kind of securities transaction having a value greater than Rp.1,000,000 is Rp.6,000, and Rp.3,000 for a securities transaction having a value between Rp.250,000 and Rp.1,000,000.

### ***Other Indonesian Taxes***

There are no Indonesian estate, inheritance succession or gift taxes applicable to the acquisition, ownership or disposition of the Bonds or Shares by non-residents. There are no Indonesian stamp, issue, registration or similar taxes or duties payable by the Bondholders.

### **Dutch Taxation**

This is a general summary and the tax consequences as described here may not apply to a holder of Bonds. Any potential investor should consult his own tax adviser for more information about the tax consequences of acquiring, owning and disposing of Bonds in his particular circumstances.

This taxation summary solely addresses the principal Dutch tax consequences of the acquisition, the ownership and disposition of Bonds. Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. It does not consider every aspect of taxation that may be relevant to a particular holder of Bonds under special circumstances or who is subject to special treatment under applicable law.

This summary is based on the tax laws of The Netherlands as they are in force and in effect on the date of this Offering Circular. The laws upon which this summary is based are subject to change, perhaps with retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect any such change. This summary assumes that each transaction with respect to the Bonds is at arm’s length. It also assumes that the Issuer and the Guarantor are organised, and that their business will be conducted, in the manner outlined in this Offering Circular. A change to such organisational structure or to the manner in which the Issuer and/or the Guarantor conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change.

### ***Withholding Tax***

All payments of interest and principal under the Bonds may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Dividends distributed by the Issuer are generally subject to a withholding tax imposed by The Netherlands at a rate of 25%. The concept “dividends distributed by the Issuer” as used in this section Dutch Taxation includes, but is not limited to, the following:

- distributions in cash or in kind, deemed and constructive distributions and repayments of capital not recognised as paid-in for Dutch dividend withholding tax purposes;
- liquidation proceeds and proceeds of redemption of shares in excess of the average capital recognised as paid-in for Dutch dividend withholding tax purposes;

- the par value of shares issued by the Issuer to a shareholder or an increase of the par value of shares, as the case may be, to the extent that it does not appear that a contribution, recognised for Dutch dividend withholding tax purposes, has been made or will be made; and
- partial repayment of capital, recognised as paid-in for Dutch dividend withholding tax purposes, if and to the extent that there are net profits (*zuivere winst*), unless (a) the general meeting of the Issuer's shareholders has resolved in advance to make such repayment and (b) the par value of the shares concerned has been reduced by an equal amount by way of an amendment to the Issuer's articles of association.

If for the purposes of Dutch dividend withholding tax a holder of Conversion Rights must be treated on equal footing with a shareholder, the concept "dividends distributed by the Issuer" may for the purposes of that tax include any amounts attributable to Conversion Rights paid as part of the consideration for a direct or indirect purchase or a redemption of the Bonds by the Issuer (i.e. any value which can be attributed to the embedded equity option upon such purchase or redemption). Any such distribution should be construed as being made by the Issuer to the Guarantor, as its shareholder.

### ***Taxes on Income and Capital Gains***

The summary set out in this section "Taxes on Income and Capital gains" only applies to a holder of Bonds who is neither resident nor deemed to be resident in The Netherlands for purposes of Dutch income tax or corporation tax, as the case may be, and, in the case of an individual, has not elected to be treated as a resident of The Netherlands for Dutch income tax purposes (a "Non-Resident holder of Bonds").

#### *Individuals*

A Non-Resident holder of Bonds who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from Bonds, including any payment under Bonds and any gain realised on the disposal of Bonds, provided that all of the following conditions are satisfied.

1. If he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as an entrepreneur or a shareholder, which enterprise is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, as the case may be, his Bonds are not attributable to such enterprise.
2. His Bonds and benefits derived therefrom have no connection with his past, present or future employment, if any.
3. He does not derive benefits and is not deemed to derive benefits from Bonds that are taxable as benefits from miscellaneous activities in The Netherlands (*resultaat uit overige werkzaamheden in Nederland*).

Benefits derived or deemed to be derived from Bonds by a Non-Resident holder of Bonds who is an individual and who satisfies condition 1. above, including any payment thereunder and any gain realised on the disposal thereof, are taxable as benefits from miscellaneous activities in The Netherlands if he, or an individual who is a connected person in relation to him within the meaning of article 3.91, paragraph 2, letter b, or letter c, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), has a substantial interest (*aanmerkelijk belang*) in the Issuer.

A person has a substantial interest in the Issuer if such person — either alone or, in the case of an individual, together with his partner (*partner*), if any — has, directly or indirectly, either the ownership of shares representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Issuer, or rights to acquire, directly or indirectly, shares, whether or not already issued, that represent five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Issuer, or the ownership of profit participating certificates (*winstbewijzen*) that relate to five per cent. or more of the annual profit of the Issuer or to five per cent. or more of the liquidation proceeds of the Issuer.

A person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the

case may be, and such person's entitlement to such benefits is considered a share or a profit participating certificate, as the case may be.

Furthermore, a Non-Resident holder of Bonds who is an individual and who satisfies condition 1. above may, inter alia, derive benefits from Bonds that are taxable as benefits from miscellaneous activities in the following circumstances, if such activities are performed or deemed to be performed in The Netherlands:

- a. if his investment activities go beyond the activities of an active portfolio investor, for instance in case of the use of insider knowledge (*voorkennis*) or comparable forms of special knowledge; or
- b. if he makes Bonds available or is deemed to make Bonds available, legally or in fact, directly or indirectly, to certain parties as meant in articles 3.91 and 3.92 of the Dutch Income Tax Act 2001 under circumstances described there.

### *Entities*

A Non-Resident holder of Bonds other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefit derived or deemed to be derived from Bonds, including any payment under Bonds or any gain realised on the disposal of Bonds, provided that (a) if such Non-Resident holder of Bonds derives profits from an enterprise that is either managed in The Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise (other than as an entrepreneur or as a holder of securities), its Bonds are not attributable to such enterprise, and (b) such Non-Resident holder of Bonds does not have a substantial interest in the Issuer.

A person other than an individual has a substantial interest in the Issuer, (x) if it has a substantial interest in the Issuer as described above under *Individuals* or (y) if it has a deemed substantial interest in the Issuer. A deemed substantial interest may be present if its shares, profit participating certificates or rights to acquire shares or profit participating certificates in the Issuer have been acquired by such person or are deemed to have been acquired by such person on a non-recognition basis.

### *General*

Subject to the above, a Non-Resident holder of Bonds will not be subject to income taxation in The Netherlands by reason only of the execution (*ondertekening*), delivery (*overhandiging*) and/or enforcement of the documents relating to the issue of the Bonds or the performance by the Issuer or the Guarantor of its obligations thereunder or under the Bonds.

### **Gift and Inheritance Taxes**

A person who acquires Bonds as a gift, in form or in substance, or who acquires or is deemed to acquire Bonds on the death of an individual, will not be subject to Dutch gift tax or to Dutch inheritance tax, as the case may be, unless:

- (i) the donor is, or the deceased was resident or deemed to be resident in The Netherlands for purposes of gift or inheritance tax, as the case may be; or
- (ii) the Bonds are or were attributable to an enterprise or part of an enterprise that the donor or the deceased carried on through a permanent establishment or a permanent representative in The Netherlands at the time of the gift or of the death of the deceased; or
- (iii) the donor made a gift of Bonds, then became a resident or deemed resident of The Netherlands, and died as a resident or deemed resident of The Netherlands within 180 days after the date of the gift.



***Other Taxes and Duties***

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable by a holder of Bonds in The Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the documents relating to the issue of the Bonds or the performance by the Issuer or the Guarantor of its obligations thereunder or under the Bonds.

## INDONESIAN SECURITIES MARKET

The following information has been derived from publicly available information and has not been independently verified by the Issuer, the Guarantor or the Managers.

### Background and Development

In 1976, the Government established a regulatory agency, the Capital Market Executive Agency, Badan Pelaksana Pasar Modal, or BAPEPAM, and a national investment trust company, PT Danareksa Sekuritas, to reactivate and promote the development of a securities market in Indonesia. The first share issue listed on the Jakarta Stock Exchange (the "JSX") took place in August 1977. Up until the end of 1988, the shares of only 24 companies were listed on the JSX and the volume of shares traded was relatively low.

During the period from 1988 to 2000, a number of reform measures affecting the Indonesian capital markets have been announced. These have led to the privatization of the JSX and its establishment as a limited liability company incorporating 221 securities trading companies as its shareholders. The operational transfer of the exchange from BAPEPAM to the JSX commenced effectively as of April 16, 1992. BAPEPAM's principal function is now to ensure the orderly and fair operation of the securities exchanges.

The various reforms over the past few years have sought to strengthen the operational and supervisory framework of the Indonesian securities market and to improve the Indonesian securities market's trading environment. The measures also established an over-the-counter market (Bursa Paralel) and private stock exchanges outside Jakarta, the first of which, the Surabaya Stock Exchange (the "SSX"), was established in Surabaya. In July 1995, the Bursa Paralel and the SSX were merged to form a single exchange intended to focus on small and medium sized companies. A company may elect to list shares on the JSX, the SSX or both.

Other reforms were also introduced to provide increased protection for minority shareholders, to improve disclosure requirements and clarify listing procedures. As of December 31, 2005, there were 336 firms listed on the JSX, with a market capitalization of Rp.801.2 trillion, compared to 24 listed companies with a capitalization of approximately Rp.100 billion in December 1987, just prior to the introduction of the capital market reform measures.

### Overview of the JSX

As of March 31, 2006, the JSX was comprised of 124 members. For the three months ended March 31, 2006, the 20 most active members in total trading volume handled transactions for 34,986.9 million shares and approximately 80.8% of total shares traded on the JSX. The 20 most active members accounted for Rp.27.7 billion in terms of trading value, or about 78.9% of the overall value of buying and selling transactions on the JSX for the three months ended March 31, 2006.

Trading rules on the JSX are, at present, generated in the form of decisions by the JSX. There are currently two daily trading sessions for each of the regular market and the negotiated market from Monday to Thursday: a morning session from 9.30 am to 12.00 noon, followed by an afternoon session from 1.30 pm to 4.00 pm. There are two trading sessions on Friday, from 9.30 am to 11.30 am and from 2.00 pm to 4.00 pm. There is only one cash market trading session from Monday to Thursday, 9.30 am to 12.00 noon, and on Friday, 9.30 am to 11.30 am.

Trading of securities is divided into three market segments: regular market, negotiated market and cash market (rights issues may only be traded in the cash and negotiated markets). The regular market is the mechanism for trading stock in standard lots on a continuous auction market during exchange hours. Regular market and cash market trading is generally carried out in unit lots of 500 shares, except for bank shares which must trade in unit lots of 5,000. Price movements of traded securities are as follow:

- for shares with previous price less than Rp.500, in multiples of Rp.5 and each price movement should be no more than Rp.50;
- for shares with previous price between the range of Rp.500 up to less than Rp.2,000, in multiples of Rp.10 and each price movement should be no more than Rp.100;

- for shares with previous price between the range of Rp.2,000 up to less than Rp.5,000, in multiples of Rp.25 and each price movement should be no more than Rp.250; and
- for shares with previous price of Rp.5,000 or more, in multiples of Rp.50 and each price movement should be no more than Rp.500.

Auctioning takes place according to price priority and time priority. Price priority gives priority to buying orders at a higher price or selling orders at a lower price. If buying or selling orders are placed at the same price, priority is given to the buying or selling order placed first in time (i.e. time priority).

The negotiated market trading is carried out by (i) direct negotiation between members of JSX, (ii) between clients through one member of JSX, (iii) between client and a member of JSX or (iv) between a member of JSX with the KPEI. Negotiated market trading does not use round lots.

Transactions on the JSX regular market are required to be settled no later than the third trading day after the transactions, except for cross trading. Transactions on the negotiated market are settled based on agreement between the (selling) exchange member and the (buying) exchange member, and are settled per transaction. Transactions on the JSX cash market are required to be settled on the trading day of the transactions. In case of a default by an exchange member on settlement, cash market trading takes place, pursuant to which trading of securities by means of direct negotiation on cash and carry terms will be conducted. All cash market transactions must be reported to the JSX. An exchange member is obliged to pay a transaction cost as regulated by the JSX, and delay in payment of the transaction cost will be subject to a fine of 1.0% of the outstanding amount for each day of delay. If an exchange member violates JSX rules, the JSX may impose the following sanctions (i) fine up to Rp.500 million; (ii) a written warning; (iii) temporary suspension from trading activities; or (iv) revocation of license as an exchange member.

All transactions involving shares listed only on the JSX which use the services of exchange members must be conducted on the JSX. In order for a trade (except a block trade) to be made on the JSX, both the cash and securities settlement must be conducted through the facilities of the JSX. Engaging in short selling is prohibited under the applicable regulations. Furthermore, the JSX may cancel a transaction if proof exists of fraud, market manipulation or the use of insider information. The JSX may also suspend trading if there are indications of fraudulent transactions or artificial inflation of share prices, misleading information, use of insider information, counterfeit securities or securities blocked from trading of shares listed on the JSC, or any other material event. The JSX may suspend trading of certain securities or suspend certain members of the stock exchange. For transactions involving shares listed on both the JSX and the SSX, either exchange may be used to effect the trade.

Members of the JSX charge a brokerage fee for their services, based on agreements with their clients of up to a maximum of 1.0% of the transaction value. When conducting share transactions on the JSX, exchange members are required to pay a transaction cost of 0.03% of the transaction value (for transactions in the regular and cash markets) and a transaction cost in the amount of 0.03% of the transaction value or based on exchange policy (for transactions in the negotiated markets). Members must contribute a minimum of Rp.2 million per month to the JSX. Clients are also responsible for paying a 10.0% value added tax on the amount of brokerage fee and transaction cost. Indonesian sellers are also required to pay a withholding tax of 0.1% (plus an additional 0.5% for founder shares) of the total transaction value. A stamp duty of Rp.3,000 is also payable on any transaction with a value between Rp.250,000 and Rp.1,000,000 and stamp duty of Rp.6,000 is payable on every transaction with a value of more than Rp.1,000,000. See "Taxation — Indonesian Taxation".

Shareholders or their appointees may request, at any time during working hours, the issuer or a securities administration bureau appointed by the issuer of such shares to register their shares in the issuer's registry of shareholders. Reporting of share ownership to BAPEPAM is mandatory for shareholders whose ownership has reached 5.0% or more of the issued and fully paid-up capital of an issuer.

The following table sets forth key statistics for the JSX for the years 2001 to 2005:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Market capitalization (billion Rp.) . . .	239,259	268,423	460,366	679,949	801,253
Total Trading Volume (million shares) . . . . .	148,381	171,207	234,031	411,768	401,868
Average daily trading volume (million shares) . . . . .	603	699	967	1,709	1,654
Total Trading value (billion Rp.) . . .	97,523	120,763	125,438	247,007	406,006
Average daily trading value (billion Rp.) . . . . .	396	493	518	1,025	1,671
Number of listed companies . . . . .	316	331	333	331	338

Source: JSX Monthly Statistics, December 2005

### Offering, Listing and Reporting Regulations

BAPEPAM, on behalf of the Minister of Finance, regulates and monitors securities issues that are publicly offered or listed in Indonesia. Initial securities offerings are generally conducted as underwritten public offers for sale by subscription. BAPEPAM regulates offering and allocation procedures.

Unless waived, companies are required to meet certain requirements set by the Board of Directors of the JSX in order to list on the JSX.

Listed companies are required to submit to BAPEPAM and each applicable stock exchange the following documents:

- financial statements consisting of:
  - (i) an annual financial report audited by an accountant registered with BAPEPAM, to be submitted not later than three months after the date of such report;
  - (ii) an annual report to be submitted at the latest 14 days before the annual general meeting of shareholders;
  - (iii) first quarter, mid-year and third quarter reports where: (a) unaudited and unreviewed reports must be submitted to the JSX not later than one month after the date of such report; (b) reports that have been subject to limited review by an accountant registered with BAPEPAM, must be submitted not later than two months after the date of such report; and (c) reports audited by an accountant registered with BAPEPAM containing a full audit opinion on the fairness of such report, must be submitted not later than three months after the date of such report;
- material information that is important and relevant according to BAPEPAM regulations and which may affect the value of the security or an investment decision, such as a merger, acquisition, consolidation, stock split, stock dividend, change in management, replacement of public accountant, replacement of trustee, material legal claims and other important information possibly affecting share prices on the exchange must be submitted to BAPEPAM and announced to the public at the latest by end of two working days after such information is revealed;
- a copy of any amendment to a company's articles of association;
- notice of any change in the composition of a company's board of directors or board of commissioners;
- notice of any material deviation from projections published by companies; and
- in the case of an investment fund company, a monthly report, containing, among other information, its net asset value, prior to or on the fifth business day of each month.

Insider trading, fraud and market manipulation of securities are prohibited under Indonesian capital markets laws. In such circumstances, a transaction may be cancelled or suspended by the JSX or BAPEPAM may suspend or revoke the license of the capital market supporting institution and supporting professionals involved. A party engaging in (i) misleading conduct, fraud or falsification in connection with the sale of securities; (ii) other actions to mislead the public regarding trading activities, market

conditions or price or (iii) insider trading, is liable for the loss incurred and faces a fine of up to Rp.15 billion and imprisonment of up to ten years.

### ***JSX Listing, Delisting and Corporate Governance Rules***

As of July 19, 2004, the JSX issued new listing rules for equity securities and regulations aimed at enhancing good corporate governance and clarifying listing, relisting and delisting criteria, as well as imposing sanctions for violations of stock exchange rules and providing for e-reporting and monitoring relisting. The new listing rules also introduced the two board system, comprising the Main Board and the Development Board.

The Main Board serves as the flag-carrier of the JSX and is intended for companies fulfilling standard regional listing standards relating to size, track record and net tangible assets. The Development Board allows both large and small companies not yet qualified to list on the Main Board, to be listed on the JSX.

Under the new listing rules, a company is deemed qualified to undertake an initial listing on the Main Board if it fulfils certain requirements including having:

- been duly incorporated as a limited liability company for at least three years;
- net tangible assets of at least Rp.100 billion;
- audited financial reports at least for the last three years, on the condition that it has, during the last two years financial report and the last audited interim report, obtained unqualified audit opinions from its auditor;
- operated in the same core business for the past three consecutive years;
- at least 1,000 shareholders holding securities account with exchange members; and
- shares owned by minority shareholders immediately after the initial listing total 100 million or comprise 35.0% of the Company's total paid in capital, whichever is lower.

Under the new listing rules, a company is deemed qualified to undertake an initial listing on the Development Board if it fulfils certain requirements including:

- having been duly incorporated as a limited liability company at least for the past twelve consecutive months;
- having net tangible assets of at least Rp.15 billion;
- having operated at least for the past twelve consecutive months in the same core area of business activity;
- having the latest audited financial report covering at least a full fiscal year and the last audited interim report (if any) must have obtained an unqualified audit opinion from its auditor;
- for companies that have experienced losses or that have not booked any profit or have been operated for less than two years, by the end of second year after listing it must attain operational and net profits based on forecasts announced in the stock exchange;
- having at least 500 shareholders holding securities accounts with exchange members;
- especially for prospective listed companies which require longer periods of time to break even (such as infrastructure companies, plantations, forestry concession right holders, industrial forest concession right holders or other businesses related to public service), then based on its financial projections, it will obtain operational and net profit by the end of the sixth year after listing; and
- shares owned by minority shareholders immediately after the initial listing at least total 50 million shares or comprise 35.0% of the total paid in capital, whichever is the lower; and
- full commitment underwriting from underwriters.

The rules allow a company listed in the Development Board, to be promoted to the Main Board if it fulfils the requirement for listing on the Main Board.



A company can be delisted voluntarily or involuntarily by the stock exchange. A company can be delisted if it, among other things, (i) suffers certain conditions which adversely affect the going concern of the company, financially or legally, or adversely affect the continuing status of the company as a public listed company and the company has not shown any sufficient remedial actions; or (ii) the shares are suspended from regular market and cash market and may only be traded in the negotiation market at least for the last 24 months.

Under the JSX regulations, a listed company must have:

- independent commissioners comprising at least 30.0% of the total number of members of the board of commissioners;
- an audit committee;
- a corporate secretary; and
- at least one non-affiliated director.

Based on a decision of the Chairman of BAPEPAM No. Kep-29/PM/2004 on Regulation No. IX.1.5 concerning the Formation and Implementation Guidance for Audit Committee, issued in September 24, 2004 (“BAPEPAM Regulation No. IX.1.5”), an independent commissioner in a listed company must:

- come from outside of the listed company;
- may not own any shares of the listed company, directly or indirectly;
- may not have an affiliated relationship with the listed company, or with any commissioner, director or controlling shareholder of the listed company concerned; and
- has no business relationship which is directly or indirectly related to the listed company's business activity.

A listed company's audit committee must be comprised of at least three members, one of whom must be an independent commissioner who will serve as chairman of the audit committee. The other members must also be independent persons, at least one of whom must be an expert in the field of accounting and/or finance.

Pursuant to the BAPEPAM Regulation No. IX.1.5 and a Board of Directors Decision Letter issued in 2004, the following persons are prohibited from becoming members of the audit committees of a listed company:

- any public accountant that personally audits the financial statements of the listed company in the last six months before his appointment as a member of the audit committee;
- any public accountant employed by any public accounting firm that audits the financial statements of the listed company in the last six months before his appointment as a member of the audit committee;
- any external legal counsel of the company that provides services to the listed company in the last six months before his appointment as a member of the audit committee;
- any legal counsel employed by an external legal firm that represents the listed company in the last six months before his appointment as a member of the audit committee; and
- any person that has the authority and responsibility to plan, direct or control the activity of the listed company in the last six months before his appointment as a member of the audit committee;
- any person which owns shares, either directly or indirectly, in the listed company;
- any person which has family relationship, either by marriage or blood, up to second degree vertically or horizontally with commissioners, directors or principal shareholder of the listed company; and
- any person which has business relationship which is directly or indirectly related to the listed company's business activity.

A non-affiliated director in a listed company:

- may not have an affiliated relationship with the company's controlling shareholders for at least six months before his appointment as a non-affiliated director;
- may not have an affiliated relationship with commissioners or other directors of the listed company;
- may not act as a director of another company; and
- may not be an insider at a capital market supporting professional or institution of which his/its service was used by the listed company for six months before his appointment as a director of the listed company.

The function of corporate secretary is performed by one of the directors of the listed company, or an official of the listed company designated to carry out such function. The corporate secretary acts as a liaison or contact person between the listed company, Government authorities, including BAPEPAM, and the public. The corporate secretary must have access to material and relevant information relating to the listed company and must be familiar with all statutory regulations relating to capital markets.

### ***Scriptless Trading***

In 1997, a private limited company, PT Kustodian Sentral Efek Indonesia ("KSEI"), was established to serve as Indonesian central securities depository. On November 11, 1998, KSEI obtained a license from BAPEPAM to act as an approved central securities depository and settlement institution. The shareholders of KSEI currently comprise 31 securities firms, nine custodian banks, four Share Registrars (Biro Administrasi Efek), the SSX, the JSX and the Indonesian Stock Clearing and Guarantee Company (PT Kliring dan Penjaminan Efek Indonesia or KPEI). In 2000, KSEI introduced the Central Depository and Book Entry Settlement System ("C-Best").

In 2000, BAPEPAM implemented regulations to provide for a scripless trading system. Only shares held through KSEI (and which have not been pledged, foreclosed upon based on a court order or seized for the purpose of criminal proceedings) may be traded on the JSX. Under the scripless system, a member broker, sub-broker or local custodian ("KSEI Participant") may deposit certificates in respect of securities with KSEI, which becomes the registered holder of the securities. Any institution becoming a KSEI Participant is required to open at least one securities account and sub-account with KSEI for deposit, withdrawal or transfer of securities. After KSEI has accepted a deposit of securities, it will hold such securities on behalf of KSEI Participants or such participants' clients. Investors will obtain a beneficial interest in the shares which are convertible into a physical share certificate at the direction of the investor. Sales and purchases of securities are settled by offsetting the relevant securities accounts using the C-Best system and at the end of each trading day, KSEI delivers a statement to KSEI Participants showing the balance of securities held for each KSEI Participant through C-Best.

In accordance with the KSEI rules C-Best is the central computer system for depository services and the settlement of securities transactions by book-entry settlement. C-Best is provided by KSEI to parties who have opened securities accounts with KSEI. Parties that are eligible as account holders in KSEI are (i) securities companies (ii) custodian banks and (iii) other parties determined in accordance with the prevailing capital market laws and regulations ("KSEI Account Holders").

A company that intends to register its securities in KSEI must enter into an agreement with KSEI and KSEI Account Holders must issue confirmations in the name of KSEI for the entire value of the securities deposited into KSEI.

In order to establish ownership rights each KSEI Account Holder is obliged to maintain a list of the owners of the securities deposited with it.

Each KSEI Participant holding securities accounts with KSEI on behalf of its clients is required to:

- establish a securities sub-account on behalf of each client and record each client's securities account in such sub-account;
- ensure that the balance in the client's security account in the KSEI Participant's records is always equivalent with the balance in the client's sub-account with KSEI;
- take measures to ensure that the identity of each client is properly recorded; and

- take measures to ensure that the securities sub-account balance of each client is and remains correct.

## ***KSEI***

KSEI is a self-regulating organization and is licensed and regulated by BAPEPAM. Under KSEI's rules, securities companies or custodian banks fulfilling certain criteria and authorized by BAPEPAM may become KSEI Participants. The principal shareholders of KSEI are large custodian banks. Broker dealers, share registrars (Biro Administrasi Efek), the stock exchanges and the Indonesian Clearing and Guarantee Corporation, PT Kliring dan Penjaminan Efek Indonesia ("KPEI"). In the scripless system, the role of KSEI is to settle the transaction and acting as central securities depository, while fund settlement is conducted by KPEI.

KSEI is managed by a board of directors as supervised by a board of commissioners who are subject to the provisions of the Company Law. KSEI is also a member of several international associations that are related to securities depositories, including the Association of National Numbering Agency, the International Society of Securities Administrators, the Society for Worldwide Inter-bank Financial Telecommunication and Asia Pacific Central Securities Depositories Group (ACG).

BAPEPAM sets strict standards for the internal controls of KSEI. These standards call for daily reconciliation of account balances between KSEI and the issuers whose securities are held in the name of KSEI. This daily reconciliation is required to be verified continuously by the head of the audit unit of KSEI who must report this verification to the Internal Control Committee of KSEI, the board of directors of KSEI and BAPEPAM. Each KSEI Participant has the right to send auditors to KSEI to verify the reconciliation of its accounts with those of KSEI and the right to send auditors to verify the registry of the securities on the books of the issuer.

The internal control systems of KSEI are required to be audited annually by an independent auditor with international experience and reputation and to include a review of the protections against fraud, embezzlement, natural disruptions and electronic damage. This report is to be sent to all KSEI shareholders along with KSEI's annual report.

The regulations call for a number of fundamental security measures to ensure the integrity of KSEI:

- access to data processing functions, record-keeping functions and customer account service areas of KSEI must be restricted;
- KSEI must have a primary computer and back-up computer at a different location that allows continued processing within two hours of a breakdown of the primary computer;
- duplicate electronic records are required to be maintained in repositories that are at least 30 kilometers way from each other;
- software development and maintenance are required to be segregated from data processing operations; and
- a special security division of KSEI's own funds is required to be segregated from data processing operations; all debits and credits to securities accounts must be based on instructions of account holders and controlled by a division that is separate from the data processing division.

In addition to the oversight of internal controls and specific regulations regarding recovery and security, the legal basis for securities accounts permits recovery of an investor's assets even in the event of destruction of all records of KSEI. This is done based on investor's confirmations and statements and records of the issuer, all of which are maintained independently from records of KSEI. With daily reconciliation of key records, strong internal control supervision by major banks, special security measures, and legal safeguards, recovery is possible even if there is a catastrophic occurrence.

## ***Transfers of Shares***

Under the Company Law, as a general matter, ownership of shares is based on the registration of ownership in a company's share register. To be valid against the issuing company, a request for an entry of the transfer into a share registry must be received by the company. To be valid against a third party, the entry of the transfer must actually be made into the share register.

Transfers of scripless shares are made by way of appropriate instructions to the relevant brokers, sub-brokers or custodians with whom the transferor and the transferee involved maintain securities accounts in accordance with the individual arrangements with such brokers, sub-brokers or custodians. Upon receipt of appropriate instructions, the relevant brokers, sub-brokers or custodians will, in accordance with such arrangements, effect the relevant changes in the register they are required to maintain for rights and entitlements purposes.

Effective as of June 30, 2002, only shares held through KSEI (and which have not been pledged, foreclosed upon based on a court order or seized for the purpose of criminal proceedings) may be traded on the JSX or SSX.

Securities transaction settlement services are part of the central depository services provided for the fulfillment of the rights and obligations as the results of stock exchange transactions or over-the-counter transactions by means of the transfer of securities and or funds between securities accounts. The settlement of stock exchange transactions is performed by KSEI based on transfer instructions respectively received from a selling Clearing Member and transfer instruction from buying Clearing Member (defined as a member of stock exchange registered as the KSEI Clearing Member) or KSEI while the settlement of the over-the-counter transactions is performed based upon transfer instruction from a selling KSEI Account Holder and acceptance from a buying KSEI Account Holder and the availability of sufficient securities in the sub-account, which must include the requirement of payment or without payment. Upon the complete transfer of securities and or funds, KSEI submits report to KPEI or the Clearing Member on the settlement of stock exchange transaction and confirmation is given to the relevant KSEI Account Holder on the settlement of over-the-counter transactions.

### ***Reporting Requirements***

According to BAPEPAM regulations, a director, commissioner or shareholder who owns 5% or more of the shares in a public company in Indonesia must report to BAPEPAM regarding a change of its shareholding within 10 days of the transaction.

## **SUBSCRIPTION AND SALE**

Credit Suisse (Hong Kong) Limited (“Credit Suisse”) and Deutsche Bank AG, Hong Kong Branch (“Deutsche Bank”, and collectively with Credit Suisse, the “Managers”) have, pursuant to a subscription agreement dated May 9, 2006 (the “Subscription Agreement”), agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to purchase and pay for the principal amount of Bonds at 100 per cent. of their principal amount. The Issuer and the Guarantor have agreed to pay certain fees to the Managers in connection with the offering of the Bonds.

Pursuant to and subject to the terms of the Subscription Agreement, the Issuer and the Guarantor will also reimburse the Managers in respect of certain of its expenses and have agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Bonds. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Guarantor and the Issuer have agreed in the Subscription Agreement that neither the Guarantor nor the Issuer nor any of their respective Subsidiaries or associated companies (as each term is defined in the Subscription Agreement) over which they exercise management or voting control, nor any person acting on its or their behalf will, for a period of 90 days after the Closing Date (as defined in the Subscription Agreement), without the prior written consent of the Managers, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal) securities issued by the Issuer and having a maturity of more than one year from the date of issue, any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, which shall not include products whose value is determined solely by reference to an index of which the Shares form a component, but which shall include equity swaps, forward sales and options representing the right to receive any Shares save for Shares transferred pursuant to the conversion provisions of the Bonds.

In connection with this offering, the Managers (or their affiliates) may, for their own accounts, enter into asset swaps, credit derivatives or other derivative transactions relating to the Bonds or the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. As a result of such transactions, such Managers may hold long or short positions in such Bonds or derivatives or in the Shares. These transactions may comprise a substantial portion of the offering and no disclosure will be made of such positions.

### **United States**

The Bonds, the Guarantee and the Shares to be delivered upon conversion of the Bonds 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 under the Securities Act (“Regulation S”).

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds or Shares to be delivered upon conversion of the Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or Shares, as the case may be, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bonds are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that



Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## **The Netherlands**

The Bonds will only be issued by the Issuer if the Issuer fulfils the requirements of the Exemption Regulation in respect of the Act on the Supervision of Credit Institutions 1992 (*Vrijstellingsregeling Wet toezicht kredietwezen 1992*, as amended from time to time, the “Exemption Regulation”), including but not limited to the requirement that (i) the Bonds will be issued in compliance with the Act on the Supervision of Securities Transactions 1995 (*Wet toezicht effectenverkeer 1995*, the “Dutch Securities Act”), (ii) at least 95% of the balance sheet total of the Issuer will be invested or on-lent within the group, and (iii) the Company provides an unconditional and irrevocable Guarantee in respect of the obligations of the Issuer, provided that the Company has a positive consolidated equity capital during the full term of the Guarantee. The Issuer shall notify the Dutch Central Bank (*De Nederlandsche Bank N.V.*) in accordance with Section 4 of the Exemption Regulation.

The offer of the Bonds and the Shares is subject to the provisions of the Prospectus Directive referred to above in the paragraph headed “European Economic Area”. The Bonds and the Shares can only be offered in The Netherlands without the publication, approval or notification of a prospectus in relation to the Bonds and the Shares if an exemption applies. In the case of the offering of the Bonds, an exemption applies in view of the fact that the Bonds have a nominal value of US\$100,000.

Each of the Managers has represented and agreed that, in order to offer the Bonds in The Netherlands, it is either licensed or exempt under Section 7 up to and including Section 10 of the Dutch Securities Act.

In addition to the above, zero coupon bonds in definitive form or other bonds that qualify as savings certificates as defined in the Savings Certificates Act (*Wet inzake Spaarbewijzen*) in definitive form may only be transferred and accepted through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. in accordance with the Savings Certificates Act. Such restrictions do not apply (a) to the transfer and acceptance of zero coupon bonds in definitive form between individuals not acting in the conduct of a business or profession, (b) to the transfer and acceptance of zero coupon bonds in definitive form within The Netherlands if all zero coupon bonds (either in definitive form or as rights representing an interest in the zero coupon instruments in global form) are issued outside The Netherlands and are not distributed within The Netherlands in the course of primary trading or immediately thereafter, or (c) to the initial issue of such bonds to the first holders thereof. If the Savings Certificates Act is applicable, certain identification requirements in relation to the issue, transfer of payment on the zero coupon bonds will have to be complied with. For the purposes of this paragraph “zero coupon bonds” are bonds that are in bearer and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due prior to maturity or on which no interest is due whatsoever.

## **Hong Kong Special Administrative Region**

Each Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 71) of Hong Kong and rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance.

## **Indonesia**

This Offering Circular will not be distributed or passed on in the Republic of Indonesia or to Indonesian citizens, nationals, corporations or residents and the Bonds will not be offered or sold in the Republic of Indonesia or to Indonesian citizens, nationals, corporations or residents, in each case, in a manner which constitutes a public offering of the Bonds under the laws and regulations of the Republic of Indonesia.

## **Singapore**

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Each Manager has further represented and agreed to notify and hereby notifies each of the following relevant persons specified in Section 275 of the SFA which has subscribed or purchased the Bonds from or through itself, namely a person which is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

that shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Bonds under Section 275 of the SFA, except:

(4) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA;

(5) where no consideration is given for the transfer; or

(6) by operation of law.

## **United Kingdom**

Each Manager represents, warrants and agrees that:

- (i) 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 Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

## **General**

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or each Manager that would, or is intended to, permit a public offering of the Bonds, 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 each Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Bonds, in all cases at their own expense. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and no offering circular, prospectus, form of application, advertisement, or other document or information may be distributed or published in any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any resale, pledge or transfer of the Bonds or the Shares issuable upon conversion of the Bonds.*

This offering is being made pursuant to Regulation S under the Securities Act. The Bonds, the Guarantee and the Shares issuable upon conversion thereof, have not been registered under the Securities Act or with any securities regulatory authority of any state in the United States or other jurisdiction and may only be offered, sold or delivered outside the United States (as defined in Regulation S under the Securities Act) in offshore transactions in reliance on Regulation S, and in each case in accordance with any other applicable law. The Conversion Rights attaching to the Bonds may not be exercised by any person located in the United States or by or on behalf of a U.S. person (as defined in Regulation S).

Except in certain limited circumstances, interests in the Bonds may only be held through interests in the Global Certificate. Such interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective direct and indirect participants. See “Terms and Conditions of the Bonds” and “Summary Of Provisions Relating to the Bonds while in Global Form”.

Each purchaser of the Bonds, by accepting delivery of this Offering Circular, will be deemed to have acknowledged and represented and agreed as follows:

1. The Bonds, the Guarantee and Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer. The Conversion Rights attaching to the Bonds may not be exercised by any person located in the United States and by or on behalf of a U.S. person (as defined in Regulation S) and the Shares to be issued upon such conversion may not be reoffered, resold, pledged or otherwise transferred except pursuant to an effective registration statement under the Securities Act or pursuant to an available exemption from registration under the Securities Act.

2. It is aware that the sale of the Bonds to it is being made pursuant to and in accordance with Rule 903 or Rule 904 of Regulation S and it is, or at the time the Bonds are purchased will be, the beneficial owner of the Bonds and (a) is not located in the United States, (b) not a U.S. person (within the meaning of Regulation S) and (c) it is not an affiliate of the Issuer or a person acting on behalf of such affiliate.

3. Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Bonds or Shares issuable upon conversion of the Bonds, or convert the Bonds into Shares, except as permitted by the applicable legend set forth in paragraph 4 below.

4. The Bonds will bear legends to the following effect, which restrictions the Issuer will observe unless the Issuer determines otherwise in compliance with applicable law:

THE BONDS EVIDENCED HEREBY (THE “BONDS”), THE GUARANTEE AND THE SHARES OF PT MEDCO ENERGI INTERNASIONAL TBK (THE “COMPANY”) ISSUABLE UPON CONVERSION OF THE BONDS (THE “SHARES”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THE BONDS EVIDENCED HEREBY, ACKNOWLEDGE THAT THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE TRUSTEE THAT PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE CLOSING OF THE OFFER OF THE BONDS, THIS CERTIFICATE, THE BONDS EVIDENCED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(I) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S, (II) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, OR (III) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION.

THE BONDS MAY NOT BE CONVERTED INTO SHARES (A) BY ANY PERSON LOCATED IN THE UNITED STATES AND (B) BY OR ON BEHALF OF ANY U.S. PERSON (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE AND THE SHARES TO BE ISSUED UPON SUCH CONVERSION MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

NEITHER THE BONDS NOR THE SHARES MAY BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN INDONESIA OR TO ANY INDONESIAN CITIZEN OR CORPORATION (WHEREVER DOMICILED OR LOCATED) OR ANY RESIDENT OF INDONESIA IN A MANNER WHICH CONSTITUTES A PUBLIC OFFERING UNDER THE LAWS AND REGULATIONS OF INDONESIA.

5. It acknowledges that the Issuer, the Trustee, the Managers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.



## SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN INDONESIA AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

*The consolidated financial statements of the Company included in the Offering Circular are prepared and presented in accordance with accounting principles generally accepted in Indonesia ("Indonesian GAAP"), which differ in certain material respects from International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and Interpretations.*

*Certain differences between Indonesian GAAP applicable to the Company and IFRS are summarized below. This summary should not be construed to be exhaustive. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the Company's financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Indonesian GAAP and IFRS and how these differences might affect the financial information herein. Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between Indonesian GAAP and IFRS as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate Indonesian GAAP and IFRS have significant projects ongoing that could affect future comparison such as this one. Finally, no attempt has been made to identify all future differences between Indonesian GAAP and IFRS that may affect the Company's consolidated financial statements as a result of transactions or events that may occur in the future.*

### **Business Combinations**

Indonesian GAAP permits the accounting for business combination using the pooling of interests method and the purchase method. Assets and liabilities requiring recognition at the date of acquisition may also include those arising as a result of the acquisition but it does not specify the recognition of liabilities of the acquired entity at acquisition date and any contingent liabilities; provision to cover future operating losses is not allowed. Intangible assets are recognized when it is probable that any associated future economic benefits will flow to the acquirer and a reliable measure is available for their costs or fair values. Assets and liabilities recognized at acquisition date should be measured as the aggregate of the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction to the extent of the acquirer's interest obtained in the exchange transaction; and the minority's proportion of the pre-acquisition carrying amounts of the assets and liabilities of the subsidiary. Goodwill should be amortized over its estimated useful life using the straight-line basis, unless another method is more appropriate, where the useful life should not exceed five years unless a longer period, not exceeding twenty years, can be justified. The unamortized balance should be reviewed for any indication that it cannot be fully recovered from expected future economic benefits, thus should be recognized immediately as an expense. When the acquisition cost is less than the acquirer's interest in the fair values of identifiable assets and liabilities acquired at acquisition date, negative goodwill is recognized for the remaining excess after the fair values of the acquired non-monetary assets have been reduced proportionately. Negative goodwill is treated as deferred revenue and recognized as income on a systematic basis over a minimum of twenty years.

Further, Indonesian GAAP requires transactions among entities under common control that meet the restructuring principles and conditions should be accounted for in the same manner as pooling of interests where net assets are transferred at book value. The difference between the transfer price and book value of the net assets, equity or other ownership instrument transferred is recorded under the restructuring difference arising from restructuring transactions among entities under common control, an account under shareholders' equity. In 2004, the standard was revised to provide the conditions whereby this account will be charged or realized in profit or loss. The revised standard is effective for reporting period beginning on or after January 1, 2005.

IAS 22 permitted business combinations to be accounted for using the pooling of interests method and the purchase method. Goodwill acquired in a business combination was systematically amortized over its useful life, with a rebuttable presumption that it could not exceed 20 years, and tested for impairment where any impairment loss was recognized. The excess of the acquirer's interest in the net fair value of identifiable assets and liabilities acquired over the acquisition cost was accounted for as negative goodwill. If the negative goodwill related to expectations of future losses and expenses identified in the acquirer's acquisition plan, it was recognized as income in the same period in which the

future losses and expenses were recognized. Otherwise, negative goodwill was recognized as income for the amount not exceeding the aggregate fair value of acquired identifiable non-monetary assets, on a systematic basis over the remaining weighted average useful life of identifiable depreciable assets. Any remaining excess was recognized as income immediately.

Under IFRS 3 (applicable to accounting for business combinations for which the agreement date was on or after 31 March 2004) qualifying business combinations should be accounted for using the purchase method. Goodwill acquired in a business combination is not amortized and instead should be tested for impairment annually, or more frequently if events or changes in the circumstances indicate that it might be impaired. If at acquisition date, the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the combination, the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination are reassessed by the acquirer. Any excess remaining after the reassessment must be recognized immediately in profit or loss.

Contingent liabilities of the acquiree are recognized separately as part of allocating the cost of a business combination provided their fair values can be measured reliably.

### **Impairment of Assets**

Indonesian GAAP does not specify the comparison of current and past cash flow projections and actual cash flows in the preparation of cash flow projections used to measure value in use. Indonesian GAAP also does not specify the exclusion of any estimated cash inflows or outflows expected to arise from future restructurings to which the entity is not yet committed or improving or enhancing the asset's performance.

Indonesian GAAP requires the reversal of an impairment loss recognized for goodwill in a previous period if caused by a specific external event of exceptional nature not expected to recur and subsequent external events occurred that reverse the effect of that event.

IFRS requires that in the preparation of cash flow projections used to measure value in use, management should assess the reasonableness of assumptions on which the current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows and ensuring that the assumptions on which current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate. The cash flow projections shall exclude any estimated cash inflows or outflows expected to arise from future restructurings to which the entity is not yet committed or improving or enhancing the asset's performance.

IFRS prohibits the reversal of impairment losses for goodwill.

### **Assets Held for Sale and Discontinued Operations**

Under Indonesian GAAP, assets held for sale are carried at the lower of its carrying amount and its net realizable value. The assets are tested for impairment if any indicators of impairment exist and any impairment loss is recognized accordingly. Disclosure of the carrying amount of fixed assets retired from active use and held for disposal is encouraged.

Under IAS 35 assets held for sale were carried at their carrying amount at the date when the assets were retired from active use. At year-end, the assets were tested for impairment and any impairment losses recognized accordingly. Disclosure of the carrying amount of fixed assets retired from active use and held for disposal was encouraged.

Under IFRS 5 (applicable 1 January 2005) assets or disposal group that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell, and are not depreciated. IFRS also specifies that assets and liabilities included within a disposal group classified as held for sale are presented separately on the balance sheet.

IFRS provides for an impairment loss to be recognized for any initial or subsequent write-down of the asset held for sale (or disposal group) to fair value less cost to sell, to the extent that it has not been recognized. A gain is recognized for any subsequent increase in fair value less costs to sell, but not in excess of the cumulative impairment loss that has been recognized.

IFRS prohibits retroactive classification of an operation as discontinued when the criteria for that classification are not met until after the balance sheet date.

### **Intangible Assets**

Under the Indonesian GAAP, the estimated useful life of an intangible asset is always finite and cannot exceed twenty years from the date it is available for use. In certain allowable cases where the recoverable amount of an intangible asset was amortized over a period exceeding twenty years from the date it was available for use, such recoverable amount should be estimated at least in each financial year, even if there was no indication that the asset was impaired.

Under IFRS (IAS 38 applicable 1 January 2005), the presumption that the useful life of an intangible asset cannot exceed twenty years from the date the asset is available for use has been removed. It permits an intangible asset to have an indefinite useful life. Under such an assumption, the intangible asset should not be amortized instead its useful life should be reviewed in each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment. If they do not, the change in the useful life assessment from indefinite to finite should be accounted for as a change in accounting estimate.

### **Deferred Taxes**

Deferred tax assets under the Indonesian GAAP are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences and the carry forward of unused tax losses.

The amounts of income taxes recoverable in future periods in respect of the carry forward of unused tax credits are also considered as deferred tax assets under the IFRS.

### **Capitalized Foreign Exchange Losses**

Indonesian GAAP provides that foreign exchange losses that result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affected liabilities which cannot be settled and which arose directly on the acquisition of an asset invoiced in a foreign currency, can be capitalized to the carrying amount of the assets. Severe devaluation or depreciation of a currency is determined to occur when in a certain period, the annualized depreciation has reached a certain average rate for the previous three years and no practical means of hedging occurred if the hedging premium rate in a certain period is so high that hedging is not economically feasible.

IAS 21 (revised in 1993) allowed the same treatment. However, in order to include foreign exchange losses on liabilities in the carrying amount of a related asset, it had to be demonstrated that the foreign currency necessary for settlement of the liability was not available to the reporting enterprise and it was impractical to hedge the exchange risk. Further, the asset acquisition must have occurred within twelve months prior to the severe devaluation or depreciation of the reporting currency.

Under IFRS (IAS 21 applicable 1 January 2005), such capitalization is no longer permitted under any circumstances.

### **Capitalized Borrowing Costs**

Under Indonesian GAAP, borrowing costs consisting of interests, amortization of discount or premium, amortization of related costs to obtain the loans and foreign exchange differences (regarded as adjustments to interest expense) on loans used to finance the construction of major facilities, should be recognized as an expense in the period incurred. An exception is allowed for borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets which should be capitalized, provided certain criteria are met. Capitalization of these borrowing costs ceases when the acquisition, construction or production activities are substantially completed and the assets are ready for their intended use.

Under IFRS (IAS 23 issued 1998 and IAS 23 applicable 1 January 2005), borrowing costs include finance charges under finance leases and exclude amortization of premiums on contracts to hedge against foreign currency borrowings.

Under IFRS the benchmark treatment is to recognize borrowing costs as an expense in the period they are incurred regardless of how the borrowings are applied. Capitalization is considered as an allowed alternative treatment for borrowing costs that are directly attributable to the acquisitions, construction or production of qualifying assets.

### **Functional Currency and Foreign Currency Translation**

Indonesian GAAP allows a company to use as its reporting currency, a currency other than Rupiah if such currency is its functional currency provided certain criteria are met. The recording currency should be the same as the reporting currency.

IAS 21 (revised in 1993) did not specify the presentation of financial statements using an entity's functional currency.

IAS 21 (applicable 1 January 2005) requires an entity to determine its functional currency and measure its results and financial position in that currency. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity translates its results and financial position into the presentation currency using the current rate method.

### **Revaluation of Property and Equipment**

While Indonesian GAAP does not generally allow companies to recognize an increase in the value of property, plant and equipment that occurs subsequent to acquisition, an exception is provided for revaluations made in accordance with specific government regulations. Such resulting difference between the revaluation amount and the carrying value of the property and equipment prior to valuation is recorded as "revaluation increment in property and equipment", presented as a component of equity.

Under IFRS, assets can be revalued provided the entire class of the property and equipment to which such assets belong are also revalued. The frequency of revaluations depends upon the movements in the fair value of the items of property and equipment being revalued.

Under IFRS, when an asset's carrying amount is increased as a result of revaluation; the increase is credited directly to equity as a revaluation surplus. However, a revaluation increase should be recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognized as an expense. However, a revaluation decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

### **Land Use Rights**

In Indonesia, except for ownership rights ("HAK MILIK") granted to individuals, the title of land rests with the Government under the Basic Agrarian Law No. 5 of 1960. Land-use is accomplished through land rights whereby the holder of the right enjoys the full use of the land for a stated period of time, subject to extensions. Land rights are generally freely tradable and may be pledged as security under borrowing agreements.

Starting January 1, 1999, expenses associated with the acquisition of government permit to use the land should be amortized over the period the holder is expected to retain the land rights, which in the case of the Company, is an initial period of 20 years.

In 2005, an Indonesian Government Regulation was issued which provided that land rights for lands to be used for public interests would not be extended.

Under Indonesian GAAP, the costs of acquired land rights (including incidental costs) are capitalized. It also provides that the main acquisition costs of land rights are not subject to amortization, except under certain defined conditions. On the other hand, the incidental costs incurred in connection with the acquisition of the land rights or renewal or extension of the legal titles should be deferred and presented separately from the main acquisition costs, and amortized over the period of the land-use rights or the land rights estimated useful lives, whichever is shorter.

Under IFRS, if the title of land is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in

which case the lease of land will be classified as an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortized over the lease term in accordance with the pattern of benefits provided.

### **Employee Benefits**

Prior to 2004, Indonesian GAAP provided for various actuarial valuation methods to measure the obligations and costs under defined benefit plans. Current service cost of a defined benefit plan was recognized as an expense in the current period, while past service costs, experience adjustments, effects of changes in actuarial assumptions and effects of program amendments with respect to existing employees were recognized as an expense or income systematically over the estimated average remaining working lives of the employees. This standard did not provide for the 10% corridor approach for actuarial gains or losses and limitation in the asset carrying amount which is specifically provided for in the revised standard described below.

In 2004, the Indonesian Institute of Accountants issued a revised standard on Accounting for Employee Benefits which provides for a comprehensive accounting for employee benefits covering several types of employee benefit costs and which is substantially consistent with IAS 19 (issued 1993) and effective for financial statements covering periods beginning on or after July 1, 2004. The revised standard requires the use of Projected Unit Credit Method to measure obligations and costs for defined benefit plans.

Under IFRS, past service cost is recognized on a straight-line basis over the average period until the amended benefits become vested. IFRS (IAS 19 (applicable 1 January 2004)) allows for the recognition of net cumulative actuarial gains or losses using the 10% corridor approach or for its immediate recognition in the income statement. IAS 19 (applicable 1 January 2006) permits a third alternative treatment where actuarial gains and losses may be recorded in retained earnings. There is limitation in the carrying amount of an asset in order not to exceed the net total of any unrecognized past service cost and actuarial losses, and present value of any economic benefit available as refunds from the plan or reduction in future contributions to the plan.

### **Depreciation**

Indonesian GAAP does not specify each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately.

IAS 16 (revised in 1998) does not specify such a requirement. Under IAS 16 (applicable 1 January 2005) each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be identified and depreciated separately.

### **Financial Instruments**

Indonesian GAAP requires investments in securities (debt or equity securities) for which fair values are available and which are held as trading or available-for-sale to be carried at their fair value. Investments in debt securities held to maturity are stated at acquisition cost after amortization of premiums or discounts. Indonesian GAAP also requires that all derivative instruments are measured at their fair value. Indonesian GAAP does not specify non-current financial instruments to be stated at fair value.

Under IAS 39 (revised 2000), all financial assets and financial liabilities were recognized on the balance sheet, including all derivatives, initially at cost, which was the fair value of the consideration given (in the case of an asset) or received (in the case of a liability) for it. Transaction costs were included in the initial measurement of all financial assets and liabilities. Transaction costs included fees and commissions paid to agents, advisers, brokers, and dealers; levies by regulatory agencies and securities exchanges; and transfer taxes and duties. Transaction costs did not include debt premium or discount, financing costs, or allocations of internal administrative or holding costs.



Subsequent to initial recognition, all financial assets were remeasured to fair value without any deduction for transaction costs that may have been incurred on sale or other disposal, except for the following which should have been carried at amortized cost subject to a test for impairment:

- (a) loans and receivables originated by the enterprise and not held for trading;
- (b) other fixed-maturity investments, such as debt securities and mandatory redeemable preferred shares, that the enterprise intends and is able to hold to maturity; and
- (c) financial assets whose fair value cannot be reliably measured (limited to some equity instruments with no quoted market price and some derivatives that are linked to and must be settled by delivery of such unquoted equity instruments).

Subsequent to initial recognition, an enterprise should have measured all financial liabilities, other than liabilities held for trading and derivatives that are liabilities, at amortized cost. After initial recognition, an enterprise should have measured liabilities held for trading and derivatives that were liabilities at fair value, except for a derivative liability that was linked to and that must be settled by delivery of an unquoted equity instrument whose fair value could not be reliably measured, which should have been measured at cost.

Amortized cost of a financial asset or financial liability was the amount at which the financial asset or liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount, and minus any write-down (directly or through the use of an allowance account) for impairment or uncollectibility.

A recognized gain or loss arising from a change in the fair value of a financial asset or financial liability that was not part of a hedging relationship should have been reported as follows:

- (a) a gain or loss on a financial asset or liability held for trading should have been included in net profit or loss for the period in which it arises (in this regard, a derivative should always have been considered to be held for trading unless it is a designated hedging instrument);
- (b) a gain or loss on an available-for-sale financial asset should have been either:
  - (i) included in net profit or loss for the period in which it arose; or
  - (ii) recognized directly in equity, through the statement of changes in equity, until the financial asset was sold, collected, or otherwise disposed of, or until the financial asset was determined to be impaired, at which time the cumulative gain or loss previously recognized in equity should have been included in net profit or loss for the period.

An enterprise should have chosen either b(i) or b(ii) as its accounting policy and should have applied that policy to all of its available-for-sale financial assets (except for hedges).

Under IAS 39 (applicable 1 January 2005), a financial asset or financial liability is recognized initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- (a) certain loans and receivables as defined in the standard, which shall be measured at amortized cost using the effective interest method;
- (b) held-to-maturity investments as defined in standard, which shall be measured at amortized cost using the effective interest method; and
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

Subsequent to initial recognition, an entity shall measure all financial liabilities at amortized cost using the effective interest method, except for:

- (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and

must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach. Paragraphs 29 and 31 apply to the measurement of such financial liabilities.

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship, shall be recognized, as follows.

(a) A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss shall be recognized in profit or loss.

(b) A gain or loss on an available-for-sale financial asset shall be recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the entity's right to receive payment is established.

### **Accounting for Derivatives**

Under IFRS, derivatives represent rights or obligations that meet the definition of assets and liabilities and as such, should be reported in the financial statements at fair value. In addition, certain instruments not typically considered derivatives will meet the definition of a derivative under IFRS.

Under IFRS, a company is required to recognize all of its derivative instruments as either assets or liabilities at fair value. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instruments, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure the changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risks), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective.

For derivative instruments that are not designated as hedging instruments or do not qualify as effective hedges or to the extent the hedge is ineffective, the gain or loss is recognized in current earnings during the period of change.

Embedded derivatives should be separated from their host non-derivative contract and accounted for as a derivative instrument pursuant to IAS 39 if the economic characteristics of the embedded derivative are not "clearly and closely" related to the host contract, the instrument that embodies both the embedded derivative and the host contract is not remeasured at fair value and a freestanding instrument with the same terms as the embedded derivative would be a derivative instrument subject to the requirements of IAS 39.

Indonesian GAAP does not contain implementation guidelines for standards on accounting for derivatives, consequently differences between Indonesian GAAP and IFRS may exist.

## **Changes in Equity**

Under Indonesian GAAP, there is no specific guidance for recognizing and presenting changes in equity. Items of gain and loss that are not recognized in the profit and loss account (such as revaluation increment in property and equipment and foreign currency translation adjustments) are recognized in separate accounts separate from retained earnings and are presented as components of equity.

IFRS requires the reporting and display of changes in equity in a financial statement that is displayed with the same prominence as other financial statements. Changes in equity includes charges or credits to equity that are not the result of transactions with owners and consists of, among others, foreign currency translation adjustments, gains and losses on foreign currency transactions designated as, and effective as, economic hedges of a net investment in a foreign equity, and gains and losses from derivatives that qualify as cash flow hedges.

## **Accounting for Guarantees**

Under Indonesian GAAP, guarantee contracts that contain financial, performance, indemnification, and indirect guarantees are treated as off-balance sheet and are disclosed if material.

Under IFRS, guarantees are to be recorded and measured at their fair value.

## **Restoration and Rehabilitation Costs**

Indonesian GAAP does not provide any separate guidelines for the accounting for restoration and rehabilitation costs.

Under IFRS a provision for restoration and rehabilitation is recorded when there is a legal or constructive obligation for the retirement of tangible assets that result from the acquisition, construction, development or the normal operations of the asset. The expected cost of a restoration program is capitalized at the date of the obligating event (e.g., when construction begins if the obligation arises from construction or when contamination occurs if the obligation arises from use). At the same time, a provision is brought to account for the fair value of the restoration obligation. The capitalized cost is amortized over the life of the related asset and the provision is accreted periodically as the discount unwinds. Under IFRS, a “make good” clause would generally require a provision for restoration and rehabilitation.

## GENERAL INFORMATION

(1) The Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The common code of the Bonds is 025424689 and the International Securities Identification Number (“ISIN”) for the Bonds is XS0254246894.

(2) The Issuer and the Guarantor will have obtained all necessary consents, approvals and authorizations and have taken all actions necessary in Indonesia in connection with the issue and performance of the Bonds and the Guarantee. The issue of the Bonds was authorized by resolution of the Board of Directors of the Issuer passed on May 8, 2006 and the giving of the Guarantee by the Guarantor was authorized by resolution of the Board of Commissioners of the Guarantor passed on May 8, 2006.

(3) Approval in principle has been received for listing the Bonds on the SGX-ST.

So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Definitive Certificates. In addition, in the event that the Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made by the Issuer or on its behalf through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the paying agent in Singapore.

(4) Neither the Issuer nor the Guarantor nor any member of its Group is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the financial position of the Issuer, of the Guarantor or of the Group nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.

(5) For so long as any of the Bonds are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying Agent:

- (a) the Agency Agreement;
- (b) the Trust Deed; and
- (c) the Loan.

(6) There has been no adverse change, nor any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since its incorporation on April 28, 2006 that is material in the context of the issue of the Bonds. Save as disclosed in this Offering Circular, 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 Company since December 31, 2005, that is material in the context of the giving of the Guarantee.

(7) DB Trustees (Hong Kong) Limited whose principal office is at 55/F Cheung Kong Center, 2 Queen’s Road, Central, Hong Kong, has agreed to its being appointed as Trustee and details of the scope of each of its mandate as Trustee and the conditions under which it may be replaced as such may be found in the Trust Deed.

(8) The Trustee is entitled under the Trust Deed to rely, without liability to the Bondholders, on certificates prepared by the directors of the Guarantor and accompanied by a certificate or report prepared by an internationally recognized firm of accountants to the Guarantor whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognized firm of accountants to the Guarantor and whether by reference to a monetary cap or otherwise limited or excluded.

## **LEGAL MATTERS**

Certain legal matters in connection with the Bonds will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP with respect to matters of U.S. federal securities law, by Skadden, Arps, Slate, Meagher & Flom (UK) LLP as to matters of English law and by Loyens & Loeff N.V. with respect to matters of Dutch law and for the Initial Purchasers by Latham & Watkins LLP with respect to matters of U.S. and English law and by Hadiputranto, Hadinoto & Partners with respect to matters of Indonesian law. In rendering such opinions, Skadden, Arps, Slate, Meagher & Flom LLP and Latham & Watkins LLP may rely upon the opinion of Hadiputranto, Hadinoto & Partners as to all matters of Indonesian law.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of the Company as of and for the year ended December 31, 2003, included in this Offering Circular, have been audited by Osman, Ramli, Satrio & Rekan (formerly KAP Hans Tuanakotta Mustofa & Halim), independent auditors, a member of Deloitte Touche Tohmatsu in Indonesia and a corporate member of the Indonesian Institute of Accountants. The consolidated financial statements of the Company as of and for the years ended December 31, 2004 and 2005, included in this Offering Circular, have been audited by Purwantono, Sarwoko & Sandjaja (formerly Prasetio, Sarwoko & Sandjaja), independent auditors, a member of Ernst & Young Global and a corporate member of the Indonesian Institute of Accountants.

## **EXPERTS**

The reserve certifications of Gaffney, Cline & Associates (Consultants) Pte Ltd, independent petroleum engineering consultants, a copy of which appears elsewhere in this Offering Circular, has been included in this Offering Circular in reliance on the authority of such firm as experts in estimating proved and probable oil and gas reserves. Gaffney, Cline & Associates (Consultants) Pte Ltd has given and not withdrawn its written consent to the issue of this Offering Circular with the inclusion in it of its reserve certifications in the form and context in which they are included.



## GLOSSARY

### Certain Defined Terms

“AAP”	means Apexindo Asia Pacific B.V.
“AJT”	means PT Antareja Jasatama.
“Apexindo”	means PT Apexindo Pratama Duta Tbk.
“BAPEPAM”	means Badan Pengawas Pasar Modal (or Capital Market Supervisory Agency).
“BCA”	means PT Bank Central Asia Tbk.
“BPMigas”	means Badan Pelaksana Kegiatan Usaha Hulu Minyak Dan Gas Bumi, the non-profit Government-owned operating board that is succeeding to Pertamina’s role as regulator of upstream oil and gas activities under the Oil and Gas Law.
“BPHMigas”	means Badan Pengatur Hilir Minyak Dan Gas Bumi, the non-profit Government-owned operating board that is succeeding to Pertamina’s role as regulator of downstream oil and gas activities under the Oil and Gas Law.
“Cityview”	means Cityview Asia Pty., Ltd.
“Coastal”	means Coastal Indonesia Sampang Ltd.
“Company”	means Medco Energi and its consolidated subsidiaries.
“Company Law”	refers to Law No. 1 (1995) on Limited Liability Company.
“ConocoPhillips”	means ConocoPhillips Indonesia.
“Contingent Resources”	means volumes of recoverable hydrocarbons that are excluded from the reserve category due to some technical, market or economic contingency (i.e., the lack of an agreed/definitive plan of development or a gas sales agreement, etc.).
“Cue”	means Cue Sampang Pty. Ltd.
“Encore”	means Encore International Limited.
“Energi Sengkang”	means PT Energi Sengkang.
“EPI”	means PT Exspan Petrogas Internusa.
“Extension/Kampar PSC”	is the PSC between Pertamina and Medco E&P Indonesia dated July 6, 1989, as may be amended from time to time.
“Fortis”	means Fortis Bank S.A./ N.V. Singapore.
“FPSO”	means floating production, storage and offtake.
“FSO”	means floating storage and offloading vessel.
“GCA”	means Gaffney, Cline & Associates (Consultants) Pte Ltd.
“GCA Report”	means the reserve certification of Gaffney, Cline & Associates (Consultants) Pte Ltd included elsewhere in this Offering Circular.
“GFB Langsa”	means GFB Resources (Langsa) Limited.
“GNBC Ventas”	means GNBC Ventas, S. de R.L. de CV (GNBC).
“Government”	means the Government of Indonesia.
“GSA”	means Gas Sale Agreements.
“HOAs”	means binding heads of agreements.

“IAS”	means International Accounting Standards.
“IFRS”	means International Financial Reporting Standards.
“Indama”	means PT Indama Putera Langsa, previously PT Indama Putera Jaya.
“Indonesia”	means the Republic of Indonesia.
“Indonesian GAAP”	means generally accepted accounting principles in Indonesia.
“Indo-Pacific Resources”	means Indo-Pacific Resources (Java) Ltd., previously GFB Resources (Java) Ltd.
“Itochu”	means Itochu Petroleum Co. (S) Pte Ltd.
“KSEI”	means PT Kustodian Sentral Efek Indonesia (the Indonesian Central Securities Depository).
“Langsa TAC”	is the technical assistance contract between Pertamina, Indama and GFB Langsa dated May 15, 1997, as may be amended from time to time.
“Lematang PSC”	is the production sharing contract between Pertamina and Enim Oil Company Ltd dated April 6, 1987, as may be amended from time to time.
“LIBOR”	refers to the London Interbank Offering Rate.
“Marathon”	means Marathon International Petroleum Ltd.
“Matrix”	Matrix Oil NL.
“MEAPL”	means Medco Energi (Australia) Pty. Ltd.
“MEB”	refers to PT Mitra Energi Batam.
“Medco E&P Indonesia”	means PT Medco E&P Indonesia (formerly PT Exspan Nusantara).
“Medco Energi”	means PT Medco Energi Internasional Tbk.
“Medco Madura”	means Medco Madura Pty Limited, a subsidiary of Medco Energi.
“Medco Moeco”	means Medco Moeco Langsa Limited.
“Medco Sampang”	means PT Medco Sampang.
“Medco Simenggaris”	means Medco Simenggaris Pty Ltd., a subsidiary of Medco Energi.
“MEFL”	means MEI Euro Finance Limited.
“MEFO”	means Medco Energi Finance Overseas B.V.
“MEM”	means PT Medco Energi Menamas.
“Menamas”	means PT Menamas.
“Merangin PSC”	is the production sharing contract between Pertamina and PT Medco E&P Merangin (formerly Exspan Merangin) dated October 14, 2003, as may be amended from time to time.
“Mesa Drilling”	means Mesa Drilling, Inc.
“Mitsui”	means Mitsui Oil Exploration Co. Ltd.
“MIV”	means Medco International Ventures Ltd.
“MMB”	means PT Medco Methanol Bunyu.
“MODEC”	means Modec, Inc.

“MOECO”	means Mitsui Oil Exploration Co., Ltd.
“MOU”	means Memorandum of Understanding.
“MS”	means Morgan Stanley & Co. Ltd. International.
“Novus”	means Novus Petroleum Limited.
“OECD”	means the Organization for Economic Cooperation and Development.
“Oil and Gas Law”	refers to the new oil and gas law enacted on November 23, 2001 by the Government.
“OPEC”	means the Organization of Petroleum Exporting Countries.
“PAU”	means PT Panca Amara Utama.
“Pertamina”	means Perusahaan Pertambangan Minyak Dan Gas Bumi Negara, the Indonesian state-owned oil and gas company.
“PetroChina”	means PetroChina Company Limited.
“PGN”	means PT Perusahaan Gas Negara (Persero) Tbk.
“PLN”	means PT PLN (Persero).
“PMA Companies”	means foreign capital investment (Penanaman Modal Asing) companies established under the Foreign Investment Law of Indonesia.
“PTT”	means PTT Public Company Limited.
“PTTEP”	means PTT Exploration and Production Public Company Limited, a subsidiary of PTT.
“PTTEPO”	means PTTEP Offshore Investment Company Limited, a subsidiary of PTTEP.
“Rp.” or “Rupiah”	means Indonesian Rupiah.
“Sampang PSC”	is the production sharing contract between Pertamina, Santos (Sampang), Coastal and Cue dated December 4, 1997, as may be amended from time to time.
“Sanga-Sanga TAC”	is the technical assistance contract between Pertamina and Tesoro Indonesia Petroleum Company dated March 13, 1989, as may be amended from time to time.
“Santos”	means Santos Ltd.
“Santos (Sampang)”	means Santos (Sampang) Pty. Ltd.
“SIBOR”	means the Singapore Interbank Offering Rate.
“SPC”	refers to the Singapore Petroleum Company Limited.
“SPE”	means the Society of Petroleum Engineers.
“SCB”	means Standard Chartered Bank.
“Sulawesi Energy”	means Sulawesi Energy Pty Ltd.
“Tarakan PSC”	is the production sharing contract between Pertamina and Tesoro Tarakan dated January 14, 1982, as may be amended from time to time, and the renewal and extension production sharing contract between Pertamina and PT Medco E&P Tarakan (formerly PT Exspan Tarakan) dated December 7, 2001, as may be amended from time to time.
“Tesoro Tarakan”	means Tesoro Tarakan Petroleum Company.
“Trihasra”	means PT Trihasra Sarana Jaya Purnama.

“U.S.”	means the United States of America.
“UOB”	means United Overseas Bank Limited.
“US\$”	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 organized 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 United States and the control of a United States fiduciary.
“Verenex”	means Verenex Energy Inc.
“VICO”	means Virginia Indonesia Co., LLC.
“WNTS”	means the West Natuna Transportation System.

### **Oil and Gas Terms**

“API”	means American Petroleum Institute.
“CNG”	means Compressed Natural Gas.
“contract area”	means a specified geographic area that is the subject of a production sharing arrangement pursuant to which an operator and its partners provide financing and technical expertise to conduct exploration, development and production operations.
“delineation well” or “appraisal well”	means a well drilled in a newly discovered or known discovery to gain further information.
“development well”	means a well that is drilled to exploit the hydrocarbon accumulation defined by an appraisal or delineation well.
“DME”	means dimethyl-ether, a liquefied fuel derived from natural gas.
“DMO”	means domestic market obligations.
“dry well” or “dry hole”	is an exploratory, development or appraisal well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.
“EOR”	means Enhanced Oil Recovery.
“EPSA”	means Exploration and Production Sharing Agreement. means a well that is designed to test the validity of a seismic interpretation and to confirm the presence of hydrocarbons in
“exploration well” or “wild cat well”	an undrilled formation.
“FSO”	means floating storage and offloading vessel.
“FTP”	means first tranche petroleum.
“gross production”	represents the sum of the oil and gas production from each of the Company’s blocks multiplied by the effective interest in such block.
“gross reserves”	represents reserves attributable to the Company’s effective interest prior to deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.

“ICP-SLC”	means the Indonesian Crude Price-Sumatra Light Crude/Minas, a reference price calculated using a formula determined by the Government.
“Indonesian participant”	means an Indonesian entity which must be offered a certain specified percentage undivided interest in the total rights and obligations under a production sharing arrangement.
“JOA”	means Joint Operating Agreement.
“JOB”	means joint operating body.
“lead”	means preliminary interpretation of geological and geophysical information that may or may not lead to prospects.
“LNG”	means liquefied natural gas.
“LPG”	means liquefied petroleum gas. means, for a given period, cost incurred to operate and
“lifting cost” or “production cost”	maintain wells and related equipment and facilities. represents the Company’s share of gross production after deducting the share payable to the Government pursuant to the
“Net production” or “net entitlement”	terms of the relevant production sharing arrangement.
“Net reserves”	represents reserves attributable to the Company’s effective interest, after deduction of Government take payable to the Government as owner of the reserves under the applicable contractual arrangement.
“Proved reserves”	represents those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and Government regulations.
“Proved plus probable reserves”	are proved reserves plus those reserves that are unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.
“PSC”	means production sharing contract.
“TAC”	means technical assistance contract.
“Upstream Regulation”	refers to the Government Regulation No. 35 of 2004 on October 14, 2004 with respect to Upstream Oil and Gas Business Activities.

### **Units of Measurement**

“Bbls”	means barrels.
“Bbls/d”	means barrels per day.
“BBTU”	means billion BTU.
“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 5.85 Mcf of natural gas.
“BOPD”	means barrels of oil production.
“BTU”	means British Thermal Unit, the standard measure of the heating value of natural gas.
“KL”	means thousands of liters.



“MBbls/d”	means thousand barrels per day.
“MBOE/d”	means thousand barrels of oil equivalent per day.
“MBOPD”	means million barrels gross oil production.
“MBTU”	means thousand BTU.
“Mcf”	means thousand cubic feet.
“MMBbls”	means million barrels.
“MMBbls/d”	means million barrels per day.
“MMBOE”	means million barrels of oil equivalent.
“MMBTU”	means million BTU.
“MMBTUD”	means million BTU per day.
“MMcf”	means million cubic feet.
“MMcf/d”	means million cubic feet per day.
“MT”	means metric ton.
“MW”	means megawatts.
“Tcf”	means trillion cubic feet.

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## Independent Auditors' Report

No. 220404 MEI RES SAR

The Stockholders, Boards 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, 2003 and 2002, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of associated companies, Mesa Drilling Inc. and Probe Technology Services, Inc. (Probe) for the years ended December 31, 2003 and 2002, the Company's investments in which are accounted for by use of the equity method. The total carrying amount of the investment in such associated companies of US\$ 1,722,750 and US\$ 1,763,588, respectively, as of December 31, 2003 and 2002, and the Company's equity in net loss of such associated companies of US\$ 40,838 and US\$ 1,061,548 for the respective years then ended are included in the accompanying consolidated financial statements. We also did not audit the financial statements of Exspan Myanmar (L) Inc., Exspan Cumi-cumi (L) Inc., Medco Lematang Ltd. and Medco International Ventures Ltd., subsidiaries, for the year ended December 31, 2002, which statements reflect total assets amounting to US\$ 1,011, US\$ 3,923,731, US\$ 2,354,239 and US\$ 8,865,763, respectively. Those statements were audited by other auditors who expressed an unqualified opinion (except for Probe which is qualified because of unavailability of its associated company's audited financial statements, the effect of which, in our opinion, is not material in relation to the consolidated financial statements) on those statements and whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries and associated companies, 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, 2003 and 2002 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Indonesia.

As discussed in Notes 45 and 44 to the consolidated financial statements, the Company and its subsidiaries have restated the accompanying 2003 and 2002 consolidated financial statements.

HANS TUANAKOTTA MUSTOFA & HALIM



Restiawan Adimuryanto, SE, BAP  
License No. 03.1.0874

April 22, 2004 (June 24, 2005 as to Notes 42 and 45)

*The accompanying consolidated financial statements are not intended to present the financial position, results of operations, and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than 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, 2003 AND 2002

	Notes	2003 (As restated - Note 45) US\$	2002 (As restated - Notes 44 and 45) US\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2f,4	134,369,657	73,609,610
Temporary investments	2g,5	51,832,844	3,042,200
Trade accounts receivable	2h,6		
Related party - net of allowance for doubtful accounts of US\$ 774,184 in 2003 and nil in 2002	36	-	774,184
Third parties - net of allowance for doubtful accounts of US\$ 2,126,010 in 2003 and US\$ 1,359,799 in 2002		66,948,774	74,413,937
Other accounts receivable	7	45,728,139	38,134,308
Inventories	2i,8	38,218,893	34,064,683
Prepaid taxes	2t,9	23,067,561	16,501,292
Prepaid expenses	2j	5,352,512	3,081,166
Restricted cash in banks	2k,10	15,814,420	703,750
<b>Total Current Assets</b>		<b>381,332,800</b>	<b>244,325,130</b>
<b>NONCURRENT ASSETS</b>			
Restricted cash in banks	2k,10	22,135,929	4,621,902
Accounts receivable from related parties - net of allowance for doubtful accounts of nil in 2003 and US\$ 87,087,109 in 2002	2h,11	1,401,366	1,195,788
Deferred tax assets - net	2t,32	31,224,193	1,342,671
Investments in shares of stock	2g,2p,12	1,722,750	1,763,588
Property and equipment - net of accumulated depreciation of US\$ 178,561,509 in 2003 and US\$ 158,815,210 in 2002	2l,13,29,30	252,260,611	205,596,778
Oil and gas properties - net of accumulated depreciation and amortization of US\$ 216,298,430 in 2003 and US\$ 164,969,111 in 2002	2m,14	312,290,831	286,028,109
Other assets - net	2n,15	6,014,403	8,139,794
<b>Total Noncurrent Assets</b>		<b>627,050,083</b>	<b>508,688,630</b>
<b>TOTAL ASSETS</b>		<b>1,008,382,883</b>	<b>753,013,760</b>

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 BALANCE SHEETS  
DECEMBER 31, 2003 AND 2002 (Continued)

	Notes	2003 (As restated - Note 45) US\$	2002 (As restated - Notes 44 and 45) US\$
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade accounts payable	16		
Related parties	36	633,408	334,712
Third parties		44,172,684	49,726,626
Other accounts payable	17	14,573,501	9,869,367
Taxes payable	2t,18	30,503,487	26,624,062
Accrued expenses	2s,19,31	11,882,603	40,057,303
Current maturities of long-term loans	21	24,975,720	2,499,920
<b>Total Current Liabilities</b>		<b>126,741,403</b>	<b>129,111,990</b>
<b>NONCURRENT LIABILITIES</b>			
Deferred tax liabilities - net	2t,32	80,044,100	74,972,229
Post-employment benefit obligation	2s,35	4,527,712	3,068,813
Long-term tax payable - net of current maturity	18	1,890,396	3,578,430
Long-term loans - net of current maturity	21	50,269,711	-
Long-term notes payable	2o,22	257,872,137	96,227,644
Swap liabilities	2v,20	3,249,775	-
Unearned revenue		996,565	-
<b>Total Noncurrent Liabilities</b>		<b>398,850,396</b>	<b>177,847,116</b>
<b>NEGATIVE GOODWILL</b>	2c,23	<b>7,007,239</b>	<b>6,415,668</b>
<b>MINORITY INTERESTS IN NET ASSETS OF SUBSIDIARIES</b>	24	<b>30,908,471</b>	<b>34,499,000</b>
<b>EQUITY</b>			
Capital stock - par value per share of Rp 100			
Authorized - 4,000,000,000 shares			
Subscribed and paid up -			
3,105,854,450 shares in 2003			
(net of 226,597,000 treasury stock) and			
3,104,252,950 shares in 2002			
(net of 228,198,500 treasury stock)	2q,25	97,964,228	97,915,615
Additional paid-in capital	26	122,055,889	121,862,995
Revaluation increment in property and equipment	2l,13	99,597	99,597
Difference due to change in equity of subsidiaries	2g, 27	27,836,821	27,788,327
Translation adjustments	2d	-	8,592
Retained earnings			
Appropriated		6,492,210	6,492,210
Unappropriated		190,426,629	150,972,650
<b>Total Equity</b>		<b>444,875,374</b>	<b>405,139,986</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,008,382,883</b>	<b>753,013,760</b>

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, 2003 AND 2002

	Notes	2003 As restated - Note 45) US\$	2002 As restated - Notes 44 and 45) US\$
NET SALES AND OPERATING REVENUES	2r,28	477,941,948	420,717,522
COST OF SALES AND DIRECT EXPENSES	2r,29	<u>265,595,839</u>	<u>196,688,969</u>
GROSS PROFIT		<u>212,346,109</u>	<u>224,028,553</u>
OPERATING EXPENSES	2r,30		
General and administrative		46,389,340	43,758,962
Selling		<u>16,762,249</u>	<u>18,661,362</u>
Total Operating Expenses		<u>63,151,589</u>	<u>62,420,324</u>
INCOME FROM OPERATIONS		<u>149,194,520</u>	<u>161,608,229</u>
OTHER INCOME (CHARGES)			
Gain (loss) on insurance claim	7,31	(1,480,379)	5,573,634
Interest income	4,5,10,11	6,005,962	1,572,178
Gain on sale of property and equipment - net	2l,13	1,689,924	78,888
Unrealized gain on trading securities	2g,5	641,300	-
Gain on sale of receivables from related parties	11	1,910,383	-
Gain on foreign exchange - net	2d	48,752	1,688,147
Interest expense	21,22	(22,383,142)	(8,384,585)
Equity in net loss of associated companies	2g,12	(40,838)	(1,061,548)
Loss on repurchase of notes payable	22	(4,838,231)	(141,167)
Loss on swap transactions	2v,20	(2,783,177)	-
Others - net	31	<u>(4,922,717)</u>	<u>413,736</u>
Other Charges - net		<u>(26,152,163)</u>	<u>(260,717)</u>
INCOME BEFORE TAX		<u>123,042,357</u>	<u>161,347,512</u>
TAX EXPENSE	2t,32		
Current tax		(68,036,341)	(76,213,815)
Deferred tax		<u>24,809,651</u>	<u>(13,115,789)</u>
Tax Expense		<u>(43,226,690)</u>	<u>(89,329,604)</u>
INCOME BEFORE MINORITY INTERESTS IN NET (INCOME) LOSS OF SUBSIDIARIES		79,815,667	72,017,908
MINORITY INTERESTS IN NET (INCOME) LOSS OF SUBSIDIARIES	24	<u>(816,696)</u>	<u>220,395</u>
NET INCOME		<u>78,998,971</u>	<u>72,238,303</u>
BASIC EARNINGS PER SHARE	2u,33	0.0254	0.0231

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, 2003 AND 2002

	Notes	2003 (As restated - Note 45) US\$	2002 (As restated - Notes 44 and 45) US\$
<b>CAPITAL STOCK</b>			
Beginning balance	2q,25	97,915,615	98,493,295
Sale (acquisition) of treasury stock		48,613	(577,680)
Ending balance		97,964,228	97,915,615
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning balance	26	121,862,995	125,187,395
Addition		192,894	-
Deduction		-	(3,324,400)
Ending balance		122,055,889	121,862,995
REVALUATION INCREMENT IN PROPERTY AND EQUIPMENT	2l,13	99,597	99,597
<b>DIFFERENCE DUE TO CHANGE IN EQUITY OF SUBSIDIARIES AND ASSOCIATED COMPANY</b>			
Beginning balance	2g,27	27,788,327	28,860,954
Addition (deduction)		48,494	(1,072,627)
Ending balance		27,836,821	27,788,327
<b>TRANSLATION ADJUSTMENTS</b>			
Beginning balance	2d	8,592	(32,057)
Addition (deduction)		(8,592)	40,649
Ending balance		-	8,592
<b>RETAINED EARNINGS</b>			
Appropriated		6,492,210	6,492,210
Unappropriated			
Beginning balance		150,972,650	119,025,180
Net income for the year		78,998,971	72,238,303
Difference due to remeasurement	2d,3	-	(6,420)
Excess of reacquisition cost over original issuance price of treasury stock	2q	-	(3,856,813)
Cash dividends	34	(39,544,992)	(36,427,600)
Ending balance		190,426,629	150,972,650
<b>TOTAL EQUITY</b>		<b>444,875,374</b>	<b>405,139,986</b>

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, 2003 AND 2002

	2003 US\$	2002 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	485,015,819	411,443,089
Cash paid to suppliers and employees	(289,432,386)	(144,435,598)
Cash generated from operations	195,583,433	267,007,491
Interest and financing charges paid	(17,837,093)	(5,121,736)
Income tax paid	(69,395,738)	(78,949,996)
<b>Net Cash Provided by Operating Activities</b>	<b>108,350,602</b>	<b>182,935,759</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Insurance claim received	15,198,750	-
Proceeds from disposal of property and equipment	4,117,202	1,215,139
Interest received	5,524,195	1,572,178
Increase in accounts receivable from related parties	(205,578)	(455,320)
Deduction (additions) to other assets	1,890,822	(5,271,757)
Refund of security deposits	234,569	36,040
Acquisitions of ownership interests in subsidiaries	(3,054,694)	(33,299,318)
Placement of restricted cash in banks	(32,624,697)	(4,236,394)
Placements in temporary investments	(48,149,344)	(1,593,885)
Additions to oil and gas properties	(77,592,041)	(84,239,926)
Acquisitions of property and equipment	(101,628,110)	(81,694,606)
Acquisition of investment in shares of stock	-	(260,035)
<b>Net Cash Used in Investing Activities</b>	<b>(236,288,926)</b>	<b>(208,227,884)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term notes payable	245,727,783	96,227,644
Proceeds from bank loans	75,245,431	-
Payments of bank loans	(2,499,920)	(2,166,119)
Proceeds from sale (acquisition) of treasury stock	241,507	(7,767,376)
Dividends paid	(39,544,992)	(36,427,600)
Dividends paid to minority interests	(236,805)	-
Acquisition of treasury notes	(90,701,231)	-
Payment of syndicated loan	-	(6,288,840)
Increase in swap liabilities	466,598	-
<b>Net Cash Provided by Financing Activities</b>	<b>188,698,371</b>	<b>43,577,709</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>60,760,047</b>	<b>18,285,584</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>73,609,610</b>	<b>55,324,026</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>134,369,657</b>	<b>73,609,610</b>

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, 2003 AND 2002 (Continued)

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	<u>2003</u> US\$	<u>2002</u> US\$
<b>SUPPLEMENTAL DISCLOSURES</b>		
Noncash investing and financing activities:		
Investment in associated company through receivable conversion	-	273,003
Addition in property and equipment through accrued expenses	-	29,966,932
Property and equipment written-off	-	653,784

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 State Gazette No. 102 dated December 22, 1981, Supplement No. 1020.

To conform 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 State Gazette No. 64 dated August 10, 1999, Supplement No. 4861.

The most recent amendment of the Company's articles of association was made through deed No. 43 dated July 23, 2002 of Notary Mrs. Indah Fatmawati, SH, replacement of Notary Mrs. Poerbaningsih Adi Warsito, S.H., notary in Jakarta, concerning the function and authority of the directors and commissioners, the authorized capital, and the rules on meeting of Directors and Commissioners. This amendment was approved by the Minister of Justice of the Republic of Indonesia in his decision letter No. C-15374 HT.01.04 TH 2002 dated August 15, 2002 and was published in State Gazette No. 51, Supplement No. 457 dated June 27, 2003.

The Company's head office is located at Graha Niaga Building, 16<sup>th</sup> Floor, 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 industry activities, including onshore and offshore drilling, and making direct and indirect investments through its subsidiaries. The Company started its commercial operations on December 13, 1980.

The Company had an average total number of employees of 1,872 in 2003 and 2,274 in 2002.

At December 31, 2003 and 2002, the Company's management consisted of the following:

	December 31, 2003	December 31, 2002
President Commissioner	: Ir. John Sadrak Karamoy	Ir. John Sadrak Karamoy
Independent Commissioner	: Gustiaman Deru : Ir. Sudono N. Suryohusodo	Gustiaman Deru Ir. Wijarso (alm./rip)
Commissioners	: Ir. Yani Yuhani Rodyat Ir. Retno Dewi Arifin Chitrapongse Kwangstukstith Maroot Mrigadat Andrew Purcell	Ir. Yani Yuhani Rodyat Chitrapongse Kwangstukstith Maroot Mrigadat Andrew Purcell
President Director	: Ir. Hilmi Panigoro, MSc	Ir. Hilmi Panigoro, MSc
Directors	: Sugiharto, SE, MBA Peerachat Pinprayong Rashid Irawan Mangunkusumo, BSc, MEng	Sugiharto, SE, MBA Peerachat Pinprayong Rashid Irawan Mangunkusumo, BSc, MEng

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On April 29, 2003, the Company convened an Annual General Meeting of Shareholders which approved the resignation of Mr. Ir. Darmoyo Doyoatmodjo, MBA, MSc as commissioner effective on January 1, 2003 (he resigned on December 1, 2002) and the appointment of Mrs. Ir. Retno Dewi Arifin as his replacement and Ir. Sudono N. Suryohusodo as a new independent commissioner to replace the late Mr. Ir. Wijarso. The meeting also approved the reappointment of the remaining commissioners and existing directors.

On October 3, 2003, the Company accepted the resignation letter of Mr. Chitrapongse Kwangsuksith as commissioner and the Company had proposed Mr. Suwit Pitchart to replace him, effective on the date of obtaining the approval at the Company's extraordinary shareholders' meeting which was held on January 23, 2004.

Salaries and other fringe benefits paid to the Commissioners and Directors, including personal income tax, amounted to US\$ 5,253,673 in 2003 and US\$ 5,758,166 in 2002.

b. Subsidiaries

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

Subsidiaries and their main activities Jurisdictions of Incorporation	Description	Percentage of Ownership	Date of Establishment	Total Assets as of December 31, 2003 US\$
1. <u>Exploration and production of oil and gas</u>				
P.T. Exspan Tarakan (ET) Indonesia	Production Sharing Contract (PSC) with BP Migas until 2022.	2003 : 99.99% 2002 : 95.93%	November 18, 1991	21,088,009
P.T. Exspan Kalimantan (EK) Indonesia	Technical Assistance Contract (TAC) with BP Migas until 2008.	2003 : 99.99% 2002 : 95.3%	November 3, 1991	56,346,814
P.T. Exspan Nusantara (EN) Indonesia	PSC with BP Migas until 2013.	99.99%	October 18, 1937	104,091,742
Exspan Airsenda, Inc. (EAS) Delaware AS/USA	PSC with BP Migas until 2023.	100.00%	April 24, 1980	201,971,394
Exspan Airlimau, Inc. (EAL) Delaware AS/USA	PSC with BP Migas until 2023.	100.00%	May 12, 1980	201,971,394
PT Exspan Pasemah Indonesia	To engage in the field of mining industry, trading and services.	95.00%	August 21, 2000	-
Exspan Exploration & Production Int'l (M) , Ltd. Mauritius	To engage in business activities as stipulated in its constitution and to carryout other business activities relating to the main objective and purposes of the Company.	100.00%	December 31, 2002	-
Exspan Exploration and Production Pasemah, Ltd. (EEP) Bahamas	PSC with BP Migas until 2003. The Company has already proposed to relinquish the PSC. Until the date of the financial statements, the relinquishment is still in process.	100.00%	December 15, 1992	68,284
Exspan Pasemah, Inc. (EP) Delaware AS/USA	PSC with BP Migas until 2003. The Company has already relinquished the PSC. BP Migas ended the contract based on the letter No. EXP-331/01 dated February 26, 2003	100.00%	December 21, 1992	68,284

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Subsidiaries and their main activities Jurisdictions of Incorporation	Description	Percentage of Ownership	Date of Establishment	Total Assets as of December 31, 2003 US\$
Enserch Far East Limited Cayman Island	PSC - Joint Operating Body (JOB) with BP Migas until 2018. In 2003, the working interest has been transferred to PT. Exspan Tuban Indonesia.	100.00%	June 14, 1984	-
Exspan Cumi-Cumi (L) Inc. Malaysia	PSC with BP Migas until 2010. The Company has already relinquished the PSC based on BP Migas approval in its letter No. 445/BP00000/2002-SI dated August 20, 2002.	99.99%	July 9, 1999	-
P.T. Exspan Energi Nusantara (EEN) Indonesia	Generation, distribution and maintenance of the supply of electrical energy	99.99%	October 7, 1997	37,066
Senoro Toili (Ind) Ltd. Bahamas	Participating interest in PSC - JOB has been transferred to P.T. Exspan Tomori Sulawesi on October 9, 2000.	100.00%	December 7, 1999	2
P.T. Medco Tomori Sulawesi Indonesia	PSC - JOB with BP Migas until 2027.	95.00%	February 29, 2000	28,108,179
Medco Simenggaris Pty. Ltd. Australia	PSC - JOB with BP Migas until 2028.	60.00%	2002	8,657,826
Medco Madura Pty. Ltd. Australia	PSC - JOB with BP Migas until 2027.	51.00%	July 1, 1996	20,510,148
Exspan Myanmar (L), Inc. Malaysia	PSC with Myanmar Oil and Gas Enterprise (MOGE). The Company has already relinquished the PSC based on MOGE's approval in its letter No. MD-3/23 (2338) 2002 dated October 25, 2002.	100.00%	February 25, 1997	-
EEX Asahan Limited Cayman Island	PSC - JOB with BP Migas until 2026.	100.00%	April 30, 1997	-
Medco Lematang Limited Malaysia	PSC with BP Migas until 2007. In 2003, the working interest has been transferred to PT Exspan Lematang.	100.00%	September 25, 2002	-
P.T. Petroner Bengara Energi Indonesia	PSC with BP Migas until 2023.	95.00%	September 18, 1998	585,489
PT. Musi Banyuasin Energi Indonesia	Processing and distribution of oil and gas products.	99.90%	August 31, 2001	16,089,617
PT. Exspan Lematang Indonesia	PSC with BP Migas until 2017.	99.99%	October 18, 2002	31,133,908
PT. Exspan Yapen Indonesia	PSC with BP Migas until 2023.	99.99%	September 26, 2002	1,657,789
PT. Exspan Rombebai Indonesia	PSC with BP Migas until 2023. In 2003, the working interest was transferred back to Ramu Rombebai LLC.	99.99%	September 26, 2002	181,663
Medco International (Sampang) Ltd, Mauritius	To engage in business activities as stipulated in its Contitution and carry out other business activities relating to the main objectives and purposes of the Company.	100.00%	18 Juli/July 18, 2003	1
PT. Medco Power Sengkang Indonesia	To engage in the field of mining industry, trading and services.	100.00%	June 16, 2003	118,133
Exspan International (Kakap) Ltd Mauritius	To engage in the field of mining industry, trading and services.	100.00%	July 18, 2003	
			Has not started commercial operations	

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Subsidiaries and their main activities Jurisdictions of Incorporation	Description	Percentage of Ownership	Date of Establishment	Total Assets as of December 31, 2003 US\$
PT. Exspan Tuban Indonesia	PSC - Joint Operating Body (JOB) with BP Migas until 2018.	99.99%	February 28, 2003	75,393,719
PT. Exspan Merangin Indonesia	PSC with BP Migas until 2033.	99.99%	June 16, 2003	2,193,133
PT. Medco Sampang Indonesia	To engage in the field of mining industry, trading and services.	99.99%	June 16, 2003	118,133
PT. Exspan Kakap Indonesia	To engage in the field of mining industry, trading and services.	99.99%	June 16, 2003	118,133
PT. Exspan Asahan Indonesia	To engage in the field of mining industry, trading and services.	99.99%	February 28, 2003	29,533
Medco Energi Pty Ltd Australia (MEAPL)	To engage in any business activities that are normally carried out/engaged in by Australian companies.	100.00%	July 2003	1
PT. Exspan Rimau Indonesia	Assignee of working interest of Exspan Airsenda Ltd. and Exspan Airlimau Ltd.	99.99%	December 19, 2000	14,766
			Has not started commercial operations	
<u>2. Drilling services</u>				
P.T. Apexindo Pratama Duta Tbk (Apexindo) Indonesia	Onshore and offshore drilling operations of oil and natural gas, and related services for companies involved in oil and gas industry.	77.53%	June 20, 1984	303,019,805
P.T. Antareja Jasatama Indonesia (AJT)	Clear fields for mining activities and services related to drilling operations.	77.21%	June 18, 1999	372,627
P.T. Exspan Petrogas Intranusa (EPI) Indonesia	Conduct activities and/or render services to companies involved in oil and natural gas exploration and production.	99.99%	October 7, 1997	25,295,524
<u>3. Methanol gas production</u>				
P.T. Medco Methanol Bunu (MMB) Indonesia	Production of methanol and its derivatives under the Refinery Agreement with BP Migas until 2017.	99.99%	January 29, 1997	25,337,673
<u>4. Others</u>				
Medco Energi Finance Overseas, B.V. (MEFO) Belanda/The Netherlands	Raise funds by issuing debt securities and marketable securities.	100.00%	October 18, 1999	63,132,551
MEI Euro Finance Limited (MEFL) Mauritius	Raise funds through debt securities offering.	100.00%	January 25, 2002	312,026,681
Medco International Ventures Ltd. (MIV) Malaysia	Acquire interests involving exploration and production of oil and natural gas.	100.00%	July 16, 2001	5,938,054
Apexindo Asia Pacific B.V (AAP) Belanda/ The Netherlands	Raise funds to finance Apexindo's construction of rig through bank loan.	77.53%	January 9, 2001	58,694,750
Apexindo Khatulistiwa (AK)	Raise funds to finance Apexindo's construction of rig through bank loan.	77.53%	February 8, 2000	17,293



The Company and its subsidiaries have several new and potential acquisitions and transfers of working interests under and extensions of production sharing contracts (Notes 14 and 39).

Refer to Note 38 for further discussion of the nature of PSC, PSC-JOB and TAC.

c. Public Offering of Shares

On September 13, 1994, the Company obtained the Notice of Effectivity from the Chairman of Capital Markets Supervisory Board (Bapepam) in his letter No. S-1588/PM/ 1994 for the Company's initial public offering of 22,000,000 shares with par value of Rp 1,000 per share. The 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 a maximum of 379,236,000 shares through Rights Issue I to shareholders. A total of 321,730,290 new shares were issued in this offering, which were listed on the Jakarta Stock Exchange on November 19, 1999. On June 26, 1997, the shareholders approved, among other things, the Company's plan to change the par value of shares from Rp 1,000 per share to Rp 500 per share.

Based on the Extraordinary Shareholders' Meeting as stated in deed No. 32 dated January 25, 2000 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., the shareholders approved, among other things, the Company's stock split from Rp 500 to Rp 100 par value per share.

On May 31, 2000, the Jakarta Stock Exchange announced the Company's Rp 500 to Rp 100 par value per share stock split.

As of December 31, 2003, all 3,332,451,450 of the Company's shares are listed on 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. Such consolidated financial statements are an English translation of the Company and its subsidiaries' statutory report in Indonesia and are not intended to present the financial position, 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 method, except for certain accounts which are measured on the bases described in the related accounting policies.

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

The reporting currency used in the preparation of the consolidated financial statements is the United States Dollar (U.S. Dollar) (Note 3).

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.

c. Business Acquisitions

Business acquisitions are accounted for using the purchase method. The excess of acquisition cost over the Company's interest in fair value of net assets of oil and gas subsidiaries acquired is included under oil and gas property as a fair value adjustment, which is 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 the fair value of net assets over the cost of the investments is recognized as negative goodwill and is treated as deferred income, which is amortized using the straight-line method over 20 years.

d. Foreign Currency Transactions and Translations

The books of accounts of the Company and its subsidiaries, except MEFO, Apexindo, AJT, MMB and EPI, are maintained using U.S. Dollars (Note 3). Transactions during the year involving currencies other than US Dollars 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 are 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 MEFO are maintained in Euro, while those of Apexindo, AJT, MMB and EPI are maintained in Rupiah. For consolidation purposes, the accounts of MEFO, Apexindo, AJT, MMB and EPI, subsidiaries with U.S. Dollar as functional currency have been remeasured into U.S. Dollars in order to reflect more closely their economic substance (Note 3).

e. Transactions with Related Parties

Related parties consist of the following:

- 1) companies that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the Company (including holding companies, subsidiaries and fellow subsidiaries);
- 2) associated companies;
- 3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and close members of the family of any such individuals (close members of the family are those who can influence or can be influenced by such individuals in their transactions with the Company);
- 4) key management personnel who have the authority and responsibility for planning, directing and controlling the Company's activities, including commissioners, directors and managers of the Company and close members of their families; and
- 5) companies in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (3) or (4) or over which such a person is able to exercise significant influence. These includes companies owned by commissioners, directors or major stockholders of the Company and companies which have a common key member of management as the Company.

All transactions with related parties, whether or not made at similar interest rates or prices, terms and conditions as those done with third parties, are disclosed in Note 36 to the consolidated financial statements.

f. Cash and Cash Equivalents

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

g. Investments

Time deposits

Time deposits with maturities of three months or less that are pledged as short-term collateral and time deposits with maturities of greater than three months but not more than one year are presented as temporary investments and are stated at their nominal value.

Investment in equity and debt securities with readily determinable fair values

Investments in equity and debt securities designated as trading securities are stated at fair value and presented as temporary investments. Unrealized gains or losses from the increase or decrease in fair value of such trading securities are reflected in the current operations.

Cost of securities sold is determined using the last-in, first-out method.

Investments in associated companies

Investments in shares of stock with an ownership interest of 20% to 50%, directly or indirectly owned, wherein the Company exercises significant influence are accounted for using the equity method. Under the equity method the Company's proportionate share in net income or loss of the associated company after the date of acquisition, dividends received and foreign currency translation adjustment arising from financial statement translation are added to or deducted from the acquisition cost of the investments. Equity in net income or loss is adjusted for the amortization of deferred gain on exchange of nonmonetary assets and straight-line amortization over five years of goodwill. The carrying amount of these investments is written down to recognize a permanent decline in value of the individual investments. Any such write-down is charged directly to current operations.

Difference due to Change in Equity of Subsidiaries and Associated Companies

Changes in the value of investments in subsidiaries and associated companies arising from capital transactions of such subsidiaries or associated companies with other parties are recognized in equity as a difference due to change in equity of subsidiaries or associated companies and recognized as revenue or expense in the period the investments are disposed of.

h. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided by the Company and its subsidiaries based on a review of the status of the individual receivable accounts at balance sheet date.

i. 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.

j. Prepaid Expenses

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

k. Restricted Cash in Banks

Current accounts and time deposits that are restricted in use for more than one year are presented under noncurrent assets. Restricted cash in banks which will be used to pay currently maturing obligation are presented under current assets.

l. Property and Equipment

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 Indonesian Government Regulation. Any revaluation increment related to the revaluation of property and equipment is 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:

	<u>Years</u>
Building and improvements	20
Offshore drilling rigs	17 - 21
Onshore drilling rigs	4 - 8
Offshore drilling pipes	4
Mud equipment	5
Offshore rig equipment	5
Onshore rig equipment	8
Vehicles	3 - 5
Leasehold improvements	3 - 8
Office and other equipment	3 - 5

Land is stated at cost and is not depreciated.

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 current operations.

Construction in progress is stated at cost and is transferred to the respective property and equipment account when completed and ready for use.

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

m. Oil and Gas Properties

The Company's subsidiaries engaged in the oil and gas industry use the successful efforts method of accounting for oil and gas activities. Under this method, costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Geological and geophysical costs and other exploration costs are charged to income as incurred.

The costs of drilling exploratory wells, including the costs of drilling exploratory-type stratigraphic test wells, are initially capitalized and recorded as part of uncompleted wells, equipment and facilities. If the well is found to have proved reserves, the capitalized costs of drilling the well are included in wells and related 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, platforms, well equipment and attendant production facilities, are capitalized as uncompleted wells, equipment and facilities. Uncompleted wells, equipment and facilities are transferred to wells and related equipment and facilities when drilling or construction is completed.

Depreciation and amortization of oil and gas properties, except unoperated acreage and uncompleted wells, equipment and facilities, are calculated based on the unit of production method, using the gross production divided by gross proved developed reserves.

Costs to acquire the rights to explore for, and produce oil and gas are recorded as unoperated acreage, which pertains to properties wherein proved reserves have not yet been discovered, or operated acreage. Unoperated acreage is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

n. Intangible Assets

Costs to acquire and prepare software for use are recorded as intangible asset and are amortized over five years based on the estimated useful life using the straight-line method.

Costs incurred in connection with the acquisition of the rights to operate BP Migas Bunyu Methanol Refinery were deferred and are being amortized over three years until 2003 using the straight-line method.

o. Issuance and Transaction Costs

Notes payable issuance costs are deducted directly from the proceeds of the related notes payable to determine the net proceeds. The difference between the net proceeds and face value represents a discount which is amortized using the straight-line method over the term of the notes.

Transaction costs of bank loans, which consists of fees paid to advisers, are deducted from the proceeds of bank loans and amortized over the term of the related loans using the straight-line method.

p. Deferred Gain on Exchange of Non Monetary Assets

The portion of the gain resulting from the exchange of nonmonetary assets which represents the economic interest retained was deferred and presented as part of the carrying value of the related investment. It is being amortized based on the remaining economic life of the asset transferred and included as part of the share in net income (loss) of the associated company.

q. Treasury Stock

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

r. Revenue and Expense Recognition

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

Revenue from sales of crude oil and gas is recognized based on delivery to the customer.

Share of profit of joint venture is recognized to the extent of the Company's/subsidiaries' working interest in the joint venture.

Revenue from sales of methanol is recognized upon delivery to the customer.

All other income and expenses are recognized when these are earned/incurred.

s. Pension and Other Employee Benefits

1. Pension Plan

Subsidiaries involved in the oil and gas exploration and production have 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 subsidiaries' pension costs are accrued when incurred.

2. Other Employee Benefits

The Company and its subsidiaries, provide employee benefits based on Labor Law No. 13/2003 in 2003 and Decree of Minister of Manpower No. 150/2000 prior to 2003.

The Company and its subsidiaries use the Projected Unit Credit Method with long-term actuarial assumptions in recognizing the employee benefits.

Cumulative actuarial gain (loss) in excess of 10% of the present value of defined benefit obligation is amortized over the estimated remaining future service of covered employees. However, actuarial gain/loss on liability to employees who are beyond normal retirement age but still active is recognized immediately since the liability is already due.

Current service cost is charged to operations in the current period. Transitional liability is amortized over five years using the straight-line method. The changes in benefits payable under the Decree of the Minister of Manpower to Labor Law is charged immediately as past service cost.

t. Income Tax

The Company and its subsidiaries determine their income taxes in accordance with the Statement of Financial Accounting Standards (PSAK) No. 46, "Accounting for Income Taxes".



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

Subsidiaries involved in the oil and gas exploration and production are subject to a corporate income tax rate of 35% as stated in the PSC, except for EAS, EAL and ET which use 30% of gross oil and gas revenue net of all production and operating expenditures and other nontaxable and nondeductible items. Dividend tax is computed at 20%, except for EN which is computed at 15%, of income after corporate income tax.

Subsidiaries operating under the provisions of a TAC are subject to corporate income tax and dividend tax at the rate of 35% and 13%, respectively, based on income net of all production and operating expenditures and other nontaxable and nondeductible items.

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 and fiscal loss carryforwards to the extent that it is probable that taxable income will be available in future periods against which such temporary differences and fiscal losses can be utilized.

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 for items charged or credited directly to equity, in which case the related 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 current tax assets and liabilities are presented.

u. Earnings per Share

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

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

v. Derivative Instruments

The Company and its subsidiaries use derivative financial instruments (primarily interest rate swap and foreign currency option contracts) to hedge its risks associated with interest rate and foreign currency fluctuations.

Statement of Financial Accounting Standards (PSAK) No. 55, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative instruments are recognized in the current operations unless specific hedges allow a derivative gain or loss offset related results on the hedged item in the statement of income, and an entity has complied with the requirement of PSAK No. 55 for formal documentation, designation and assessment of the effectiveness of transactions that receive hedge accounting treatment.

The fair values of the derivative instruments are determined based on quoted market prices.

w. Segment Information

Segment information is prepared using the accounting policies adopted for preparing and presenting the consolidated financial statements. The primary format in reporting segment information is based on business segments, while secondary segment information is based on geographical segments.

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Inter-segment revenues are based on intercompany transfer prices.

x. Impairment of Asset Value

In compliance with PSAK No. 48, "Impairment of Asset Value", asset values are reviewed for any impairment and possible write down to fair values whenever events or changes in circumstances indicate that their carrying values may not be fully recovered.

y. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in Indonesia requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management uses its best estimates and judgements, actual results could differ from these estimates as future confirming events occur, particularly in respect of oil and gas reserves.

3. CHANGE IN REPORTING CURRENCY

Effective January 1, 2002, the Company changed its reporting currency from Rupiah to U.S. Dollar based on PSAK No. 52, "Reporting Currency".

The Company has identified the U.S. Dollar as its functional currency based on sales price, cash flows and expense indicators as required by PSAK No. 52. Accordingly, the Company maintains its books of accounts and presents its financial statements in U.S. Dollar. This change 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.

Prior to the adoption of PSAK No. 52, the Company maintained its books of accounts and presented the consolidated financial statements in Indonesian Rupiah.

For recording purposes, the beginning balances of the 2002 accounts of the Company and Apexindo, AJT, MMB and EPI, subsidiaries with the U.S. Dollar as their functional currency, but which use the Rupiah as their reporting currency, were remeasured to U.S. Dollar using the following bases:

- Monetary assets and liabilities were remeasured using the exchange rate at December 31, 2001;
- Nonmonetary assets, liabilities and capital stock were remeasured using historical exchange rates;

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- Cash dividends were remeasured using rates when dividends were recorded;
- Revenues and expenses were remeasured using the weighted average exchange rate for the year except for revenues and expenses relating to non monetary assets and liabilities which were remeasured using historical exchange rates; and
- The resulting differences from the above remeasurement were included in retained earnings.

4. CASH AND CASH EQUIVALENTS

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Cash on hand	42,228	16,406
Cash in banks		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	1,450,112	2,873,316
Third parties		
Rupiah		
PT Bank Mandiri (Persero)	1,140,659	1,424,618
Citibank, NA	500,226	63,343
PT Bank Niaga	489,915	972,980
PT Bank Internasional Indonesia	213,533	104,748
PT Bank BNI 1946 Tbk	172,734	-
PT Bank Rakyat Indonesia	108,288	64,503
PT Bank Central Asia	1,219	-
PT Bank Danamon	1,093	1,033
Chase Manhattan Bank	187	-
PT Bank Lippo	-	23,956
U.S. Dollar		
PT Bank Mandiri (Persero)	35,861,318	168,437
Citibank, NA	32,416,695	66,760,585
Standard Chartered Bank	15,889,392	512,319
Fortis Bank	1,843,435	-
Merrill Lynch	648,198	-
PT Bank Central Asia	299,980	-
PT Bank Niaga	38,744	458,017
PT Bank Mega	27,762	-
Chase Manhattan Bank	17,596	18,212
Mizuho Corporate Bank, Ltd. (formerly The Fuji Bank Ltd., Singapore)	13,978	13,942
Hong Kong Shanghai Banking Corporation	12,243	10,729
PT Bank Internasional Indonesia	2,341	2,445
PT Bank BNI 1946 Tbk	1,420	2,536
PT Bank Danamon	1,065	1,156
Morgan Chase	396	-
PT Bank IFI	294	374
Myanmar Foreign Trade Bank	-	27,513
ABN Amro	-	2,366
Singapore Dollar		
Citibank, NA	25,586,500	-
AED Dirham		
Citibank, NA	46,624	55,317
Subtotal	<u>116,785,947</u>	<u>73,578,851</u>

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	<u>2003</u> US\$	<u>2002</u> US\$
Time deposits		
Related party		
Rupiah		
Bank Himpunan Saudara 1906	32,486	30,759
Third parties		
Rupiah		
PT Bank Mega	4,319,312	-
U.S. Dollar		
PT Bank Bumiputra	5,043,195	-
PT Bank Niaga	5,044,289	-
U.B.S	<u>3,102,200</u>	<u>-</u>
Subtotal	<u>17,541,482</u>	<u>30,759</u>
Total	<u><u>134,369,657</u></u>	<u><u>73,609,610</u></u>
Interest rates on time deposits		
per annum		
Rupiah	6,50% - 6,75%	6,92% - 13,00%
U.S. Dollar	0,78% - 2,25%	-

5. TEMPORARY INVESTMENTS

	<u>2003</u> US\$	<u>2002</u> US\$
Time deposits with maturity of more than 3 months		
U.S. Dollar		
PT Bank Bumiputera	-	2,500,000
Rupiah		
PT Bank Niaga	188,325	-
Time deposits used as collateral		
U.S. Dollar		
Hong Kong Shanghai Banking Corporation	474,500	474,500
PT Bank Mandiri (Persero)	235,000	-
PT Bank Niaga	<u>67,700</u>	<u>67,700</u>
Total	<u><u>965,525</u></u>	<u><u>3,042,200</u></u>

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	<u>2003</u> US\$	<u>2002</u> US\$
Marketable Securities:		
Medium Term Bond (MTB):		
PT Bank Rakyat Indonesia	10,366,920	-
Freeport McMohan	9,043,000	-
PT Bank Mandiri (Persero)	9,006,250	-
PT Indofood International Finance	9,431,250	-
Government Bond	6,068,601	-
PT Bank BNI 1946 Tbk	1,060,000	-
Shares of stock:		
PT Bumi Resources (56,395,000 shares)	2,655,757	-
Indo Premier	2,355,435	-
ITB-Niaga Mutual Fund	238,806	-
Unrealized gain	641,300	-
	<u>50,867,319</u>	<u>-</u>
Market value		
	<u>50,867,319</u>	<u>-</u>
Total temporary investments	<u>51,832,844</u>	<u>3,042,200</u>
Changes in unrealized gain on increase in value of securities		
Beginning balance	-	-
Unrealized gain for the year	641,300	-
	<u>641,300</u>	<u>-</u>
Ending balance	<u>641,300</u>	<u>-</u>
Interest rates per annum		
U.S. Dollar	1% - 1,5%	2,00% - 3,00%

Certain time deposits are used as collateral for the issuance of short-term bank guarantee certificates, letters of credit and performance bond and bid bond in the normal course of business.

6. TRADE ACCOUNTS RECEIVABLE

A. THIRD PARTIES

a. By debtor:

	<u>2003</u> US\$	<u>2002</u> US\$
Third parties		
Local debtors	44,225,748	37,732,448
Foreign debtors	24,849,036	38,041,288
	<u>69,074,784</u>	<u>75,773,736</u>
Total	69,074,784	75,773,736
Allowance for doubtful accounts	(2,126,010)	(1,359,799)
	<u>66,948,774</u>	<u>74,413,937</u>
Net	<u>66,948,774</u>	<u>74,413,937</u>

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b. By age category:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Not yet due	21,906,031	46,716,170
1 - 30 days past due	24,115,647	18,744,585
31- 60 days past due	16,297,312	5,804,081
61- 90 days past due	2,698,944	2,371,345
91- 120 days past due	197,996	307,556
More than 120 days past due	<u>3,858,855</u>	<u>1,829,999</u>
Total	69,074,784	75,773,736
Allowance for doubtful accounts	<u>(2,126,010)</u>	<u>(1,359,799)</u>
Net	<u><u>66,948,774</u></u>	<u><u>74,413,937</u></u>

c. By currency:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
U.S. Dollar	68,242,399	75,104,960
Rupiah	818,922	662,231
Singapore Dollar	13,463	4,690
AED Dirham	-	1,855
Total	<u>69,074,784</u>	<u>75,773,736</u>
Allowance for doubtful accounts	<u>(2,126,010)</u>	<u>(1,359,799)</u>
Net	<u><u>66,948,774</u></u>	<u><u>74,413,937</u></u>
Changes in allowance for doubtful accounts:		
Beginning balance	1,359,799	1,629,766
Additions	766,211	473,405
Write-offs	<u>-</u>	<u>(743,372)</u>
Ending balance	<u><u>2,126,010</u></u>	<u><u>1,359,799</u></u>

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.

As of December 31, 2003, 15% of trade accounts receivable from third parties (local debtors) was used as security for the loans received from Fortis Bank and Bank Central Asia (Note 21).

B. RELATED PARTY

Trade accounts receivable from a related party represents receivable from Mesa Drilling Inc. for which a 100% allowance for doubtful account was provided in 2003.



7. OTHER ACCOUNTS RECEIVABLE

	2003 (As restated - Note 45) US\$	2002 US\$
BP Migas	29,228,157	11,657,327
Loans to employees	3,235,106	5,482,684
Interest receivable	481,767	-
Fortune Oil Ltd.	1,000,031	-
P.T. Tugu Pratama Indonesia	-	16,679,129
Others	11,783,078	4,315,168
	<u>45,728,139</u>	<u>38,134,308</u>
Total	<u>45,728,139</u>	<u>38,134,308</u>

Accounts receivable from P.T. Tugu Pratama Indonesia (TPI) in 2002 pertains to portion of the insurance claim that was approved for payment by TPI as compensation for the damage to rig Maera due to a gas explosion accident on March 1, 2002. On July 11, 2003, it was agreed between Apexindo and TPI that the amount collectible was US\$ 15,198,750, hence the difference between the recorded receivable and actual amount to be recovered was recognized as a loss in the 2003 consolidated statement of income. On September 8, 2003, Apexindo fully received the US\$ 15,198,750 from TPI.

Accounts receivable from BP Migas represent Value Added Tax (VAT) that has been paid by subsidiaries involved in the oil and gas industry which are reimbursable from BP Migas, as well as BP Migas's field operational expenses advanced by subsidiaries.

8. INVENTORIES

	2003 US\$	2002 US\$
Spare parts, well supplies and others	36,729,931	31,261,874
Materials in transit	1,530,928	2,905,118
Methanol	1,331,610	812,619
	<u>39,592,469</u>	<u>34,979,611</u>
Total	<u>39,592,469</u>	<u>34,979,611</u>
Allowance for decline in value	(1,373,576)	(914,928)
	<u>38,218,893</u>	<u>34,064,683</u>
Net	<u>38,218,893</u>	<u>34,064,683</u>
Changes in the allowance for decline in value of inventories:		
Beginning balance	914,928	933,998
Additions	287,716	-
Write-offs	-	19,070
	<u>1,202,644</u>	<u>914,928</u>
Ending balance	<u>1,202,644</u>	<u>914,928</u>

Management believes that the allowance for decline in value of inventories is adequate.

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All inventories and property and equipment, except land, were insured for US\$ 242,741,694 and Rp 25,323,292 thousand as of December 31, 2003 and US\$ 174,649,005 and Rp 19,965,182 thousand as of December 31, 2002 (Note 13).

9. PREPAID TAXES

	<u>2003</u>	<u>2002</u>
	US\$	US\$
The Company		
Corporate income tax overpayments	801,950	1,210,952
Value added tax	<u>273,456</u>	<u>122,091</u>
Subtotal	<u>1,075,406</u>	<u>1,333,043</u>
Subsidiaries		
Corporate income tax overpayments	9,866,093	7,111,306
Value added tax	<u>12,126,062</u>	<u>8,056,943</u>
Subtotal	<u>21,992,155</u>	<u>15,168,249</u>
Total	<u><u>23,067,561</u></u>	<u><u>16,501,292</u></u>

10. RESTRICTED CASH IN BANKS

	<u>2003</u>	<u>2002</u>
	US\$	US\$
<u>Current</u>		
Fortis Bank	11,372,118	-
PT Bank Central Asia	4,442,302	-
PT Bank BNI 1946 Tbk	<u>-</u>	<u>703,750</u>
Total	<u>15,814,420</u>	<u>703,750</u>
<u>Noncurrent</u>		
Morgan Stanley	6,800,000	1,250,000
PT Bank Himpunan Saudara 1906 (Note 36)	4,755,550	1,079,754
PT Bank Niaga	3,640,874	-
Standard Chartered Bank (Note 39d)	2,029,877	2,012,506
PT Bank Mandiri (Persero)	295,334	279,642
PT Bank BNI 1946 Tbk	<u>4,614,294</u>	<u>-</u>
Total	<u><u>22,135,929</u></u>	<u><u>4,621,902</u></u>

The current account in Morgan Stanley represents eligible collateral in connection with the interest rate swap transaction between MEFL and Morgan Stanley. This collateral shall be held by Morgan Stanley until the termination date of the swap contract (Note 20).

Current account placed in PT Bank Central Asia in 2003 represents escrow account in relation to bank loan obtained from the same bank by Apexindo (Note 21).

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The current account placed in PT Bank BNI 1946 in 2002 represents fund placement by Apexindo in connection with the issuance of bank guarantee certificates by the said bank to TotalFinaElf Indonesie (TOTAL). The bank guarantee facility with the said bank was terminated in 2003.

Restricted cash in Fortis Bank represents time deposits placed by Apexindo in compliance with the provisions of the loan agreements with the same bank (Note 21).

11. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Mesa Drilling Inc.	1,287,382	1,177,964
CPA-EPI	96,160	-
Probe Technology Service Inc.	17,824	17,824
Medco Central Asia Ltd. (MCA)	-	53,068,518
P.T. Medco Duta ( DUTA )	-	29,395,496
P.T. Medco Inti Dinamika ( INTI )	-	4,623,095
	<u>1,401,366</u>	<u>88,282,897</u>
Total	1,401,366	88,282,897
Allowance for doubtful accounts	-	<u>(87,087,109)</u>
	<u>1,401,366</u>	<u>1,195,788</u>
Total	<u>1,401,366</u>	<u>1,195,788</u>

Changes in allowance for doubtful accounts:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Beginning balance	87,087,109	87,087,109
Deduction	<u>(87,087,109)</u>	<u>-</u>
Ending balance	<u>-</u>	<u>87,087,109</u>

Under 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 receivables from MCA, Duta and INTI, which have been outstanding since 1999, require approval from the Company's independent stockholders as these transactions maybe construed as a conflict of interest between the Company and its related parties.

In accordance with the abovementioned decree from the Chairman of Bapepam and his letter No. S-1896/PM/2002 dated August 28, 2002 addressed to the Company, the Extraordinary Meeting of the Independent Stockholders was conducted on August 30, 2002, wherein the said shareholders have agreed on rescheduling the repayment of the receivables from DUTA and INTI up to 9 (nine) years starting from the date of such meeting and gave the Company's management the authority to sell such restructured receivables based on existing market mechanism and in accordance with applicable regulations.

Pursuant to the selling process of the MCA, DUTA and INTI receivables, management has conducted the tender process in accordance with applicable regulations and declared PT. JAIC Indonesia as the winner, which purchased the receivables at a price of US\$ 1,910,383. The payment was received at the end of June 2003 and was recorded as other income in the 2003 consolidated statement of income.

12. INVESTMENTS IN SHARES OF STOCK

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Mesa Drilling Inc. (Note 44b)	963,850	886,952
Probe Technology Service Inc.	<u>758,900</u>	<u>876,636</u>
Total	<u><u>1,722,750</u></u>	<u><u>1,763,588</u></u>

Mesa Drilling Inc.

This account represents Apexindo's 50% ownership interest in the shares of stock of Mesa Drilling Inc. (MESA), a company located in Texas, USA, that is engaged in drilling operations. The investment was paid by transferring one unit of rig at an agreed amount of US\$ 3,000,000 as stated in the Agreement for the Sale and Purchase and Subscription for Shares in Mesa Drilling Inc. dated April 10, 2001.

At December 31, 2003 and 2002, the carrying amount of such investment accounted for under the equity method is as follows:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Beginning balance	2,139,167	2,827,973
Equity in net loss	<u>(115,751)</u>	<u>(688,806)</u>
Ending balance	2,023,416	2,139,167
Deferred gain on exchange of nonmonetary assets	<u>(1,059,566)</u>	<u>(1,252,215)</u>
Carrying amount	<u><u>963,850</u></u>	<u><u>886,952</u></u>

On June 15, 2001, Apexindo transferred one unit of rig to Mesa Drilling Inc., Texas, in exchange for a 50% ownership interest in the said company. Apexindo recognized a gain of US\$ 1,541,188 and recorded a deferred gain of US\$ 1,541,188 on such exchange. In 2003 and 2002, the amortization of the deferred gain recognized in the consolidated statements of income amounted to US\$ 192,649 and US\$ 288,973, respectively.

In January 2004, Apexindo's Board of Commissioners approved Apexindo's plan to release all of its shares and assets in MESA (Note 42a).

Probe Technology Service Inc.

This account represents the 37.17% ownership interest of EPI, a subsidiary, in Probe Technology Service Inc., a company domiciled in Houston, Texas in the United States of America, which is involved in oil services and technology. The investment was acquired for US\$ 875,000 on May 11, 2000 with additional 7.9% interest purchased in 2002.

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At December 31, 2003 and 2002, the carrying amount of this investment, which is accounted for under the equity method, is as follows:

	2003	2002
	US\$	US\$
Beginning balance	876,636	716,340
Additional investment	-	533,038
Equity in net loss during the year	<u>(117,736)</u>	<u>(372,742)</u>
Carrying amount	<u>758,900</u>	<u>876,636</u>

13. PROPERTY AND EQUIPMENT

(As restated - Note 45)

	January 1, 2003	Additions	Deductions	Reclassifications	December 31, 2003
	US\$	US\$	US\$	US\$	US\$
At cost or revalued amounts:					
Land	741,665	-	-	-	741,665
Buildings and improvements	1,292,136	72,274	857	2,073,017	3,436,570
Onshore and offshore drilling rigs and equipment	252,707,859	54,545,321	3,336,411	89,617,098	393,533,867
Vehicles	9,304,038	257,560	1,290,330	-	8,271,268
Office and other equipment	2,938,423	1,265,220	51,252	38,780	4,191,171
Leasehold improvements	6,691,381	-	572,196	(2,073,017)	4,046,168
Construction in progress	90,736,486	15,520,803	-	(89,655,878)	16,601,411
Total	<u>364,411,988</u>	<u>71,661,178</u>	<u>5,251,046</u>	<u>-</u>	<u>430,822,120</u>
Accumulated depreciation:					
Buildings and improvements	153,996	505,140	277	773,555	1,432,414
Onshore and offshore drilling rigs and equipment	146,205,643	20,319,873	1,484,835	-	165,040,681
Vehicles	8,578,300	224,541	650,826	-	8,152,015
Office and other equipment	1,832,206	383,833	44,277	-	2,171,762
Leasehold improvements	2,045,065	1,136,680	643,553	(773,555)	1,764,637
Total	<u>158,815,210</u>	<u>22,570,067</u>	<u>2,823,768</u>	<u>-</u>	<u>178,561,509</u>
Net Book Value	<u>205,596,778</u>				<u>252,260,611</u>

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	January 1, 2002	Additions	Deductions	Reclassifications	December 31, 2002
	US\$	US\$	US\$	US\$	US\$
At cost or revalued amounts:					
Land	710,917	30,748	-	-	741,665
Buildings and improvements	751,380	540,756	-	-	1,292,136
Onshore and offshore drilling rigs and equipment	249,974,852	6,965,091	15,458,809	11,226,725	252,707,859
Vehicles	9,298,718	363,229	357,909	-	9,304,038
Office and other equipment	2,008,104	930,319	-	-	2,938,423
Leasehold improvements	5,529,066	1,986,891	901,130	76,554	6,691,381
Construction in progress	1,195,261	100,844,504	-	(11,303,279)	90,736,486
<b>Total</b>	<b>269,468,298</b>	<b>111,661,538</b>	<b>16,717,848</b>	<b>-</b>	<b>364,411,988</b>
Accumulated depreciation:					
Buildings and improvements	112,520	41,476	-	-	153,996
Onshore and offshore drilling rigs and equipment	134,804,120	14,072,392	2,670,869	-	146,205,643
Vehicles	8,372,839	574,723	369,262	-	8,578,300
Office and other equipment	1,634,377	197,829	-	-	1,832,206
Leasehold improvements	1,789,078	1,038,176	782,189	-	2,045,065
<b>Total</b>	<b>146,712,934</b>	<b>15,924,596</b>	<b>3,822,320</b>	<b>-</b>	<b>158,815,210</b>
<b>Net Book Value</b>	<b>122,755,364</b>				<b>205,596,778</b>

Allocation of depreciation expense is as follows:

	2003 (As restated - Note 45) US\$	2002 US\$
Cost of sales and direct expenses	21,600,190	14,942,911
Operating expenses	969,877	981,685
<b>Total</b>	<b>22,570,067</b>	<b>15,924,596</b>

MMB and Apexindo, subsidiaries, own several pieces of land located in Pondok Pinang, Jakarta and in Balikpapan with Building Use Rights (Hak Guna Bangunan or HGB) for a period of 20 years until 2018 and 2008, respectively. 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.

Construction in progress mainly represents refurbishment of rigs and LPG plant that were completed in 2004.

Apexindo also owns 31,651 m<sup>2</sup> of land in Bojonegara. Up to the date of the auditor's report, Apexindo is still in the process of transferring the landright certificate in Bojonegara to its name.



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In June and July 2002, Apexindo signed long-term drilling contracts with TotalFinaElf E&P Indonesia with a total value of US\$ 142 million (Note 39c). In compliance with the provisions of the drilling contracts, Apexindo has to provide 2 (two) submersible swamp barge rigs (named Raissa and Yani). Keppel Fels Limited, Singapore was contracted to build such rigs, which have total costs of US\$ 54 million and US\$ 41 million for rigs Raissa and Yani, respectively. The rigs were delivered in March and May 2003.

To finance the construction of such rigs, Apexindo, in addition to the use of the proceeds derived from the IPO, entered into agreements with a related party for the joint financing of such constructions (Note 36).

On March 1, 2002, one of the offshore drilling rigs, Maera, which was under a drilling contract with TotalFinaElf E&P Indonesia, was damaged by a gas explosion at the gas drilling site in Mahakam River, East Kalimantan. The loss recognized in 2002 on the write-down of rig Maera amounted to Rp 101,203,630 thousand. Keppel Fels Limited, Singapore, was also contracted for the repair and upgrading of rig Maera, which was completed on February 7, 2003. The total construction cost of rig Maera amounted to US\$ 37,734,261 and it started operating in the middle of March 2003 under a new drilling contract with TotalFinaElf E & P Indonesia.

In February 2003, Apexindo sold its rig No. 6 with net book value of US\$ 2,134,121 to Patterson-UTI Drilling Company LP, LLP at a selling price of US\$ 4,593,000. Gain on sale of US\$ 2,458,879 was recognized in the 2003 consolidated statement of income, net of final tax of US\$ 474,316.

Certain property and equipment are used as collateral for the loan facilities obtained from several banks (Note 21).

Interest and other borrowing costs capitalized as part of the property and equipment amounted to US\$ 2,438,891 as of December 31, 2003 and US\$ 1,004,565 as of December 31, 2002.

All property and equipment, except land, and inventories were insured against fire, theft and other possible risks for US\$ 242,741,694 and Rp 25,323,292 thousand at December 31, 2003 and US\$ 174,649,005 and Rp 19,965,182 thousand at December 31, 2002 (Note 8). Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

14. OIL AND GAS PROPERTIES

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Operated acreage	26,237,474	22,378,474
Unoperated acreage	4,089,652	1,409,000
Wells and related equipment and facilities	346,764,600	307,555,991
Office equipment	9,187,311	4,967,309
Vehicles	3,237,635	2,806,376
Uncompleted wells, equipment and facilities	82,137,573	55,586,933
Fair value adjustment	<u>56,935,016</u>	<u>56,293,137</u>
Total	528,589,261	450,997,220
Accumulated depreciation and amortization	<u>(216,298,430)</u>	<u>(164,969,111)</u>
Net Book Value	<u><u>312,290,831</u></u>	<u><u>286,028,109</u></u>

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At December 31, 2003 and 2002, all wells and related equipment and facilities of subsidiaries involved in oil and gas exploration and production were insured for US\$ 296,449,614 and US\$ 297,323,345, respectively. Refer to Note 41 for operating hazards and uninsured risks.

On December 7, 2001, PT. Exspan Nusantara entered into the renewal and extension of the Rimau Block PSC effective on April 23, 2003 for 20 years, which replaced and superseded the original PSC dated April 23, 1973. In addition EN paid awarded compensation to the government and is also required to fulfill the yearly work program commitments in accordance with the PSC (Note 39).

On December 7, 2001, PT. Exspan Tarakan entered into the renewal and extension of the Tarakan Block PSC effective on January 14, 2002 for 20 years, which replaced and superseded the original PSC dated January 14, 1982. ET also paid awarded compensation to the government and is required to fulfill the yearly work program commitments in accordance with the PSC (Note 39).

The Company and its subsidiaries also have several new and potential acquisitions as well as transfers of working interests as further discussed in Notes 39 and 42.

15. OTHER ASSETS

	<u>2003</u> US\$	<u>2002</u> US\$
Security deposits	805,867	1,040,436
Advanced payment for property and equipment	3,116,843	3,095,626
Software costs - net	3,950,135	3,532,154
Notes receivable - Kredit Asia Finance, Ltd., Hongkong	5,170,350	5,170,350
Others	<u>1,237,184</u>	<u>3,567,204</u>
Total	14,280,379	16,405,770
Allowance for possible losses on notes receivable and advanced payment for property and equipment	<u>(8,265,976)</u>	<u>(8,265,976)</u>
Net	<u><u>6,014,403</u></u>	<u><u>8,139,794</u></u>

Notes receivable from Kredit Asia Finance, Ltd., Hong Kong, with a principal amount of US\$ 5,170,350 and interest rate of 10.5% per annum, were purchased by the Company in 1995. The maturity date of these notes has 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 100% provision for possible losses on these notes receivable. On November 13, 2003, the Company has issued a Statutory Demand to Kredit Asia Finance Ltd., demanding the payment of the Notes. The Company has also obtained the Writ of Summons from the Hong Kong High Court on December 19, 2003 stating that Kredit Asia Finance Ltd. is in an apparent insolvent condition, therefore the Company intends to write-off the receivables due from Kredit Asia Finance Ltd.

Costs incurred in connection with the acquisition of the license to operate SAP software and prepare it for use are recorded as intangible asset and are being amortized over five years.

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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 this account.

Receivable from PPU of US\$ 1,102,922 (included in others) was settled in 2004 through the transfer of 2 units of VSIT equipment to EPI.

16. TRADE ACCOUNTS PAYABLE

a. By creditor:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Related parties		
P.T. Andrawina Praja Sarana	612,535	334,712
P.T Multifabrindo Gemilang	<u>20,873</u>	<u>-</u>
Subtotal	<u>633,408</u>	<u>334,712</u>
Third parties		
Local suppliers	40,955,231	36,999,152
Foreign suppliers	<u>3,217,453</u>	<u>12,727,474</u>
Subtotal	<u>44,172,684</u>	<u>49,726,626</u>
Total	<u><u>44,806,092</u></u>	<u><u>50,061,338</u></u>

b. By age category:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Up to 1 month	28,024,143	38,697,664
1 - 3 months	14,708,081	7,516,513
3 - 6 months	1,020,895	2,880,541
6 months - 1 year	276,437	526,590
More than 1 year	<u>776,536</u>	<u>440,030</u>
Total	<u><u>44,806,092</u></u>	<u><u>50,061,338</u></u>

c. By currency:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
U.S. Dollar	36,904,106	41,149,766
Rupiah	7,415,158	7,962,208
Singapore Dollar	421,610	659,349
Euro	65,218	233,845
British Poundsterling	<u>-</u>	<u>56,170</u>
Total	<u><u>44,806,092</u></u>	<u><u>50,061,338</u></u>

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Purchases of material and services, both from local and foreign suppliers, have credit terms of 30 to 60 days.

17. OTHER ACCOUNTS PAYABLE

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Beyond Petroleum (BP)	4,536,217	4,536,217
Falcon Oil Ltd.	3,559,879	-
BP Migas	2,276,261	2,308,497
Petrochina	1,746,963	-
Others	2,454,181	3,024,653
	<u>14,573,501</u>	<u>9,869,367</u>

Accounts payable to Beyond Petroleum (formerly ARCO) amounting to US\$ 4,536,217 represents the amount to be paid by P.T. Medco Tomori Sulawesi (formerly PT. Exspan Tomori Sulawesi), a subsidiary, once the petroleum production from the Senoro-Toili Block has reached certain volume as provided in the agreement.

Accounts payable to BP Migas arose from the utilization of its pipeline facilities by the Company's subsidiaries.

18. TAXES PAYABLE

	<u>2003</u>	<u>2002</u>
	US\$	(As restated - Note 44) US\$
<u>The Company</u>		
Income tax		
Article 21	556,873	2,567,416
Article 23	52,032	5,101
Article 26	333,001	17,813
Value added tax	-	174,843
	<u>941,906</u>	<u>2,765,173</u>
<u>Subsidiaries</u>		
US tax liabilities	12,012,854	10,225,748
Corporate income tax	10,509,238	7,526,255
Income tax		
Article 21	60,031	798,449
Article 23	1,120,708	1,414,287
Article 25	67,582	-
Article 26	762,645	112,199
Current maturities of income tax - Article 19 (net of long-term portion)	1,890,396	1,789,955
Value added tax	3,138,127	1,991,996
	<u>29,561,581</u>	<u>23,858,889</u>
Total	<u>30,503,487</u>	<u>26,624,062</u>

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As further discussed in Note 44, the Company has recognized US\$ 15.3 million for the U.S. tax obligations of certain subsidiaries, consisting of the principal amount of US\$ 12 million, included in the taxes payable, and interest charges of US\$ 3.3 million, included in accrued expenses (Notes 40a and 42c).

On June 27, 2003, Apexindo received various tax assessment letters for underpayments and overpayment of 2001 taxes from Tax Service Office. Apexindo fully paid the total underpayments of Rp 5,330,029 thousand.

In 2002, Apexindo received various tax assessment letters for tax underpayment and tax collection letters from the Tax Service Office, including the assessment for the 1998 income tax. Apexindo submitted its objection letter for the 1998 tax assessment to the Director General of Tax. On June 27, 2003, the General Director of Tax has approved the objection letter filed by Apexindo. In August 2003, Apexindo received refund from the State Treasury amounting to Rp 11,237,576 thousand and interest amounting to Rp 6,069,870 thousand.

On June 16, 2003, Apexindo received the tax assessment letter for tax underpayment and tax collection letter for 2001 corporate income tax from the Tax Service Office amounting to Rp 289,052 thousand and Rp 2,209,102 thousand, respectively. Apexindo fully paid the underpayments. On September 10, 2003, Apexindo submitted its objection letter for the 2001 tax assessment to the Director General of Tax. Up to the date of the auditors' report, there has been no response yet from the Director General of Tax.

In 2001, Apexindo had revalued its property and equipment. Income tax payable under Article 19 on the revaluation amounted to Rp 80,011,055 thousand which can be paid in installments over five years.

19. ACCRUED EXPENSES

	2003 (As restated - Note 45) US\$	2002 (As restated - Note 44) US\$
Interest on U.S. tax liabilities	3,331,666	3,285,033
Interest expense	2,719,706	-
Penalty for late delivery of rig Yani (Note 31)	858,964	-
Severance	735,788	-
Labor supply	610,842	-
Rig construction (Notes 13 and 36)	-	29,966,932
Others	3,625,637	6,805,338
Total	<u>11,882,603</u>	<u>40,057,303</u>

20. DERIVATIVES

- i. On December 17, 2002, MEFL, a subsidiary, entered into a Forward Interest Rate Swap Transaction with Morgan Stanley & Co. International Limited (Morgan Stanley). The effective date of the swap transaction was on March 19, 2003 with a notional amount of US\$ 25 million. MEFL has terminated this transaction on May 27, 2003.

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On June 19, 2003, MEFL entered into a new Forward Interest Rate Swap Transaction with Morgan Stanley. The notional amount is US\$50 million, with eligible collateral of US\$ 2 million. As of December 31, 2003, the collateral has been increased to US\$ 6.8 million (Note 10). The effective date of this transaction was on November 22, 2003. Details of the swap contract are as follows:

Fixed Amounts:

- Fixed rate payer: Morgan Stanley
- Fixed rate payer payment date: May 22 and November 22 of each year, commencing on May 22, 2004 and up to and including the Termination Date
- Fixed rate: 8.75% per annum

Floating Amounts:

- Floating rate payer: MEFL
- Floating rate payer payment dates: November 22 of each year commencing on November 22, 2004 and up to and including the Termination Date.
- Floating rate: 12 month LIBOR-in-arrears + 4.88% per annum
- 6 months LIBOR-in-arrears: LIBOR as determined 2 Business Days prior to the end of each calculation period
- LIBOR: 12 month USD LIBOR, as determined by the Calculation Agent

The Termination Date is the earlier of May 22, 2010 or the Optional Termination Date, exercisable by Morgan Stanley.

The abovementioned swap is being used to hedge US\$ 50 million of MEFL's fixed-rate Guaranteed Notes, however, such hedge was assessed as ineffective hence, hedge accounting was not applied.

The total change in fair value of the swap liability at December 31, 2003 of US\$ 3,038,378 was recognized as loss on swap transactions in the 2003 consolidated statement of income (Note 42b).

- ii. On December 22, 2003, MEFL, subsidiary entered into a European Compound Option Currency (USD/AUD) contract with UBS AG. MEFL paid a premium of AUD 1,346,000 for the option. The contract has a call currency and call currency amount of AUD 300,000,000, and put currency and put currency amount of US\$ 227,340,000, expiring on January 30, 2004. MEFL has not exercised the option prior to expiration and the premium paid was charged to the 2003 consolidated statement of income.
- iii. On May 21 and November 21, 2003, AAP entered into Interest Rate Swap Agreements with Fortis Bank S.A./N.V., Singapore (Fortis) for a notional amount of US\$ 30 million with maturity period ending May 1, 2007, and US\$ 17,972 million with maturity period ending September 1, 2006, respectively. The fair value of interest rate swap payable amounted to US\$ 211,397 as of December 31, 2003 (Note 42b).



21. LONG-TERM LOANS

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Fortis Bank S.A./N.V., Singapore	52,376,090	-
P.T. Bank Central Asia	22,869,341	-
P.T. Bank Mandiri (Persero)	-	2,499,920
	<u>75,245,431</u>	<u>2,499,920</u>
Total	75,245,431	2,499,920
Less: current portion	<u>24,975,720</u>	<u>2,499,920</u>
Long-term portion	<u>50,269,711</u>	<u>-</u>
Interest rates per annum during the year	2,15% - 5,53%	5.19% - 5.53%

a. Bank Central Asia

On August 25, 2003, Apexindo entered into a Banking Facilities Credit Agreement with PT Bank Central Asia (BCA), notarized by deed No. 3 of Mardiah Said S.H., notary public in Jakarta, whereby the latter agreed to provide banking credit facilities as follows:

- Investment Credit (KI) amounting to US\$ 20,000,000, with interest rate based on BCA's prime lending rate minus 0.625% p.a. The term loan is payable over 4 (four) years with a grace period of 6 (six) months commencing on the first loan drawing. Interest is payable monthly counting from the date of drawing.
- Local Credit (KL) amounting to US\$ 5,000,000, with interest rate based on BCA's prime lending rate minus 0.75% p.a. This revolving loan is payable over 1 (one) year. Interest is payable at the end of each month.
- Bank Guarantee amounting to US\$ 5,000,000 for 3 (three) years.

The above facilities are collateralized by Apexindo's Maera drilling rig and cash flow waterfall retained from rigs Maera and Rasis, which should be placed in an escrow account (Note 10).

Principal payment of Investment Credit will be made quarterly based on the following schedule (after the grace period):

- 1<sup>st</sup> - 3<sup>rd</sup> installments: 5% each of the principal amount
- 4<sup>th</sup> - 7<sup>th</sup> installments: 6.5% each of the principal amount
- 8<sup>th</sup> - 11<sup>th</sup> installments: 8% each of the principal amount
- 12<sup>th</sup> - 15<sup>th</sup> installments: 6.75% each of the principal amount

Apexindo is required to obtain BCA's approval before entering into the following transactions, among others:

- Obtain new loan or credit facility from other parties that will increase the Debt to Equity ratio to more than 2.
- Lend money to third parties, except for operational activities.

- Merger, takeover, liquidation and change in its status and articles of association.
- Payment of loan to shareholders, except for those obtained prior to signing of the bank credit facility agreement.
- Acquire new investment or establish new business, which value exceeds 10% of Apexindo revenue or 20% of its total equity.
- Sale, guarantee, and disposal of assets.

b. Fortis Bank

- i. On July 19, 2003, Apexindo as sponsor and AAP as borrower, with Fortis Bank, Singapore, as sole arranger, facility agent and security trustee, entered into the Yani Syndicated Loan Facility Agreement, whereby the latter agreed to provide US\$ 26 million or 65% of the total construction cost of rig Yani, whichever is lower, to finance the rig's construction. The term loan carried interest at LIBOR plus 2.15% - 2.35% per annum. It is payable in twelve (12) equal quarterly repayments, with the first payment due on December 1, 2003.

The Yani Syndicated Loan Facility Agreement also contains provisions for the order of enforcement of the rights of lenders upon the occurrence of an Event of Default under the Raissa Term Loan Facility Agreement as well as circumstances that are considered as an Event of Default under the Yani Syndicated Loan Facility Agreement.

- ii. On March 6, 2003, Apexindo as sponsor and AAP as borrower, with Fortis Bank, Singapore, as sole arranger, facility agent and security trustee, entered into the Raissa Syndicated Loan Facility Agreement, whereby the latter agreed to provide US\$ 39 million or 75% of the total construction cost of rig Raissa, whichever is lower, to finance the rig's construction. The term loan carried interest at LIBOR plus 2.15% - 2.55% per annum. It is payable over four years with sixteen equal quarterly repayments with the first payment due on the earlier of the date falling three months after May 27, 2003 and the date falling three months after the Actual Commencement Date (as defined in the agreement).

On May 27, 2003, AAP received the full amount of the facility amounting to US\$ 39 million.

The significant provisions of the abovementioned agreements with Fortis Bank are as follows:

- Assignment of project contracts, which include, among others, the Raissa Shipbuilding Contract and Drilling Contracts, to the Security Trustee.
- Assignment of Project Insurances to the Security Trustee.
- Execution of rig Raissa Mortgage as collateral to Fortis Bank as the Security Trustee.
- AAP's Debt Service Cover Ratio (DSCR) for each of the last two immediately succeeding quarters will not be less than 1.25 and provided that if DSCR is less than 1.35, AAP and Apexindo shall agree with the majority lenders as to the measures that Apexindo intends to take to ensure that AAP will be able to meet its obligations.

In addition to the terms and conditions described above, AAP and Apexindo are restricted by certain covenants, without prior approval from Fortis Bank, to undertake, among others, any of the following:

- Merger or consolidation;
- Declare or pay dividend and/or other portion of income (this condition would take effect only if an event of default has occurred in Apexindo);
- Repay shareholders' loans (this condition would take effect only if an event of default has occurred in Apexindo);
- Create or attempt or agree to create or permit to arise or exist any encumbrance over all or any part of its property, assets or revenues, present or future, with the exception of (i) Permitted Encumbrance based on the agreement, (ii) possessory lien arising by operation of law in the ordinary course of business or any encumbrance, (iii) any encumbrance when aggregated with the indebtedness secured by all other Permitted Encumbrance, does not exceed US\$15 million (or its equivalent in other currency).

Apexindo and AAP also entered into the following agreements in compliance with the requirements of Fortis Bank:

- Sale and Purchase Agreement between Apexindo and AAP dated February 28, 2003, whereby Apexindo sold and transferred all its rights and obligations on rig Raissa to AAP.
- Installment Asset Sale Agreement dated May 22, 2003, whereby Apexindo agreed to buyback rig Raissa from AAP.
- Sale and Purchase Agreement dated June 4, 2003, whereby Apexindo agreed to sell and transfer all its rights and obligations on rig Yani to AAP.
- Conditional Installment Asset Sale Agreement dated June 4, 2003, whereby Apexindo agreed to buyback rig Yani from AAP.

c. Bank Mandiri (Persero)

On August 28, 1996, Apexindo entered into an agreement with BDN Bank AG, Germany, and obtained a credit facility amounting to US\$ 6,250,000 with interest rate equivalent to a certain percentage above LIBOR. This loan is secured by a corporate guarantee from the Company.

Since April 12, 1999, Apexindo's loan from BDN Bank AG, Germany has been taken over by P.T. Bank Mandiri (Persero). This loan matured on October 16, 1998 and the restructuring proposal was approved on May 1, 2000. The restructuring proposal was accommodated in Working Capital Credit Agreement Amendment (Agreement) deed No. 109 dated May 23, 2001 of B.R.Ay. Mahyastoeti Notonagoro, S.H.

The restructured loan was payable monthly based on the agreed installment schedule commencing on the date the agreement was signed, with the last payment due on October 31, 2003. The loan bore interest per annum at LIBOR plus spread ranging from 2.5% to 4.0% which was also payable every month.

Apexindo was also restricted by certain covenants, without prior approval from Bank Mandiri (Persero), to undertake certain transactions. It was also required to fulfill certain provisions, such as maintenance of the specified debt to equity ratio and current account balance.

The loan from Bank Mandiri was fully paid on October 31, 2003.

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22. LONG-TERM NOTES PAYABLE

	2003 (As restated - Note 45) US\$	2002 US\$
Guaranteed Notes (GN) due in 2010	325,411,000	-
Senior Guaranteed Notes (SGN) due in 2007	27,500,000	100,000,000
Treasury notes	<u>(85,863,000)</u>	<u>-</u>
Total	267,048,000	100,000,000
Less: unamortized discount	<u>9,175,863</u>	<u>3,772,356</u>
Total	<u><u>257,872,137</u></u>	<u><u>96,227,644</u></u>
Interest rates per annum	8,75% - 10,00%	10,00%

Senior Guaranteed Notes (SGN) Due in 2007 and Guaranteed Notes (GN) Due in 2010

On March 19, 2002, MEFL issued US\$ 100 million Senior Guaranteed Notes (SGN) with 10 % interest rate per annum, at an initial offering price of 98.093% through Credit Suisse First Boston (Note 36).

Repayment of principal is due upon maturity on March 19, 2007. Interest is payable every March 19 and September 19 of each year, commencing on September 19, 2002. The SGN are guaranteed by the Company and are listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The terms and conditions of the SGN contain certain covenants which, among others, require the Company and its subsidiaries to maintain certain financial ratios computed based on the consolidated financial statements, prohibit the declaration and payment of dividends to stockholders of the Company in excess of 50% of consolidated net income and restrict the subsidiaries to incur additional indebtedness except for certain permitted indebtedness. The terms and conditions also do not allow the Company and its subsidiaries to merge unless certain conditions have been met.

On May 22, 2003 MEFL has issued another US\$ 250 million Guaranteed Notes with 8.75% interest rate per annum at an initial offering price of 99.011% through UBS Warburg and Credit Suisse First Boston (Note 36). Repayment of principal is due upon maturity on May 22, 2010. Interest is payable every May 22 and November 22 of each year, commencing on November 22, 2003. The Notes are guaranteed by the Company and listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The terms and conditions of the GN contain certain covenants which among others, require the Company and its subsidiaries to maintain certain financial ratios computed based on the consolidated financial statements, prohibit to issue any notes or other similar instruments that are senior to the notes, prohibit the Company to sell, lease, transfer or otherwise dispose of its fixed assets other than due to impairment, prohibit the Company to declare any dividend or other distribution in excess of 50% of consolidated net income.

Concurrent with the issuance of the Guaranteed Notes, MEFL launched a program called "exchange offer and consent solicitation" for the US\$ 100 million SGN previously issued on March 19, 2002. The holders of US\$ 72.5 million of the SGN agreed to exchange their SGN with the new ones, while the holders of US\$ 27.5 million preferred only to amend the conditions of the SGN pertaining to, among others, the Company's obligation with respect to incurrence of indebtedness and limitations on affiliate transactions.

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As of December 31, 2003, the Company bought-back SGN and GN with total face value of US\$ 85,863,000 for US\$ 87,750,948. The difference between the carrying value of the notes and repurchase price amounting to US\$ 4,838,231 was charged to the 2003 consolidated statement of income.

The Company was assigned a "B+" corporate credit rating with stable outlook by Standard & Poor's on March 25, 2003 and May 2, 2003. The same rating was assigned to the US\$ 250 million Guaranteed Notes and the US\$ 100 million SGN issued by MEFL. On January 29, 2002 and May 5, 2003, PT Pemingkat Efek Indonesia (PEFINDO), the local rating agency assigned an "AA-" corporate rating with stable outlook to the US\$ 100 million SGN.

MEFL has entered into several swap transactions in relation to these notes (Note 20). As of December 31, 2003, the fair value of the outstanding notes payable was US\$ 273,056,580.

23. NEGATIVE GOODWILL

Negative goodwill arose from the acquisition of the following subsidiaries:

	2003 US\$	2002 US\$
Exspan Exploration and Production Pasemah, Ltd.	3,104,411	3,104,411
Exspan Pasemah, Inc.	3,104,411	3,104,411
Enserch Far East Ltd.	1,337,421	1,337,421
P.T. Exspan Kalimantan	1,012,044	34,909
Exspan Aircenda, Inc.	729,857	729,857
Exspan Airlimau, Inc.	729,857	729,857
P.T. Apexindo Pratama Duta Tbk	339,215	339,215
P.T. Exspan Rombebai	213,445	-
P.T. Exspan Tarakan	79,555	-
Total	10,650,216	9,380,081
Less: accumulated amortization	3,642,977	2,964,413
Net book value	7,007,239	6,415,668

24. MINORITY INTERESTS

a. Minority interests in net assets of subsidiaries:

	2003 US\$	2002 (As restated - Note 44) US\$
P.T. Apexindo Pratama Duta Tbk	30,903,306	30,487,726
P.T. Exspan Nusantara	3,536	1,335
P.T. Medco Methanol Bunyu	1,057	496
PT. Exspan Petrogas Intranusa	462	-
PT. Exspan Lematang	110	-
P.T. Exspan Kalimantan	-	2,597,185
P.T. Exspan Tarakan	-	1,390,558
P.T. Petroner Bengara	-	21,700
Total	30,908,471	34,499,000

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b. Minority interests in net income (loss) of subsidiaries:

	2003	2002 (As restated - Note 44)
	US\$	US\$
P.T. Apexindo Pratama Duta Tbk	652,385	743,145
P.T. Exspan Kalimantan	212,870	415,763
P.T. Exspan Nusantara	1,236	1,093
P.T. Medco Methanol Bunyu	1,218	27
P.T. Exspan Tarakan	(51,130)	138,877
Medco Simenggaris Pty, Ltd.	-	(309,805)
Medco Madura Pty, Ltd.	-	(1,209,495)
PT. Exspan Petrogas Intranusa	117	-
	<u>816,696</u>	<u>(220,395)</u>
Total	<u>816,696</u>	<u>(220,395)</u>

On October 1, 2003, the Company and its subsidiary (EN) have entered into Share Purchase and Sale Agreements with PT Bina Usaha Jasa Mandiri, holder of 320,000 shares in PT. Exspan Tarakan (ET), and PT Bina Usaha Jasa Triputra, holder of 1,080,000 shares in PT. Exspan Kalimantan (EK), for the purchase of such shares for US\$ 1,259,874 and US\$ 1,794,820, respectively. These purchases increased the Company's ownership interest in both ET and EK to 99.99%.

25. CAPITAL STOCK

Name of Stockholders	2003			
	Number of Shares	Ownership Percentage	Total Paid-up Capital	
			Rp '000	US\$
New Links Energy Resources Limited	2,849,414,565	85.51%	284,941,457	86,497,182
P.T. Medco Duta	78,360,000	2.35%	7,836,000	2,377,130
P.T. Nuansa Grahacipta	2,885,000	0.09%	288,500	91,039
P.T. Multifabrindo Gemilang Public (less than 5%)	2,000,000	0.06%	200,000	60,693
	<u>399,791,885</u>	<u>11.99%</u>	<u>39,979,189</u>	<u>12,128,420</u>
Total	3,332,451,450	100.00%	333,245,146	101,154,464
Less: treasury stock	(226,597,000)	-	(22,659,700)	(3,190,236)
Total	<u>3,105,854,450</u>	<u>100.00%</u>	<u>310,585,446</u>	<u>97,964,228</u>



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<u>Name of Stockholders</u>	2002 (As restated - Note 44)		
	<u>Number of Shares</u>	<u>Ownership Percentage</u>	<u>Total Paid-up Capital US\$</u>
New Links Energy Resources Limited	2,849,414,565	85.51%	86,497,182
P.T. Medco Duta	78,360,000	2.35%	2,377,130
P.T. Multifabrindo Gemilang	2,000,000	0.06%	60,693
P.T. Nuansa Grahacipta	2,885,000	0.09%	91,039
Public (less than 5%)	399,791,885	11.99%	12,128,420
Total	3,332,451,450	100.00%	101,154,464
Less: treasury stock	(228,198,500)	-	(3,238,849)
Total	<u>3,104,252,950</u>	<u>100.00%</u>	<u>97,915,615</u>

Based on the Decree from the Chairman of Bapepam 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 an Employees' Stock Option Plan, which has been approved in a General Meeting of Stockholders taking into consideration Bapepam's regulations on conflict of interest transactions.

However, on January 23, 2004, the Company has convened an Extraordinary General Meeting of Shareholders, which to approve the cancellation of the Company's Employee Stock Option Program and grant full authorization to the Board of Directors in taking all necessary actions relating to the cancellation of the said program.

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 directors and employees at a maximum of 5% of the total shares issued and to be issued within three years by the Company at an 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 are still to be determined by the Company's Board of Commissioners. In relation to this program, the Company shall acquire treasury stock in the stock exchange at a maximum estimated cost of Rp 86 billion or an average maximum price of Rp 2,000 per share within 12 months since it was approved at the Extraordinary Stockholders' Meeting.

Based on the General Meeting of Stockholders, as stated in deed No. 76 dated June 25, 2001 of Notary Mrs. Poerbaningsih Adi Warsito, S.H., the stockholders also agreed to repurchase additional shares at a maximum cost of Rp 264 billion.

The issuance period of the option expired on June 22, 2003. In October 2003, the Commissioners and Directors have decided not to extend the issuance period and proposed to cancel the said stock ownership program, which was approved by the shareholders in the Extraordinary General Meeting of Shareholders as stated in notarial deed No. 85 dated January 23, 2004 of Ny. Maria Theresia Suprapti, SH, replacement on Ny. Poerbaningsih Adi Warsito, SH, notary public in Jakarta.

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Changes in the shares outstanding in 2003 and 2002 are as follows:

	Number of Shares	
	2003	2002
Number of shares after stock split on May 31, 2000	3,332,451,450	3,332,451,450
Less acquisition of treasury shares:		
2000	(13,361,500)	(13,361,500)
2001	(175,121,500)	(175,121,500)
2002	(39,715,500)	(39,715,500)
Balance	3,104,252,950	3,104,252,950
Sale of treasury shares-2003	1,601,500	-
Ending balance	<u>3,105,854,450</u>	<u>3,104,252,950</u>

The Company sold 1,601,500 treasury shares for US\$ 241,507 in 2003, and reacquired 39,715,500 treasury shares at a total cost of US\$ 7,767,376 in 2002.

26. ADDITIONAL PAID-IN CAPITAL

Changes in additional paid-in capital:

	Total	
	2003	2002
	US\$	(As restated - Note 44) US\$
Sale of 22,000,000 shares through public offering in 1994	33,500,000	33,500,000
Distribution of bonus shares in 1998	(32,254,579)	(32,254,579)
Issuance of 321,730,290 shares through rights offering I to stockholders in 1999	139,908,988	139,908,988
APIC on treasury shares	(19,291,414)	(19,291,414)
Resale of shares	192,894	-
Total	<u>122,055,889</u>	<u>121,862,995</u>

27. DIFFERENCE DUE TO CHANGE IN EQUITY OF SUBSIDIARIES

	2003	2002
	US\$	(As restated - Note 44) US\$
Revaluation increment converted into capital stock	28,753,083	28,753,083
Donated capital	107,870	107,870
Effect of new shares issued in relation to initial public offering of subsidiary	(2,769,920)	(2,769,920)
Conversion of APIC into common stock by subsidiary	1,697,294	1,697,294
Effect of new shares issued by subsidiary	48,494	-
Total	<u>27,836,821</u>	<u>27,788,327</u>

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28. NET SALES AND OPERATING REVENUES

	2003 (As restated - Note 45) <u>US\$</u>	<u>2002</u> US\$
Oil and gas sales	333,669,244	337,046,066
Drilling operations	68,400,718	42,391,142
Methanol sales	55,113,629	30,775,577
Other contracts	9,676,376	8,296,808
Mobilization fees	<u>11,081,981</u>	<u>2,207,929</u>
Total	<u>477,941,948</u>	<u>420,717,522</u>

Details of oil and gas sales in 2003 and 2002 which represent a significant portion of the net sales and operating revenues are as follows:

	<u>2003</u> US\$	<u>2002</u> US\$
Itochu Petroleum Co. (s) Pte. Ltd.	71,871,207	100,492,479
BP Migas	105,362,452	94,204,604
PTT Public Company Ltd.	112,688,379	66,160,161
Mitsui Oil (Asia) Hongkong Ltd.	43,747,206	54,651,057
BP Oil	<u>-</u>	<u>21,537,765</u>
Total	<u>333,669,244</u>	<u>337,046,066</u>

29. COST OF SALES AND DIRECT EXPENSES

	2003 (As restated - Note 45) <u>US\$</u>	<u>2002</u> US\$
Oil and gas		
Lifting expenses	75,157,113	47,336,140
Depreciation and amortization	51,329,319	39,581,980
Exploration expenses	<u>21,600,947</u>	<u>29,852,159</u>
Subtotal	<u>148,087,379</u>	<u>116,770,279</u>

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	2003 (As restated - Note 45) US\$	2002 US\$
Drilling operations		
Depreciation of property and equipment	20,426,603	13,782,027
Labor	19,908,206	13,127,077
Repairs and maintenance	14,345,794	7,428,078
Insurance	6,796,005	2,226,909
Catering	4,689,165	4,086,416
Rental	8,368,568	3,178,631
Transportation	2,038,407	1,391,150
Drilling equipment	1,973,633	2,060,354
Rigs movement	649,297	1,765,511
Others	4,330,998	4,585,025
	<u>83,526,676</u>	<u>53,631,178</u>
Subtotal		
	<u>83,526,676</u>	<u>53,631,178</u>
Cost of sales - methanol	<u>33,981,784</u>	<u>26,287,512</u>
Total	<u><u>265,595,839</u></u>	<u><u>196,688,969</u></u>

Total charges for catering services from PT. Andrawina Praja Sarana (APS) related parties were 75 % in 2003 and 68% in 2002 (Note 36).

Purchases of raw materials of methanol, spare parts and catering services in 2003 and 2002 included purchases from the following suppliers which individually represent more than 10% of the total purchases for the respective years:

	2003 US\$	2002 US\$
Oil Service and Trading Inc.	13,303,418	7,717,483
P.T. Panji Adi Samudra	9,260,920	-
Midcontinent Tubular Pte. Ltd.	9,059,300	4,406,017
P.T. Andrawina Praja Sarana	3,535,253	2,795,907
MTQ Engineering Pte. Ltd.	3,149,468	2,032,122
CV. Tiga Putra	2,762,561	1,730,530
BP Migas	1,563,338	12,389,838
Keppel Fels Ltd.	-	7,426,594
P.T. Makmur Mandiri Manfaat	-	2,366,454
	<u>42,634,258</u>	<u>40,864,945</u>
Total	<u><u>42,634,258</u></u>	<u><u>40,864,945</u></u>

30. OPERATING EXPENSES

	2003 (As restated - Note 45) <u>US\$</u>	<u>2002</u> <u>US\$</u>
General and administrative		
Salaries and wages	13,521,492	13,133,965
Other employee benefits	7,972,108	8,365,024
Professional fees	6,489,461	7,482,593
Contract charges	4,285,340	1,567,604
Office supplies and equipment	2,621,677	1,115,531
Depreciation of property and equipment	969,877	981,685
Rental	926,403	1,282,194
Insurance	304,881	943,582
Repairs and maintenance	63,042	171,144
Provision for doubtful accounts	1,540,397	473,405
Donation	-	1,734,116
Others	7,694,662	6,508,119
	<u>46,389,340</u>	<u>43,758,962</u>
Total		
Selling		
Export expenses	16,381,054	17,532,908
Advertising and promotion	335,089	155,360
Entertainment	46,106	85,692
Business travel	-	887,402
	<u>16,762,249</u>	<u>18,661,362</u>
Total		
Total Operating Expenses	<u><u>63,151,589</u></u>	<u><u>62,420,324</u></u>

31. OTHER INCOME (CHARGES)

a. Gain on Insurance Claim

This account represents the gain from the approved insurance claim and the net book value of the damaged portion of Apexindo's rig in 2002.

On March 1, 2002, one of the drilling rigs, Maera, was damaged by a gas explosion in East Kalimantan. Rig Maera is covered by the Hull and Machinery Insurance Policy No. PMK00200010 issued by P.T. Tugu Pratama Indonesia (TPI).

The insurance policy covers Hull and Machinery for US\$ 15,750,000 plus Increased Value of US\$ 5,250,000. The policy also covers Apexindo's cost or expenses for, or incidental to, the removal or destruction of the wreck or debris of the rig insured, subject to a limit of US\$ 3,937,500 or 25% of the Hull and Machinery insurance coverage.

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The portion of the claim filed by Apexindo with TPI under the partial loss scheme amounting to US\$ 16,679,129 has already been approved for payment by TPI on December 12, 2002, January 16, 2003 and March 19, 2003. Such portion of the claim which has already been approved for payment was recognized as income in the 2002 consolidated statement of income net of the book value of rig.

The final settlement of the claims in 2002 were received on September 8, 2003 (Note 7).

The details of gain on insurance claim is as follows:

	<u>2002</u> US\$
Claims approved	16,679,129
Book value of rig Maera	<u>(11,105,495)</u>
Gain on insurance claim - net	<u><u>5,573,634</u></u>

b. Penalties

The penalties charged by TotalFinaElf E&P Indonesia for the late delivery of rigs Raissa and Yani in relation to the drilling service contracts totaling US\$ 1,480,379 were included as part of other charges in the 2003 statement of income.

32. INCOME TAX

Tax expense of the Company and its subsidiaries consists of the following:

	<u>2003</u> (As restated - Note 45) US\$	<u>2002</u> (As restated - Notes 44 and 45) US\$
Current tax		
Subsidiaries	<u>(68,036,341)</u>	<u>(76,213,815)</u>
Deferred tax		
The Company	2,125,260	(125,370)
Subsidiaries	<u>22,684,391</u>	<u>(12,990,419)</u>
Subtotal	<u>24,809,651</u>	<u>(13,115,789)</u>
Total	<u><u>(43,226,690)</u></u>	<u><u>(89,329,604)</u></u>



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Current Tax

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

	2003 (As restated - Note 45) US\$	2002 (As restated - Notes 44 and 45) US\$
Income before tax per consolidated statements of income	123,042,357	161,347,512
Less income before tax of subsidiaries	<u>122,830,843</u>	<u>164,482,106</u>
Income (loss) before tax of the Company	<u>211,514</u>	<u>(3,134,594)</u>
Income (loss) before tax of the Company	211,514	(3,134,594)
Temporary difference:		
Depreciation and amortization	(224,505)	(417,902)
Permanent differences:		
Net income of Ensearch Far East Limited Cayman Island	5,911,729	-
Nondeductible expenses	2,282,287	760,367
Income subjected to final income tax	<u>(699,664)</u>	<u>(269,254)</u>
Taxable income (fiscal loss) before fiscal loss carryforwards	<u>7,481,361</u>	<u>(3,061,383)</u>
Prior year fiscal loss carryforwards - net of expired portion	(92,879,025)	(92,593,648)
Adjustment on fiscal loss based on tax assessment letter for fiscal year 2002	-	2,776,006
Adjustment on fiscal loss based on Income Tax Return for fiscal year 2003	<u>855,230</u>	<u>-</u>
Remaining fiscal loss carryforwards	<u>(84,542,434)</u>	<u>(92,879,025)</u>

The Company still has fiscal loss carryforwards, thus no provision for current income tax was made. The Company's overpayment of corporate income tax amounted to US\$ 801,950 in 2003 and US\$ 1,210,952 in 2002.

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Deferred Tax

The details of the Company and its subsidiaries' deferred tax assets and liabilities are as follows:

	<u>(As restated - Notes 44 and 45)</u>			<u>(As restated - Note 45)</u>	
	January 1, 2002 US\$	Credited (charged) to statement of income US\$	December 31, 2002 US\$	Credited (charged) to statement of income US\$	December 31, 2003 US\$
<u>Company</u>					
Fiscal loss	-	-	-	2,034,033	2,034,033
Depreciation of property and equipment and amortization of deferred charges	49,270	(49,270)	-	15,127	15,127
Total	49,270	(49,270)	-	2,049,160	2,049,160
<u>Subsidiaries</u>	729,321	613,350	1,342,671	27,832,362	29,175,033
Total Deferred Tax Assets	<u>778,591</u>	<u>564,080</u>	<u>1,342,671</u>	<u>29,881,522</u>	<u>31,224,193</u>
<u>Company</u>					
Depreciation of property and equipment and amortization of deferred charges	-	(76,100)	(76,100)	76,100	-
<u>Subsidiaries</u>	<u>(61,292,360)</u>	<u>(13,603,769)</u>	<u>(74,896,129)</u>	<u>(5,147,971)</u>	<u>(80,044,100)</u>
Total Deferred Tax Liabilities	<u>(61,292,360)</u>	<u>(13,679,869)</u>	<u>(74,972,229)</u>	<u>(5,071,871)</u>	<u>(80,044,100)</u>
Deferred Tax Benefit (Expense)		<u>(13,115,789)</u>		<u>24,809,651</u>	

A reconciliation between the total tax expense and the amounts computed by applying the effective tax rates to income before tax is as follows:

	2003 (As restated - Note 45) US\$	2002 (As restated - Notes 44 and 45) US\$
Income before tax per consolidated statements of income	123,042,357	161,347,512
Less : income before tax of subsidiaries	<u>122,830,843</u>	<u>164,482,106</u>
Income (loss) before tax of the Company	<u>211,514</u>	<u>(3,134,594)</u>
Tax benefit (fiscal loss) using effective tax rates	<u>(63,454)</u>	<u>940,378</u>

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	2003 (As restated - Note 45) US\$	2002 (As restated - Notes 44 and 45) US\$
Tax effects of permanent differences:		
Income already subjected to final income tax	209,899	80,776
Nondeductible expenses	(684,686)	(228,110)
Net income from Ensearch Far East Limited Cayman Island	<u>(1,773,519)</u>	<u>-</u>
Total	<u>(2,248,306)</u>	<u>(147,334)</u>
Deferred tax adjustments on fiscal losses	<u>4,437,020</u>	<u>(918,414)</u>
Tax benefit (expense) of the Company	2,125,260	(125,370)
Tax expense of subsidiaries	<u>(45,351,950)</u>	<u>(89,204,234)</u>
Total Tax Expense	<u><u>(43,226,690)</u></u>	<u><u>(89,329,604)</u></u>

33. EARNINGS PER SHARE

a. Earnings per share

The computation of basic earnings per share is based on the following data:

	2003	2002 (As restated - Note 44)
<u>Number of shares</u>		
Weighted average number of ordinary shares for the computation of basic earnings per share (in thousands)	3,105,650	3,123,478

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 and resale of treasury stock (Note 25).

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	2003 (As restated - Note 45)	2002 (As restated - Note 44)
<u>Earnings per share</u>		
Net income for the current year (in U.S. Dollar)	<u>78,998,971</u>	<u>72,238,303</u>
Basic earnings per share	<u>0.0254</u>	<u>0.0231</u>

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no dilutive potential ordinary shares in the two years presented.

34. CASH DIVIDENDS

On June 11, 2003, the Company distributed cash dividends of Rp 344,749,844 thousand (equivalent to US\$ 39,544,992) or Rp 111 per share based on the stockholders' vote in their annual stockholders' meeting on April 29, 2003.

On June 12, 2002, the Company distributed cash dividends of Rp 345,825,310 thousand equivalent to US\$ 36,427,600 or Rp 110 per share based on the stockholders' vote in their annual stockholders' meeting on May 7, 2002.

35. PENSION AND OTHER EMPLOYEE BENEFITS

Pension Plans

The subsidiaries involved in oil and gas exploration and production established defined contribution pension plans covering all their local permanent employees. These plans provide pension benefits based on salaries and years of service of the employees. The pension plans are managed by Dana Pensiun Lembaga Keuangan Tugu Mandiri (DPLK Tugu Mandiri) 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 2% of their gross salaries and 6% is contributed by the subsidiaries.

The reconciliation of pension liability is as follows:

	2003 US\$	2002 US\$
Beginning balance	43,005	30,699
Pension cost for the year	627,302	485,595
Pension contribution paid during the year	<u>(617,233)</u>	<u>(473,289)</u>
Ending balance	<u>53,074</u>	<u>43,005</u>

Other Employee Benefits

The Company and its subsidiaries recognize employee benefits obligations for their qualifying employees in accordance with applicable regulations. The Company and its subsidiaries do not provide funds for these benefits except for subsidiaries involved in oil and gas exploration and production, which provide post retirement benefits in accordance with the subsidiaries regulations. The post retirement benefits of those subsidiaries are being funded by placing funds in time deposit under the name of Dana Pensiun Pesangon Exspan Sumatera.

The number of employees eligible for the benefits is 1,721.

- a. An analysis of employee benefits obligation recognized in the consolidated balance sheets is as follows:

	<u>2003</u> US\$	<u>2002</u> US\$
Present value of employee benefits obligation	46,133,413	37,596,150
Fair value of plan assets	<u>(24,775,546)</u>	<u>(16,225,253)</u>
Unfunded employee benefits obligation	21,357,867	21,370,897
Unrecognized transitional liability	(9,836,971)	(12,444,126)
Unrecognized actuarial loss	<u>(6,993,184)</u>	<u>(5,857,958)</u>
Employee benefits obligation	<u><u>4,527,712</u></u>	<u><u>3,068,813</u></u>

- b. An analysis of the employee benefits cost in the consolidated statements of income is as follows:

	<u>2003</u> US\$	<u>2002</u> US\$
Current service cost	2,728,459	3,158,816
Interest expense	3,338,626	3,321,007
Expected return on asset	3,470,071	(1,216,896)
Amortization of transitional liability	2,607,155	3,102,097
Past service cost	<u>(984,226)</u>	<u>-</u>
Total	<u><u>11,160,085</u></u>	<u><u>8,365,024</u></u>

- c. An analysis of the movements of employee benefits obligation in the consolidated balance sheets is as follows:

	<u>2003</u> US\$	<u>2002</u> US\$
Liability at the beginning of year	3,068,813	2,221,826
Contribution for the year	(8,928,928)	(7,432,482)
Benefits paid to employees	(772,258)	(85,555)
Employee benefits cost	<u>11,160,085</u>	<u>8,365,024</u>
Liability at the end of year	<u><u>4,527,712</u></u>	<u><u>3,068,813</u></u>

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The present value of the employee benefits obligation was calculated by independent actuaries, using the following assumptions:

	2003 and 2002
Discount rate	: 12%
Expected rate of return on asset:	
- IDR Portfolio	: 9.60%
- USD Portfolio	: 7.40%
Salary increment rate	: 10%
Mortality rate	: 100% TMI2
Morbidity rate (disability)	: 5% mortality rate
Resignation rate:	
- Oil and gas subsidiaries	: 0.5% p.a.
- Others	: 1% p.a. up to age 25 then decreasing linearly into 0.05% at age 44
Proportion of early retirement	: 0.15% and 1%
Proportion of normal retirement	: 100%
Other termination rate	: Nil

36. NATURE OF RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

Nature of Relationship

- a. Related parties whose major shareholder and management control are the same as the Company:
  - P.T. Medco Inti Dinamika (INTI)
  - P.T. Medco Central Asia (MCA)
  - P.T. Bank Himpunan Saudara 1906
- b. Companies which have partly the same key members of management as the Company:
  - P.T. Andrawina Praja Sarana (APS)
  - P.T. Multifabrindo Gemilang
- c. PTT Public Company Ltd., PTT Exploration and Production (PTTEP) and Credit Suisse First Boston (Hongkong), Ltd. (CSFB) are indirect shareholders of the Company.
- d. P.T. Medco Duta (DUTA) is a stockholder of the Company.
- e. INTI is the major stockholder of Bank Himpunan Saudara 1906.
- f. Mesa Drilling Inc. is an associated company of Apexindo, a subsidiary.

Transactions with Related Parties

In the normal course of the business, the Company and its subsidiaries entered into certain transactions with related parties. These transactions included the following:

- a. The Company and its subsidiaries place time deposit and current account in Bank Himpunan Saudara 1906.



- b. Catering services in 2003 and 2002 were provided by APS and according to management, were made at normal terms and conditions as those done with third parties. At balance sheet date, the liabilities for these services were presented as trade accounts payable which constituted 1.4% and 2.3%, of the total trade liabilities as of December 31, 2003 and 2002, respectively.
- c. Apexindo, a subsidiary, rents its office space from INTI for an annual rental fee amounting to US\$ 243,954 in 2003 and US\$ 237,509 in 2002.
- d. Musi Banyuasin Energi (MBE), a wholly owned subsidiary, has appointed PT. Multifabrindo Gemilang as provider of fabrication services.
- e. The Company and its subsidiaries also entered into nontrade transactions with related parties as described in Note 11.
- f. On May 1, 2003, The Company entered into secondment agreement with PTTEP, the indirect shareholder of the Company.
- g. On July 1, 2002 and on June 1, 2003, the Company entered into crude oil sale agreement with PTT Public Company (Notes 28 and 39g).
- h. The Company appointed CSFB as the Sole Lead Manager in 2002 and as the Joint Lead Manager in 2003 in the issuance of bonds by MEFL, a subsidiary (Note 22).

#### Conflict of Interest

- a. On May 15, 2002, the Company entered into an agreement with Apexindo, a subsidiary, wherein the Company shall provide working capital loan to Apexindo with maximum amounts of US\$ 5,116,355 and Rp 49,492,193 thousand to finance Apexindo's drilling operations. The loan has a term of 3 years from the date of the agreement and bears interest at 1% above cost of fund of the Company for the US Dollar portion and 2% above 3 months time deposits for the Rupiah portion, which will be calculated on a monthly basis.

The loan agreement contained the following provisions, among others:

- i. Apexindo is required to submit its financial statements at the end of each quarter within 30 days following the end of each quarter.
- ii. In any event of default, Apexindo has to notify the Company of such an event and of the steps being taken to mitigate or nullify the effect of such event.
- iii. Apexindo cannot assign or pledge any existing asset, unless done so in favor of the Company, without prior written consent from the Company.
- iv. Apexindo cannot enter into any contract or commitment or incur any obligation with respect to any new loan without prior written consent from the Company.

Based on the Extraordinary Stockholders' Meeting of the Company held on September 15, 2003, the working capital loan given by the Company to Apexindo was not approved by the Company's independent shareholders, thus such loan was paid immediately by Apexindo on December 23, 2003 (Note 43).

- b. On May 15, 2002, MEFO, a wholly-owned subsidiary of the Company, and Apexindo have entered into a Sale and Purchase Agreement (SPA) covering the rig Maera insurance claim to finance the repair and upgrading of the said rig (Note 43). Rig Maera, which is owned by Apexindo, has a maximum insurance coverage of US\$ 21 million plus reimbursement for wreckage removal costs up to US\$ 3.9 million.

Maera, which is under a drilling contract with TOTAL, suffered damaged from a gas explosion accident in East Kalimantan on March 1, 2002. Apexindo, while waiting for the approval and release of money for the insurance claim, decided to proceed with the repair of the rig to avoid any further delays in meeting its commitment with TOTAL. The rig was also to be upgraded in accordance with the request of TOTAL for its intensified drilling programs.

Based on the SPA, MEFO agreed to advance money totaling US\$ 14 million as a form of purchase price for Apexindo's insurance claim. Furthermore, Apexindo has warranted that the proceeds from the insurance claim will be approximately US\$ 14 million and should there be any deficiency between the amount advanced by MEFO and the insurance claim proceeds, Apexindo will pay such deficiency to MEFO. Apexindo also has the right to buyback the insurance claim within 6 months from the date of the agreement by paying MEFO US\$ 14.5 million. This SPA was temporarily suspended by both parties since, at that time, the loss adjuster has not yet determined the amount that can reasonably be claimed from the insurance company.

The SPA was reinstated and amended on September 16, 2002 based on the Amendment to the Sale and Purchase Agreement (Amended SPA). Based on the Amended SPA, the amount to be advanced by MEFO was US\$ 18.5 million, the buyback price was changed to US\$ 19.6 million with the right exercisable within 6 months from the date of the Amended SPA, and the warranted insurance claim proceeds is approximately US\$ 20 million. The SPA was amended further on April 4, 2003 to increase the buyback price to US\$ 20.2 million, extend the buyback exercise period up to June 30, 2003 and increase the warranted insurance claim proceeds to US\$ 23,775,188 (Note 42d).

This was approved by the Company's independent stockholders in their Third Extraordinary General Stockholders' Meeting held on September 15, 2003 and on Apexindo's General Independent Stockholders' Meeting held on April 28, 2003.

- c. Apexindo and MEFO entered into agreements to jointly participate in the financing of the construction of rigs Raissa and Yani, as mentioned in the letters from MEFO to Apexindo on May 16, 2002 and August 27, 2002 for rigs Raissa and Yani, respectively, and reconfirmation on the Participation of Joint Financing dated November 17, 2002. In such letters, Apexindo or through its wholly owned subsidiary, AAP, will pay MEFO compensation in the amount of US\$ 23,320,000 and US\$ 21,200,000 for rigs Raissa and Yani, respectively, or any other amount to be mutually determined by Apexindo and MEFO as compensation for MEFO's share in the construction of such rigs.

On March 28, 2003, Apexindo and MEFO also signed the confirmation on the Understanding with Regard to the Joint Financing for the Construction of Submersible Swamp Barge for Raissa and Yani. Under the confirmation, both parties have confirmed their understanding of their respective shares or participation in the construction of the rigs. Apexindo's share for Raissa and Yani amounted to US\$ 21 million (42%) and US\$ 9.5 million (24%), respectively.

Based on management's consultation with an independent legal counsel, such joint financing is viewed as co-ownership under the Indonesian legal system, thus, Apexindo and MEFO have recorded as asset their respective share in the rigs based on their contributions. However, such co-ownership does not have an effect on Apexindo's status as the primary obligor under the construction contracts with Keppel Fels Limited (Notes 13 and 19).

On May 29 and April 25, 2003, MEFO agreed to release its rights upon rigs Yani and Raissa to AAP. This was approved by Apexindo's General Independent Stockholders' Meeting on April 28, 2003. AAP and MEFO entered into an agreement, whereby AAP or Apexindo is obliged to compensate MEFO within six months, which compensation payments were due on November 29, 2003 (for Yani) and October 25, 2003 (for Raissa). On October 29 and September 25, 2003, MEFO sent letters of notification to Apexindo to make the aforementioned payments. Apexindo proposed to convert such compensation into a term loan, which was approved by Apexindo's independent stockholders on January 20, 2004 and by the Company's independent shareholders on April 21, 2004.

- d. Apexindo's drilling services rendered or to be rendered to related parties are as follows:
- a. The execution of agreement with JOB PERTAMINA - Medco Madura Pty. Limited based on contract No. K026R/JOB/EXPL on August 26, 2002 covering the use of rig No. 2.
  - b. The execution of an agreement with PT Medco E&P Tomori Sulawesi (MEP Tomori) to provide drilling services using rig No. 10.
  - c. The execution of agreements dated May 1, and 2, 2003 with PT Medco E&P Indonesia (MEPI) to provide drilling services using land rigs.

The above transactions were approved by the independent stockholders of Apexindo in their General Meeting held on April 28, 2003.

The abovementioned transactions have been construed as potential conflict of interest transactions in accordance with Bapepam's regulations (Note 43).

### 37. SEGMENT INFORMATION

Effective January 1, 2002, the Company has adopted Statement of Financial Accounting Standards (PSAK) No. 5 (Revision 2000), "Segment Reporting".

#### Business Segments

The Company and its subsidiaries are presently engaged in the following businesses:

- a. Exploration and production of oil and gas
- b. Drilling services
- c. Methanol production
- d. Others

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Segment information of the Company and its subsidiaries are as follows:

(As restated - Note 45)						
2003	Exploration and production of oil and gas US\$	Drilling services US\$	Methanol production US\$	Others US\$	Elimination US\$	Consolidated US\$
<b>REVENUES</b>						
External sales	333,669,244	89,159,075	55,113,629	-	-	477,941,948
Inter-segment sales	224,646,833	19,131,793	-	3,813,779	(247,592,405)	-
<b>Total revenues</b>	<b>558,316,077</b>	<b>108,290,868</b>	<b>55,113,629</b>	<b>3,813,779</b>	<b>(247,592,405)</b>	<b>477,941,948</b>
<b>RESULT</b>						
Segment result	138,629,131	15,663,212	16,901,593	(16,455,317)	(5,544,099)	149,194,520
Income from operations						149,194,520
Loss on insurance claim	-	(1,480,379)	-	-	-	(1,480,379)
Interest income	831,003	175,185	-	21,656,693	(16,656,919)	6,005,962
Gain on sale of property and equipment - net	-	1,648,207	41,717	-	-	1,689,924
Gain (loss) on foreign exchange - net	(308,675)	426,426	(68,999)	-	-	48,752
Interest expense	(921,173)	(8,211,676)	-	(29,907,212)	16,656,919	(22,383,142)
Equity in net loss of associated companies	-	(40,838)	-	-	-	(40,838)
Loss on repurchase of notes	-	-	-	(4,838,231)	-	(4,838,231)
Loss on swap transactions	-	(211,397)	-	(2,571,780)	-	(2,783,177)
Unrealized gain on trading securities	-	-	-	641,300	-	641,300
Gain on sale of receivables from related parties	-	-	-	1,910,383	-	1,910,383
Others - net	(4,126,017)	(36,554)	119,050	(879,673)	477	(4,922,717)
<b>Income before tax</b>						<b>123,042,357</b>
Tax benefit (expense)	(36,917,752)	(3,587,075)	(4,847,123)	2,125,260	-	(43,226,690)
Minority interests in net income of subsidiaries						(816,696)
<b>Net income</b>						<b>78,998,971</b>

(As restated - Note 45)						
2003	Exploration and production of oil and gas US\$	Drilling services US\$	Methanol production US\$	Others US\$	Elimination US\$	Consolidated US\$
<b>OTHER INFORMATION</b>						
<b>ASSETS</b>						
Segment assets	776,454,149	326,591,879	25,337,673	1,178,625,945	(1,300,349,513)	1,006,660,133
Investments in associated companies	-	1,722,750	-	-	-	1,722,750
<b>Consolidated total assets</b>						<b>1,008,382,883</b>
<b>LIABILITIES</b>						
Segment liabilities	360,644,024	189,182,089	14,770,143	765,922,553	(767,011,300)	563,507,509
Capital expenditures	90,809,506	58,132,028	181,632	130,054	-	149,253,220
Depreciation and amortization	50,650,755	21,008,248	1,449,615	112,204	-	73,220,822
Non-cash expenses other than depreciation and amortization	2,566,198	6,080,873	642,840	2,592,692	-	11,882,603

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(As restated - Notes 44 and 45)						
2002	Exploration and production of US\$	Drilling services US\$	Methanol production US\$	Others US\$	Elimination US\$	Consolidated US\$
<b>REVENUE</b>						
External sales	337,046,066	52,895,879	30,775,577	-	-	420,717,522
Inter-segmen sales	239,504,989	20,518,341	-	-	(260,023,330)	-
<b>Total revenue</b>	<b>576,551,055</b>	<b>73,414,220</b>	<b>30,775,577</b>	<b>-</b>	<b>(260,023,330)</b>	<b>420,717,522</b>
<b>RESULT</b>						
Segment result	164,073,078	8,204,414	1,065,801	(9,593,572)	(2,141,492)	161,608,229
Income from operation						161,608,229
Gain on insurance claim	-	5,573,634	-	-	-	5,573,634
Interest income	220,322	296,689	41,020	1,014,147	-	1,572,178
Gain on sale of property and equipment	-	304,633	(225,745)	-	-	78,888
Gain (loss) on foreign exchange - net	4,424,143	(668,163)	-	(2,067,833)	-	1,688,147
Interest expense	(268,195)	(3,936,291)	-	(9,019,153)	4,839,054	(8,384,585)
Equity in net loss of associated companies	-	(1,061,548)	-	-	-	(1,061,548)
Loss on resale of notes	-	-	-	(141,167)	-	(141,167)
Others - net	(223,427)	(481,652)	255,342	9,007,527	(8,144,054)	413,736
<b>Income before tax</b>						<b>161,347,512</b>
Tax expense	(82,399,913)	(5,935,135)	(863,813)	(130,743)	-	(89,329,604)
Minority interest in net loss of subsidiaries	-	-	-	-	-	220,395
<b>Net income</b>						<b>72,238,303</b>

(As restated - Notes 44 and 45)						
2002	Exploration and production of oil and gas US\$	Drilling services US\$	Methanol production US\$	Others US\$	Elimination US\$	Consolidated US\$
<b>OTHER INFORMATION</b>						
<b>ASSETS</b>						
Segment assets	664,773,747	237,150,913	22,378,141	475,145,290	(648,197,919)	751,250,172
Investments in associated companies	-	1,763,588	-	-	-	1,763,588
<b>Consolidated total assets</b>						<b>753,013,760</b>
<b>LIABILITIES</b>						
Segment liabilities	206,028,791	111,986,259	22,378,142	475,145,291	(508,579,377)	306,959,106
Capital expenditures	84,239,926	40,773,025	2,766,182	38,155,399	-	165,934,532
Depreciation and amortization	51,619,799	14,383,574	1,450,567	90,454	-	67,544,394
Non-cash expenses other than depreciation and amortization	1,518,413	7,826,647	556,397	188,914	-	10,090,371

Geographical Segment

The following table shows the distribution of the Company and its subsidiaries' revenues by geographical market:

<u>Geographical market</u>	<u>2003</u> US\$	<u>2002</u> US\$
Indonesia	222,888,783	152,200,321
Middle East	12,177,215	14,656,136
Foreign - others	228,306,792	253,861,065
Total	463,372,790	420,717,522

**Assets and additions to property and equipment, and intangible assets by geographical area**

The Company and its subsidiaries activities, except for the actual performance of certain drilling services, are centralized in Indonesia. Thus, all of their assets, except for certain property and equipment that are directly used in providing drilling services, are located in Indonesia. The property and equipment that are directly used in providing drilling services are movable properties and are being relocated from time to time depending on the location where the drilling services are to be performed. In 2003 and 2002, Apexindo utilized rig Raniworo for its Middle East drilling operations. Rig Raniworo has a carrying amount of US\$ 42,269,838 and US\$ 47,995,913 in 2003 and 2002, respectively. Additions to the said rig amounted to US\$ 468,518 and US\$ 4,673,892 in 2003 and 2002, respectively.

38. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW

Production Sharing Arrangements

The oil and gas subsidiaries have different production sharing arrangements with BP Migas. A general description of those arrangements is as follows:

a. Production Sharing Contract (PSC)

An original PSC (i.e. an existing PSC created under the old law) is awarded to explore for and to establish commercial hydrocarbon reserve 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 BP Migas. 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.

BP Migas 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.



In each PSC, the contractor and BP Migas share the total production in any given period in a ratio agreed between the two under the terms of that PSC. The contractor generally has the right to recover all finding and development costs, as well as operating costs, in each PSC against available revenues generated by the PSC after deduction of First Tranche Petroleum (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 for the contractor calculated by reference to the prevailing Indonesian crude price. After the contractor has recovered all allowable costs, the Government is entitled to a specified profit share of the remaining natural gas and crude oil production and the contractor keeps the rest as its profit share.

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.

The total of the contractor's share of FTP, production attributable to cost recovery and post-tax profit share represents its net crude entitlement for a given period.

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 25% of (i) the contractor's before-tax share of total crude oil production and (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.

b. Technical Assistance Contracts (TAC)

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 historical production of the field) at the time the TAC is signed and retained by BP Migas. Under the TAC, production from non-shareable portion declines annually. The shareable portion corresponds to the additional production resulting from the operator's investment in the field and is split in the same way as for a PSC.

c. Joint Operating Body (JOB)

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

New Oil and Gas Law

The New Oil and Gas Law came into force in November 2001. The New Oil and Gas 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 New Oil and Gas Law creates an overall statutory framework for a fundamental restructuring of the oil and gas regime, principally resulting in an ending to Pertamina's monopoly in upstream oil and gas and the liberalization of the domestic oil and gas markets.

As a consequence of the above, all of Pertamina's rights and obligations arising from existing production sharing contracts, including their ancillary contracts, are to be transferred to BPMigas. BPMigas has replaced Pertamina as the Government party to all production sharing arrangements. Under the terms of the New Oil and Gas Law, on the establishment of BPMigas, all rights and obligations of Pertamina under production sharing contracts were transferred to BPMigas.

The New Oil and Gas Law is an umbrella legislation setting forth general principles that are expected to be further developed in a series of Government regulations, presidential decrees and ministerial decrees, few of which have been promulgated. Under the New Oil and Gas Law, upstream activities are performed through production sharing contracts or other forms of cooperation contract. The main principles governing these future contracts appear to be similar to the ones governing the current production sharing arrangements. Under the New Oil and Gas Law, the key principles are that title over the resources in the ground remains with the Government (and title to the oil and gas lifted for the contractor's share passes at the point of transfer, usually the point of export), operational management control is with BPMigas, and all funding and risks are to be assumed by investors (the Government through BPMigas is not allowed to bear or assume these). Negotiation of production sharing arrangement terms with potential contractors will be handled primarily by the Ministry of Energy and Natural Resources, and the Indonesian Parliament must be notified of the production sharing arrangements. Only one working area can be given to any one legal entity (also known as Ring-Fencing). The Company does not expect that the New Oil and Gas Law will have any impact on existing production sharing arrangements.

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

- Under the existing PSC structure, contractors are only required to supply 25% of oil produced domestically at a subsidized price. This may no longer be the case, as the New Oil and Gas Law imposes the obligation to supply up to maximum of 25% of oil and/or gas production to the domestic market. This requirement will be further elaborated in an implementing Government regulation which will essentially contain the domestic market conditions, implementing mechanism and pricing rules, as well as incentive policies.
- Under the existing PSC structure, contractors are required to pay only corporation and dividend taxes. Cooperation 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.
- Under the New Oil and Gas Law, the Company will be entitled to elect to lock-in prevailing Government tax rates for the entire term of a new production sharing arrangement at the time the arrangement commences.

### 39. COMMITMENTS

#### a. Production Sharing Arrangements

The subsidiaries have entered into PSC, PSC-JOB and TAC with BP Migas in the exploration and productions of crude oil and gas in certain areas. Following are the significant provisions of the contracts:

Oil and gas produced are shared based on certain formula agreed by subsidiaries and BP Migas.

The subsidiaries are obliged to pay between US\$ 1,000,000 to US\$ 5,000,000 representing a production bonus to BP Migas if the oil production averages 50,000 barrels per day for a period of 120 consecutive days and an additional bonus of US\$ 1,000,000 to US\$ 10,000,000 if production increases to an average of 75,000 barrels to 100,000 barrels per day for a period of 120 consecutive days.

Up to a certain period, subsidiaries are required to surrender parts of the contract areas to BP Migas. The obligation to surrender parts of the contract areas do not apply to the surface area of any field in which Petroleum has been discovered.

Upon the expiration or termination of the contracts, relinquishment of part of the Contract Area, or abandonment of any fields, the subsidiaries are required to remove all equipment and installation from the Contract Area, and perform all necessary site restoration activities in accordance with the applicable government regulations. The cost of abandonment and site restoration work is recoverable from BP Migas.

Under the Renewal and Extension Production Sharing Contracts signed by Exspan Airsenda Inc. and Exspan Airlimau Inc., and PT Exspan Tarakan with BP Migas, the joint ventures of these entities are required to provide for abandonment of all exploration wells and the restoration of their drill sites, together with all estimates of monies required for the funding of any abandonment and site restoration program established in conjunction with an approved plan of development for a commercial discovery. Expenditures incurred in the abandonment of exploratory wells and the restoration of their drill sites shall be charged as operating costs of the joint ventures in accordance with PSC, calculated based on the total estimated cost of abandonment and site restoration for each discovery divided by the total estimated number of economic years of each discovery. The estimate shall be reviewed on an annual basis and shall be adjusted each year as required.

b. Acquisitions and Transfers

- i. On December 24, 2003, Medco Moeco Langsa Limited (MMLL), a jointly controlled entity established with Mitsui Oil Exploration Co. Ltd., entered in a Sale and Purchase Agreement (SPA) with Modec Production (Langsa) Pte. Ltd. (MODEC SPC) and Modec Inc. for the purchase of Modec SPC's 70% interest in the Langsa TAC and JOA, subject to conditions precedent as specified in the SPA, for US\$ 10 and other considerations.

The transfer of Modec SPC's 70% interest in the Langsa TAC and JOA to MMLL was approved by BP Migas on January 19, 2004. MMLL is currently engaged as operator in the exploration of crude oil and gas in the Langsa contract area in East Aceh, Sumatera under the said JOA and TAC.

- ii. On November 5, 2003, PT Medco Sampang (MS) entered into an agreement with Santos (Sampang) Pty Ltd to participate on a 50:50 basis in a sole-risk drilling at Jeruk Well. Santos has the right to explore Sampang Block and Santos proposed to drill Jeruk Well on a sole-risk basis because Singapore Petroleum Company Limited (SPC) (formerly Coastal Indonesia Sampang Ltd) and Cue Sampang Pty Ltd, being the other interest holders to the Sampang PSC elected not to participate in the sole-risk drilling. If the sole-risk Jeruk well is a dry-hole, MS is entitled to its investment through Santos' cost recovery from the other producing wells where Santos is so entitled to receive the cost recovery. If the sole-risk Jeruk Well is successful commercially, MS and Santos shall either:

(a) share the upside on a 50:50 basis of the production proceeds, or

(b) in case SPC and Cue decide to back-in and participate in the sole-risk drilling, SPC and Cue shall be obliged to pay a premium as stipulated in the Joint Operating Agreement for Sampang PSC, and MS shall be entitled to receive 50% of such premium.

- iii. On October 1, 2003, the Company has entered into Conditional Share Sale and Purchase Agreement with PT Trihasra Sarana Jaya Purnama to purchase its 5% (five percent) share in PT Energi Sengkang for US\$ 3,760,000, subject to the fulfillment of conditions precedent stipulated in the agreement, which have not yet been fulfilled at December 31, 2003.

PT Energi Sengkang is a joint-venture company operating the power plant located in Sengkang, South Sulawesi.

- iv. On September 2, 2003, Exspan Airsenda Inc. and Exspan Airlimau Inc. (the subsidiaries) entered into an agreement with Perusahaan Daerah Pertambangan dan Energi Sumatera Selatan (PDPDE), whereby the subsidiaries transferred a total of 5% Participating Interest in the Rimau Block effective on July 1, 2003. Based on the agreement, the 5% Participating Interest is granted to PDPDE without any obligation to pay a share of undepreciated assets and monthly cash calls for capital and operating expenditures in exchange for PDPDE's active role in assuring the smooth performance of Petroleum Operations in the province. PDPDE shall be entitled to five percent of net income before tax calculated in accordance with the Accounting Procedure of the PSC and is obligated to pay taxes in accordance with the PSC. It is also agreed that such transfer of interest will not impact the rights of the existing Operator (PT Exspan Nusantara).
- v. On October 14, 2003, the Company through PT Exspan Merangin, a newly incorporated subsidiary, has signed a Production Sharing Contract with BP Migas for Block Merangin I located in Jambi province, Indonesia. The PSC is valid for 30 years with exploration period of 4 years. Block Merangin I has a covered area of 3,247.12 sqm. The Company has the obligation to pay a total of US\$ 300,000 as grant to support the activities in the Indonesian oil and gas industry upon the request of BP Migas.
- vi. On November 5, 2002, MIV, a subsidiary, entered into a Farm Out Agreement (Agreement) on behalf of P.T. Exspan Yapen with Continental Energy Yapen Ltd. (Continental). Based on the Agreement, P.T. Exspan Yapen acquired 90% participating interest in the Yapen PSC. As part of the consideration for the interest acquired, P.T. Exspan Yapen has committed to:
- Drill at least one exploration well within the Yapen Block which shall be spudded on or before June 30, 2004.
  - Perform all the work and meet all Yapen PSC financial expenditure commitments subject to MIV's Carry Obligation, as defined in the Agreement.
- PT. Exspan Yapen has not yet started its exploration activities (Note 42a).
- vii. On October 2, 2002, MIV, a subsidiary, entered into a Farm-In Agreement (Agreement) on behalf of P.T. Exspan Rombebai with Ramu Rombebai LLC (Ramu) in accordance with the terms of the Memorandum of Agreement dated October 2, 2002 between the said parties. Based on the Agreement, P.T. Exspan Rombebai acquired 60% participating interest in the Rombebai Block PSC from Ramu. As part of the consideration for the interest acquired, P.T. Exspan Rombebai has committed to:
- Drill one well with a total depth of 6,000 feet with costs not to exceed US\$ 5,000,000. If PT. Exspan Rombebai agrees, the said subsidiary will also acquire another 20% participating interest in consideration of drilling another well similar in depth and within the time frame set forth in the Work Program And Budget agreed to by BPMigas.
  - Assume all exploration costs, thereby carrying Ramu's participating interests, until the Plan of Development (POD) is reviewed and approved by BPMigas. If requested by Ramu, P.T. Exspan Rombebai agrees to carry Ramu's participating interests after the POD is approved and P.T. Exspan Rombebai shall have the right to recover the carry costs plus maximum 50% uplift to be taken from Ramu's portion of the revenues or proceeds.

Due to the lapse of the period for the performance of such commitments, on December 23, 2003, PT Exspan Rombebai has reassigned the working interest ownership of Rombebai PSC to Ramu.

c. Drilling Contract

- i. On May 14, 2003 Apexindo successfully won the drilling contract with Statoil which commenced on December 2003 for a period of two years (779 days), at a daily rate of US\$ 50,280.
- ii. On October 9, 2002 and August 8, 2002, Apexindo signed long-term contracts with TotalFinaElf Indonesie for offshore drilling services. Under the contracts, rig Raissa and Yani will be utilized in the drilling operations to provide drilling services, for a period of five years and three years, respectively. The total compensation to be received by Apexindo under the said contracts amounts to US\$ 93.83 million and US\$ 47.72 million for rig Raissa and rig Yani, respectively.

In 2003, Apexindo renewed its drilling services contract with TotalFinaElf E&P Indonesie (TOTAL) using rig Raisis through a new contract with No. 401-288/KF/285 for a period of 36 months starting on April 1, 2003 and total contract value of US\$ 40,243,110.

d. Bank Facilities

- i. The Company together with Apexindo, a subsidiary, EK, EN and MMB, related parties, obtained Bond and Guarantees Facility, Advance Payment Facility, Import Facility and Overdraft Facility with maximum amount of US\$ 5,000,000 and Foreign Exchange Facility from Standard Chartered Bank. These facilities are secured by a corporate guarantee from the Company and current account placed at the same bank (Note 10).

On August 16, 2002, Standard Chartered Bank agreed to increase the above mentioned General Banking Facility, Bond and Guarantees Facility, Advance Payment Facility, and Import Facility to a maximum amount of US\$ 8,000,000 and to US\$ 15,000,000 on August 21, 2003.

At December 31, 2003 and 2002, outstanding bond guarantee amounted to US\$ 7,624,840 and US\$ 4,132,465, respectively.

- ii. On October 22, 2003, Apexindo entered into a Spot Line Facility Agreement with BCA, whereby the latter agreed to provide foreign currency facility to Apexindo with a maximum amount of US\$ 1.5 million.

At December 31, 2003, the facility has not yet been used by Apexindo.

- iii. On August 20, 2003, Apexindo entered into Bank Guarantee Facility Agreement with PT. Bank Mandiri (Persero) whereby the latter agreed to provide Apexindo US\$ 10 million revolving bank guarantee facility. The facility is for the period August 20, 2003 up to August 19, 2004 and collateralized by Apexindo's onshore rigs (Nos. 6, 10 and 15), which total value is Rp 100,898,862,981. The facility bears interest of 0.1% of outstanding bank guarantee per month.

At December 31, 2003, outstanding bank guarantee amounted to US\$ 5,512,815.

e. Gas Supply Agreements

- i. On December 30, 2003, PT Exspan Nusantara entered into a Sale and Supply of Gas agreement with PT PLN (Persero), whereby EN agrees to sell and supply gas from working area of EN located in South Sumatera to PLTG in Borang, South Sumatera with total quantity of 40,638 BBTU.

The delivery of gas will be conducted for nine years to start on the agreed-upon first day of delivery until May 31, 2013. The procedures for delivery are subject to approval of both parties and to be approved by Directorate Technic Oil and Gas, Direktorat General Oil and Gas and ESDM Department.

Gas price is agreed to be US\$ 2.42/MMBTU to US\$ 2.25/MMBTU for 365 days from commencement date of delivery. After the 365 days, the gas price will be calculated based on the formula provided in the agreement.

- ii. On July 19, 2003, PT Exspan Nusantara entered into a Sale and Supply of Gas agreement with PT PLN (Persero), whereby EN agreed to sell and supply 25,280 BBTU of gas from Kaji Semoga field to PLTG Kaji.

The delivery of gas will be conducted for nine years from the date that will be agreed by both parties. Procedures of delivery are subject to approval of both parties and the authorization of Direktorat Teknik Minyak dan Gas Bumi, Direktorat Jendral Minyak dan Gas Bumi, and Departemen Energi dan Sumber Daya Mineral.

Gas price is agreed to be US\$ 1.15/MMBTU for 365 days from commencement date of delivery. After the 365 days, the gas price will be calculated based on the formula in the agreement.

On December 30, 2002, PT Exspan Nusantara (EN) entered into Gas Sales and Purchase Agreement with PT PLN (PERSERO) for PLTD Gunung Belah, Tarakan, East Kalimantan, in which EN agreed to Supply gas with total quantity of 9.651 BBTU. EN will start the delivery of such natural gas on November 20, 2002. The term of this agreement is eleven (11) years. This agreement had been approved by BP Migas on its letter No. 2803/BP00000/2002-SO dated December 30, 2002.

f. Methanol Agreement

- i. Methanol Bunyu Refinery Operations Agreement

On April 29, 1997, the Company through its subsidiary, PT Medco Methanol Bunyu (MMB), has entered into a Methanol Bunyu Refinery Operations Agreement with PERTAMINA. Under the agreement, PERTAMINA agreed to hand over the responsibilities for the management of the methanol bunyu refinery to MMB, including the operations and maintenance of the refinery related facilities and infrastructure, authority to determine supply and necessary chemical materials, catalyst and spareparts, authority for the betterment and expansion of the refinery facilities, and training and retention of PERTAMINA's employees who are assigned to MMB. As compensation, MMB agreed to pay a fixed rental fee of US\$ 5.5 million per annum and a non-fixed rental in US dollar equivalent to 6.5% of the sales of methanol produced, with the price determined in accordance with the agreement. The agreement is valid for 20 years effective April 1, 1997. On May 27, 2003, the fixed rental fee was changed to US\$ 2.2 million per annum starting May 1, 2003, and will be subject to review every two years, while the non-fixed rental fee in US dollar was changed to be determined based on the evaluation result of the methanol standard price at international market (ICIS Ior and Platt's Petrochemical Scan), as adjusted based on the formula as specified in the addendum.

g. Crude Oil Transaction

On July 1, 2002, the Company entered into a crude oil sale and purchase agreement with PTT Public Company Ltd., an indirect shareholder of the Company. The agreement is valid for 9 (nine) months until March 31, 2003. The agreement was extended for another two months until May 31, 2003. On June 1, 2003, the Company has entered into a new agreement in which the quantity of crude oil was changed from 2,700 MMB to 3,600 MMB. The agreement shall continue for a period of twelve (12) months until May 31, 2004 and can be extended by mutual agreement of the parties (Notes 28 and 36).



40. CONTINGENT LIABILITIES

- a. During 2003, the Company engaged prominent professional legal, tax and accounting advisors to assist in resolving its US corporate income tax matters. The Company recently recognized that being fully compliant with its US corporate income tax requirements is proving to be more complicated than it had expected, and it will require more time to resolve these matters. Inconsistencies between Indonesian and US accounting principles, differences between Production Sharing Contract accounting mechanisms and tax accounting methods, foreign tax credit rules, and US "alternative minimum tax" rules are the primary reasons for the delay in resolving the US corporate income tax matters.

The Company and its subsidiaries have made it a top priority to become compliant with its US corporate income tax obligations in 2004. This process has included the filing on March 15, 2004 of a request for extension for filing the 2003 US corporate income tax return, and full payment in March 2004 of the estimated 2003 tax obligations. The Company is confident that by no later than September 15, 2004 it will have filed the 2003 corporate income tax return, and all corporate income tax returns from 1995-2002, and paid the related tax and interest.

Based on advice from its Advisors, management believes that the best estimate and most likely outcome required to settle its US corporate income tax obligations for fiscal years 1995-2003 is approximately US\$ 15.3 million. As further advised by its advisors, management believes that there is a strong case to obtain a waiver from penalty provisions related to its US corporate income tax obligations and will be seeking such relief. Accordingly, the Company has provided for US\$ 15.3 million in its financial statements. Hitherto, the exact amount of tax, interest and penalties cannot be determined until the corporate income tax returns are completed and filed and discussions are held with the respective government revenue agencies (Note 42c).

- b. Exspan Cumi-Cumi Inc. and Medco Lematang Ltd., subsidiaries, received tax assessment letters amounting to Rp 4,785,020,637 or equivalent to US\$ 535,237 and Rp 15,051,413,009 or equivalent to US\$ 1,683,608 in 2002 regarding the payment of Value Added Tax (VAT) for years prior to acquisition of the working interest under the respective PSC. The respective SPAs of such working interests provide that liabilities incurred prior to acquisition of those working interests by the subsidiaries remain the responsibility of the former contractor. The subsidiaries have already requested for a review of the tax assessment letters from the Tax Authority.
- c. On January 25, 2000, the Company entered into a Subscription Agreement, Shareholder Agreement and Indemnity Agreement with Cityview Asia Pty Ltd (Cityview), whereby the Company has agreed to acquire a 75% share interest in Simenggaris and Madura. Simenggaris block is located in East Kalimantan and Madura block is located in Madura Island. Both are operating under PSC-JOB with PERTAMINA/BP Migas.

In relation to the abovementioned acquisitions, the Company is required to reimburse Cityview's past expenditures only if such expenditures represent expenditures recoverable under the terms of the PSC-JOB and if such past expenditures are in fact so recovered.

On November 15, 2001, the Company entered into an agreement with Falcon Oil Pte. Ltd. to sell its 15% ownership interest in Medco Simenggaris Pty. Ltd. and hand its 24% ownership interest in Medco Madura Pty. Ltd. reducing the Company's ownership in these subsidiaries to 60% and 51%, respectively. The agreement became effective on February 19, 2002.

- d. Apexindo, together with the Company, EK and ET, related parties, obtained a syndicated loan under a revolving credit facility with a maximum amount of US\$ 15,000,000 from a syndicate of overseas banks and non-bank financial institutions of which The Dai-Ichi Kangyo Bank Limited, Singapore Branch (DKB) acted as Facility Agent and Escrow Agent, and P.T. Bank Dai-Ichi Kangyo Indonesia as Security Agent, and the Company as Representative Borrower.

On September 30, 1999, a loan rescheduling for the outstanding balance at US\$ 11,175,000 and with terms and conditions as stated in Restated Term Loan Facility Agreement was obtained by Apexindo. The loan was secured by drilling rigs Nos. 3, 6, 7 and 10 along with the receivables from the rig operations.

On August 8, 2002, the syndicated loan has been fully paid by the Company.

- e. The Company's operations are subject to Indonesian laws and regulations governing the discharge of materials into the environment or otherwise relating to environment 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 resulting from the Company's operations. 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.

Management believes that the Company and its subsidiaries are in compliance with current applicable environmental laws and regulations.

- f. From time to time, the Company and its subsidiaries may be a party to various legal proceedings. The Company and its subsidiaries are not currently a party to any material pending legal proceedings.

#### 41. OPERATING HAZARDS AND UNINSURED RISKS

The Company and its subsidiaries' 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, person injury claims and other damage to properties of the Company and its subsidiaries. Additionally, certain of the Company and its subsidiaries 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 and its subsidiaries maintain insurance coverage against some, but not all, potential losses. The Company and its subsidiaries' coverage for their oil and gas exploration and production activities include, but is 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.

The Company and its subsidiaries' maintain coverage for their drilling rigs, equipment and machinery for their replacement value and insure them against third party liability and workers' compensation. They do not, however, insure these assets against business interruption or loss of revenues following damage to or loss of a drilling rig, except in respect of an offshore rig where it is a term of the refinancing for such rig that such coverage be in place for the benefit of the lender.

## 42. SUBSEQUENT EVENTS

### a. Disposals and Extension

- i. In December 2004, the one unit of rig that was transferred by Apexindo to Mesa in exchange for a 50% ownership interest in MESA was sold by MESA to a third party for US\$ 8,000,000 in connection with Apexindo's plan to release all of its shares and assets in MESA (Note 12).

On March 31, 2005, Apexindo sold its 50% ownership interest in MESA for US\$ 2,000,000 to third party.

- ii. On June 24, 2004, PT Medco E&P Yapen (MEPY, formerly PT Exspan Yapen), Maraja (Yapen) Energy Ltd. (Maraja) and Continental Geopetro (Yapen) Ltd. (formerly Continental (Yapen) Ltd) entered into the Yapen Block PSC Farm Out Agreement (the Agreement), wherein MEPY assigned an undivided 75% participating interest from its 90% participating interest in the Yapen PSC. Under the Agreement, MEPY also transferred its role as operator of the block to Maraja.

MEPY, however, is still obligated to provide funds in respect of its 15% retained interest and its Carry Obligation. Furthermore, MEPY's obligation to drill at least one exploration well on the Yapen Block no later than June 30, 2004 based on the Farm Out Agreement dated November 5, 2002 (Note 39b) was released and discharged simultaneous with the receipt of the consents from BP Migas and the Ministry of Mines and Energy for the transfer to Maraja on September 28, 2004.

- iii. The Madura Block PSC, in which Medco Madura Pty. Ltd. (Medco Madura) has 65% working interest, is due to expire on May 15, 2005. Medco Madura has submitted a request for extension in its letter dated March 22, 2005 to BP Migas. To date, BP Migas has not yet issued an approval for the said extension. The carrying value of Medco Madura's oil and gas properties at December 31, 2003 amounted to US\$ 12,744,674. Management believes that there will be no difficulty in obtaining the said approval for extension from BP Migas.

### b. Derivatives

- i. On April 29, 2005, MEFL has unwinded the forward interest rate swap agreement with Morgan Stanley Co. Ltd. (MS) and paid MS US\$ 4,200,000 as final settlement (Note 20).
- ii. On April 26, 2005, Apexindo has sent a letter to Fortis Bank S.A./N.V., Singapore regarding its intention to unwind the swap facility of the Raissa rig syndicated term loan upon the settlement of the said loan. On May 3, 2005, Apexindo has fully settled the Raissa loan (Notes 20 and 21).

### c. Taxation

On September 3, 2004, both Exspan Aircenda Inc. and Exspan Airlimau Inc. have reported to and settled with IRS the 1995 - 2003 tax obligations amounting to US\$ 9.9 million, including interest of US\$ 1.7 million (Note 40a).

### d. Conflict of Interest

On April 11, 2005, Apexindo has repaid MEFO the amount of US\$ 18,511,010 as final settlement for the insurance claim on Maera rig in accordance with the Insurance Claim Purchase Agreement (Note 36).

#### 43. OTHER SIGNIFICANT INFORMATION

As discussed in Note 36, the Company and its subsidiaries perform certain transactions which maybe construed as conflict of interest as regulated by Bapepam No. IX.E.1.

Under the rules of Bapepam relating to conflict of interest transactions, which apply to all Indonesian public companies, conflict of interest transactions must be approved by the majority of the independent shareholders of the relevant public company. The quorum required at the meeting to consider the approval of such transactions is met if attended by the independent shareholders representing more than half of the total shares owned by independent shareholders (within the meaning of Bapepam rules). The vote required at the meeting to approve such transactions is more than half of the total shares owned by the independent shareholders.

If the required quorum and approval is not met at the first meeting held, a company can hold a second meeting with the same quorum requirement, but the vote required at this second meeting is only more than half of the attending independent shareholders. If such quorum and/or vote is not obtained in the second meeting, Bapepam approval will be required and delays apply, in order for the company to be able to call a third meeting of shareholders with reduced quorum and/or voting requirements. In the event that such approval is not obtained, the validity and effectiveness of prior transactions remain unaffected. In the event that such approval is not obtained, a company is not prohibited from entering into the proposed transactions unless and until such approval is subsequently obtained.

In compliance with Bapepam regulation, the Company held an Extraordinary General Meeting of Shareholders on April 29, 2003 to obtain approval for certain transactions between certain subsidiaries and affiliates of the Company, and other related parties. These transactions include financing provided to Apexindo, rental of an onshore rig to Apexindo and the joint financing of rigs between MEFO B.V. and Apexindo. However, the required quorum was not met at the said meeting.

On May 21, 2003, the Company conducted the Second Extraordinary General Meeting of Shareholders whereby the independent stockholders and/or their representatives' attendance for 31,917,000 shares constituted 18.53% of 172,227,885 shares of the Company's independent stockholders. The meeting did not again meet the quorum hence a third meeting would have to be convened once the Company obtains the approval from Bapepam.

On September 15, 2003, the Company convened the Third Extraordinary General Meeting of Shareholders, whereby the independent stockholders and/or their representatives' attendance for 27,438,000 shares constituted 16.01% of 171,417,385 shares of the Company's independent stockholders. Hence, the required quorum stipulated in the Company's articles of association and Bapepam rules as well as the approved quorum as stated in the letter of the Chairman of Bapepam No: S-1912/PM/2003 dated August 7, 2003 has been fulfilled. Based on the majority vote, the following has been decided:

- To approve transactions of two subsidiaries, MEFO and Apexindo, for the Sale and Purchase of rig Maera Insurance Claim owned by Apexindo and joint-financing to construct rig Raissa and Yani.
- Not to approve the loan facility provided to finance Apexindo's operation.
- To approve rental of rig no.2 to Apexindo.
- To approve full authority given to Company's management in taking all necessary actions relating to these transactions.

For the unapproved loan facility provided to Apexindo, management has sent letter No. MEI-361/DIR/X/2003 dated October 1, 2003 to Apexindo requiring their prompt payment. The loan was paid by Apexindo on December 23, 2003 amounting to US\$ 5,734,824 and Rp 56,562,972,362, as acknowledged in the Extraordinary General Meeting of Shareholders on January 23, 2004.

#### 44. RESTATEMENT OF THE 2002 CONSOLIDATED FINANCIAL STATEMENTS

##### A. Adjustments

The Company has determined that it was necessary to make adjustments to its previously issued consolidated financial statements as of and for the year ended December 31, 2002. These adjustments were included in the Company and its subsidiaries' comparative consolidated financial statements as of and for the years ended December 31, 2003 and 2002 issued on April 22, 2004.

##### (i) US Tax Liabilities

As disclosed in the Company's 2001-2002 audited consolidated financial statements, the Secretary of State of Delaware U.S., had designated 3 (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 management has filed certificates of revival in respect of these companies. The management 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 management also undertook to resolve its US corporate income tax matters.

As further discussed in Note 40, the management's best estimate and what it believes as the most likely amount of its subsidiaries' US corporate income tax obligation for fiscal years 1995-2002 is approximately US\$ 13,510,782, which consists of US\$ 10,225,748 for principal amount and US\$ 3,285,034 for interest charges. Accordingly, the management has recorded such amount in the restated 2002 consolidated financial statements.

The principal amount of the U.S. tax liabilities is included as part of the taxes payable, while the interest charges is included in the accrued expenses account in the restated 2002 consolidated balance sheet.

The provision for the said U.S. tax liabilities pertaining to 2002 totaling US\$ 2,702,964 was charged to current tax (for the principal amount) and other charges (for the applicable interest) in the restated 2002 consolidated statement of income, while those pertaining to years prior to 2002 totaling US\$ 10,807,818 were charged as an adjustment to the 2002 beginning retained earnings.

##### (ii) Deferred Tax

Apexindo, a subsidiary, made an adjustment to correct the recorded deferred income tax on the temporary differences between the tax bases of its property and equipment and their reported amounts in the consolidated financial statements. The adjustment resulted in increases of US\$ 2,848,843 in 2002 net income, and US\$ 4,986,210 in opening retained earnings at January 1, 2002.

##### (iii) Others

The Company has made other adjustments for the capital and additional paid-in capital allocation of the US Dollar denominated loan that was converted into equity, and the amount attributable to the Company and the minority interest with respect to their respective share in the results of operations and changes in equity of subsidiaries. The adjustments resulted in decreases in 2002 net income of US\$ 1,728,362 and of US\$ 14,761,640 in opening retained earnings at January 1, 2002.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS THEN ENDED (Continued)

B. Reclassification of Accounts

Deferred gain on exchange of nonmonetary assets of US\$ 1,252,215 in the noncurrent liabilities, amortization of fair value adjustments – net of US\$ 1,232,789 in the operating expenses and employee benefits of US\$ 3,068,813 in the accrued expenses in the 2002 consolidated financial statements have been reclassified to investment in shares of stock in the noncurrent assets, to depreciation and amortization in the cost of sales and direct expenses, and to employee benefits –non current, respectively, to conform with the 2003 financial statement presentation.

A summary of the financial statement items before and after the restatement is as follows:

	2002	
	As Previously Reported	As Restated
	US\$	US\$
Taxes payable	16,398,314	26,624,062
Accrued expenses	39,841,083	43,126,116
Deferred tax liabilities	15,223,495	5,907,846
Minority interest in net assets of subsidiaries	27,126,294	34,499,000
Capital stock	94,227,642	97,915,615
Additional paid in capital	113,068,224	121,862,995
Difference due to change in equity of subsidiaries	29,673,178	27,788,327
Retained earnings - unappropriated		
Beginning of year	197,141,234	176,557,986
End of year	240,988,683	218,822,952
Other charges - net	1,856,665	2,582,888
Minority interest in net loss of subsidiaries	(707,128)	(220,395)
Current tax	(73,712,151)	(76,213,815)
Deferred tax	(5,647,136)	(2,798,293)
Net income	84,138,282	82,555,799
Basic earnings per share	0.0269	0.0264

45. RESTATEMENT OF THE 2003 AND 2002 CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to the issuance of the Company and its subsidiaries' consolidated financial statements as of and for the years ended December 31, 2003 and 2002 on April 22, 2004, the Company has determined that it was necessary to make adjustments and reclassifications to those consolidated financial statements as follows:

A. Adjustments

2003

a) Deferred Tax

- i. Recognition of deferred tax benefit of US\$ 25,074,189 on the temporary differences between the financial statement carrying amounts and the tax bases of oil and gas properties, deferred tax asset on employee benefits of US\$ 1,243,070 and write-off of deferred tax asset on fiscal loss of US\$ 462,259. The adjustments resulted in increase in net income of US\$ 25,855,000 in 2003.



ii. Others

The Company has made other adjustments for crude oil sales, provision for doubtful accounts, interest expense, depreciation, loss on swap transactions, employee benefits, and notes payable discount amortization. The adjustments resulted in decrease in net income of US\$ 293,137.

2002

a) Deferred Tax

Recognition of deferred tax asset and liabilities of US\$ 1,214,081 and US\$ 69,064,383, respectively, as of December 31, 2002 on the temporary differences between the financial statement carrying amounts and the tax bases of oil and gas properties, which resulted in decreases in net income of US\$ 10,317,496 in 2002 and in the January 1, 2002 retained earnings of US\$ 57,532,806.

B. Reclassification of Accounts

2003

Time deposits of US\$ 13,306,052 from cash and cash equivalents to restricted cash in banks – noncurrent; restricted cash in banks of US\$ 15,814,420 from non-current to current assets; trade accounts receivable – third parties of US\$ 403,436 to other accounts receivable; trade accounts receivable – related party of US\$ 774,184 and accounts receivable from related parties of US\$ 513,200 from other accounts receivable; trade payables to third parties of US\$ 1,375,332 to accrued expenses; taxes payable of US\$ 22,295 netted-off with prepaid taxes; deferred tax liabilities of US\$ 383,804 netted-off with deferred tax assets; other payables-noncurrent of US\$ 2,812,985 to swap liabilities and US\$ 996,565 to unearned revenue; intercompany elimination of other accounts receivable of US\$ 1,352,509 and trade accounts receivable of US\$ 3,281,204 with accrued expenses amounting to US\$ 4,633,713; employee benefits of US\$ 2,146,895 from operating expenses to cost of sales and direct expenses; export expenses of US\$ 16,381,054 from cost of sales and direct expenses to selling expenses; bank charges of US\$ 218,430 from operating expenses to interest expense and financial charges; interest expense of US\$ 466,598 to loss on swap transactions; reversal of intercompany elimination of net oil and gas sales with cost of methanol sales of US\$ 8,894,492.

2002

Time deposits of US\$ 1,359,395 from cash and cash equivalents to restricted cash in banks – noncurrent; restricted cash of US\$ 703,750 from non-current to current assets; accounts receivable from a related party of US\$ 774,184 to trade accounts receivable from a related party; employee benefits of US\$ 1,149,562 from operating expenses to cost of sales and direct expenses; export expenses of US\$ 17,532,908 from cost of sales and direct expenses to selling expenses; bank charges of US\$ 290,627 from operating expenses to interest expense.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS THEN ENDED (Continued)

The summary of the 2003 and 2002 financial statement items before and after the restatement are as follows:

	2003	
	As Previously Reported	As Restated
	US\$	US\$
Trade accounts receivable - related parties	774,184	-
Other accounts receivable	43,096,800	48,771,466
Deferred tax assets - net	2,198,488	30,840,389
Property and equipment - net	252,109,250	252,260,611
Accrued expenses	14,278,182	15,140,984
Deferred tax liabilities - net	9,023,093	79,660,296
Long-term notes payable	253,826,749	257,872,137
Swap liabilities	2,812,985	3,249,775
Net sales and operating revenues	463,372,790	469,047,456
Cost of sales and direct expenses	271,086,867	270,935,506
Operating expenses - general and administrative	47,244,693	48,754,665
Interest expense	20,592,362	22,383,142
Loss on swap transactions	466,598	2,783,177
Loss on repurchase of notes payable	4,117,968	4,838,231
Deferred tax expense (benefit)	1,045,349	(24,809,651)
Net income	53,437,108	78,998,971
Basic earnings per share	0.0172	0.0254

	2002	
	As Previously Reported	As Restated
	US\$	US\$
Deferred tax assets - net	128,590	1,342,671
Deferred tax liabilities - net	5,907,846	74,972,229
Deferred tax expense	2,798,293	13,115,789
Beginning retained earnings	176,557,986	119,025,180
Net income	82,555,799	72,238,303
Basic earnings per share	0.0264	0.0231

46. NEW ACCOUNTING STANDARDS

The Company did not present comparative consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 and therefore the consolidated financial statements for the years ended December 31, 2003 and 2002 were not restated to reflect the retroactive effect of the application of Statements of Financial Accounting Standards (SFAS) No. 24 (Revision 2004), "Employee Benefits", and SFAS No. 38 (Revision 2004), "Accounting for Restructuring Transactions of Entities Under Common Control", which have become effective for financial statements covering periods beginning on or after July 1, 2004 and January 1, 2005, respectively. In addition, the foregoing standards were not yet applicable to the periods covered by such set of consolidated financial statements and the Company's management considered that the effect of the adoption would not be material for those periods.

47. THE APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries' consolidated financial statements were approved for issue by the Company's Directors on June 24, 2005.

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RESERVE ESTIMATION

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

The following information on subsidiaries' reserve quantities are estimated by the subsidiaries' engineers. The estimated oil and gas reserves in 2003 and 2002 in the table below in respect of Sumatera, Kalimantan and Tarakan are certified by Gaffney, Cline & Associate (GCA), independent petroleum engineering consultants. In preparing their report, GCA utilized generally accepted petroleum engineering principles and definitions applicable to the proved and probable reserve categories and subclassifications promulgated by the U.S. Securities and Exchange Commission in 2003 and U.S. Society of Petroleum Engineers in 2002.

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

Estimated oil and gas reserves in Sumatera, Kalimantan and Tarakan are as follows:

	<u>Crude oil</u> In thousands of barrels	<u>Gas</u> In millions of cubic feet
<u>Proved Developed, Undeveloped and Probable Reserves</u>		
Balance as of January 1, 2002	372,292	762,559
Revision to previous estimate	(108,862)	907,041
Production in 2002	(31,014)	(24,116)
Balance as of December 31, 2002	<u>232,416</u>	<u>1,645,484</u>
Revision to previous estimate	28,944	189,585
Production in 2003	(23,773)	(28,569)
Balance as of December 31, 2003	<u><u>237,587</u></u>	<u><u>1,806,500</u></u>
<u>Proved Developed and Undeveloped Reserves</u>		
Balance as of January 1, 2002	214,241	557,323
Revision to previous estimate	(36,414)	(409,280)
Production in 2002	(31,014)	(24,116)
Balance as of December 31, 2002	<u>146,813</u>	<u>123,927</u>
Revision to previous estimate	(9,168)	54,692
Production in 2003	(23,773)	(28,554)
Balance as of December 31, 2003	<u><u>113,872</u></u>	<u><u>150,065</u></u>

P.T. MEDCO ENERGI INTERNASIONAL Tbk AND ITS SUBSIDIARIES  
 SUPPLEMENTARY INFORMATION  
 DECEMBER 31, 2003 AND 2002 AND FOR THE YEARS THEN ENDED (UNAUDITED) (Continued)

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Estimated oil reserves in Tuban is as follows:

	<u>Crude oil</u> <u>In thousands of barrels</u>
<u>Proved Developed, Undeveloped and Probable Reserves</u>	
Balance as of January 1, 2002	8,450
Production in 2002	<u>(976)</u>
Balance as of December 31, 2002	7,474
Production in 2003	<u>(867)</u>
Balance as of December 31, 2003	<u><u>6,607</u></u>
<u>Proved Developed and Undeveloped Reserves</u>	
Balance as of January 1, 2002	5,914
Production in 2002	<u>(976)</u>
Balance as of December 31, 2002	4,938
Production in 2003	<u>(867)</u>
Balance as of December 31, 2003	<u><u>4,071</u></u>

Oil reserves within Tuban block are based on reserves data certified by independent petroleum engineering consultants from the United States of America, DeGolyer and MacNaughton (D&M) as of January 1, 2002. The gross proved reserves for the Tuban block as of December 31, 2003 and 2002 were estimated by the Company.

## Independent Auditors' Report

Report No. RPC-5516

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

We have audited the consolidated balance sheets of PT Medco Energi Internasional Tbk (the "Company") and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 2004 financial statements of Mesa Drilling Inc. (Mesa) and Probe Technology Services, Inc. (Probe), associated entities wherein the Company has 50% and 36.89% indirect ownership interests, respectively, have been audited by other independent auditors whose reports have been furnished to us, and our opinion on the consolidated financial statements insofar as it relates to the amounts included for these entities, is based solely on the reports of the other independent auditors. In the 2004 consolidated financial statements, the Company's investment in Mesa is accounted for at cost as discussed in Note 11 to the consolidated financial statements, with a stated amount of US\$2,023,416 as of December 31, 2004. The Company's investment in Probe is accounted for using the equity method, with a carrying amount of US\$1,001,314 as of December 31, 2004, and the Company's equity in net income of such entity of US\$242,414 for the year ended December 31, 2004 is included in the consolidated statement of income.

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 independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Medco Energi Internasional Tbk and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Indonesia.

As discussed in Notes 2r, 2y and 42 to the consolidated financial statements, effective January 1, 2005, the Company and Subsidiaries have applied Statements of Financial Accounting Standards No. 24 (Revised 2004), "Employee Benefits" and No. 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control". As a result, the 2004 consolidated financial statements which have been previously issued, were restated.

We have previously issued an independent auditors' report with report No. RPC-5240 dated March 27, 2006 on the consolidated financial statements of PT Medco Energi Internasional Tbk and Subsidiaries for the years ended December 31, 2005 and 2004. In connection with the planned issuance of Guaranteed Convertible Bonds by a wholly - owned subsidiary of the Company as disclosed in Note 44 to the consolidated financial statements, the Company reissued its consolidated financial statements for the years ended December 31, 2005 and 2004 with additional disclosures in the notes to the consolidated financial statements.

**Purwanto, Sarwoko & Sandjaja**  
(formerly Prasetio, Sarwoko & Sandjaja)



**Drs. Iman Sarwoko**  
Public Accountant License No. 98.1.0359

April 28, 2006

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	Notes	2005	2004 (As Restated, Note 42)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1b,2e,2f,3,34	152,108,159	215,302,034
Short-term investments	2g,4	58,586,573	30,412,574
Trade receivables – net of allowance for doubtful accounts of US\$3,217,458 in 2005 and US\$2,924,039 in 2004	1b,2i,5,20	101,961,741	76,478,080
Other receivables - third parties - net of allowance for doubtful accounts of US\$909,538 in 2005 and US\$133,565 in 2004	1b,2i,6,11,17,37	75,996,209	44,288,407
Inventories – net of allowance for decline in value of US\$1,063,620 in 2005 and US\$688,261 in 2004	1b, 2j, 7,12	37,455,385	31,670,910
Prepaid taxes	1b,8	23,099,358	17,568,590
Prepaid expenses	1b,2k	4,142,154	3,230,901
Restricted cash in banks	2h,2u,9,19,20,37	15,322,424	17,675,582
Swap assets	2u,19,20,21	371,562	-
Other current assets	1b,2c,14,37	219,462	195,498,144
<b>Total Current Assets</b>		<b>469,263,027</b>	<b>632,125,222</b>
<b>NON-CURRENT ASSETS</b>			
Other receivables - third parties	6,11	1,303,793	1,439,996
Restricted cash in banks	2h,2u,9,19,20,21,37	22,366,348	22,361,685
Accounts receivable from related parties	2d,2e,10,34	3,926,526	10,068,290
Deferred tax assets - net	2t,30,42	33,483,090	37,194,340
Investments in shares of stock	2e,2g,2p,11,37 2e,2g,11,16,	13,322,602	3,014,286
Investments in projects	37,38,41,42	50,382,614	5,000,000
Property and equipment - net of accumulated depreciation of US\$230,227,772 in 2005 and US\$203,809,991 in 2004	2l,2v,2x,12, 20,21, 28,29,37	321,665,873	271,996,260
Oil and gas properties - net of accumulated depreciation and amortization of US\$456,700,336 in 2005 and US\$356,836,054 in 2004	1b,2c,2m, 2x,13	607,683,229	480,582,713
Swap assets	2u,19,20,21	-	2,601,764
Other assets - net	1b, 2n,14,37	19,535,826	5,862,512
<b>Total Non-current Assets</b>		<b>1,073,669,901</b>	<b>840,121,846</b>
<b>TOTAL ASSETS</b>		<b>1,542,932,928</b>	<b>1,472,247,068</b>

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



**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	<b>Notes</b>	<b>2005</b>	<b>2004 (As Restated, Note 42)</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term bank loans	20	-	150,000,000
Trade payables			
Related parties	1b,2e,15	742,396	788,337
Third parties	1b,15	48,370,504	49,400,766
Other payables	11,16,41	63,830,614	25,422,348
Taxes payable	2t,17	32,680,750	17,638,321
Accrued expenses	1b,18,40	45,941,477	20,684,860
Current maturities of long-term bank loans	2o,19,20	16,091,336	30,863,132
Current maturities of long-term obligations			
Loan	21	542,014	-
Deferred income	2s	20,421,331	1,260,668
Swap liabilities	2u,9,19,20,21	9,109,533	1,045,515
<b>Total Current Liabilities</b>		<b>237,729,955</b>	<b>297,103,947</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities - net	1b,2t,30	117,550,234	106,714,067
Employee benefits obligation	2r,33	4,986,222	3,633,777
Long-term liabilities - net of current maturities			
Bank loans	2o,19,20	23,632,981	100,043,338
Other long-term obligations	2o,9,19,21		
Notes payable		276,101,648	274,229,190
Rupiah bonds		192,610,115	144,162,589
Loan		6,657,986	-
Payable under construction contract	37	25,809,166	-
Swap liabilities	2u,9,19,20,21	23,956,039	3,989,103
Other payables	16	4,617,058	4,571,179
<b>Total Non-Current Liabilities</b>		<b>675,921,449</b>	<b>637,343,243</b>
<b>NEGATIVE GOODWILL - Net</b>	2b,2c,22	953,520	1,798,778
<b>MINORITY INTERESTS IN NET ASSETS OF SUBSIDIARIES</b>	2b,23	95,157,229	35,925,791

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	<b>Notes</b>	<b>2005</b>	<b>2004 (As Restated, Note 42)</b>
<b>EQUITY</b>			
Capital stock - Rp 100 par value per share			
Authorized - 4,000,000,000 shares			
Issued and fully paid - 3,332,451,450 shares	24	101,154,464	101,154,464
Treasury stock - 223,597,000 shares in 2005			
and 226,597,000 shares in 2004	2q,24	(3,147,999)	(3,190,236)
Additional paid-in capital	2o,25	123,187,436	122,055,889
Revaluation increment in property and equipment	2l	99,597	99,597
Effects of changes in the equity transactions of subsidiaries/associated companies	1b,2g,2y,2aa,26	17,483,742	27,836,821
Translation adjustments	2d	(520,427)	(740,901)
Retained earnings			
Appropriated		6,492,210	6,492,210
Unappropriated	42	288,421,752	246,367,465
<b>Equity - Net</b>		<b>533,170,775</b>	<b>500,075,309</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,542,932,928</b>	<b>1,472,247,068</b>

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	Notes	2005	2004 (As Restated, Note 42)
<b>Sales and Other Operating Revenues</b>	2e, 2s, 27,		
Net oil and gas sales	34,35,37	432,361,384	367,367,607
Revenues from drilling operations and related services		89,026,128	94,438,585
Net methanol sales		44,954,265	55,490,344
Revenues from other contracts		25,825,241	11,550,952
Share of profits of joint ventures		19,781,592	19,733,452
Electric power sales		8,204,808	1,534,484
<b>Total Sales and Other Operating Revenues</b>		<b>620,153,418</b>	<b>550,115,424</b>
<b>Depreciation and Amortization</b>	2l,2m,2n,12,22,28	87,481,607	74,623,615
<b>Drilling Operations Costs</b>	2s,28,33,34	68,228,840	72,625,338
<b>Production and Lifting Costs</b>	2s,28,33,34	74,608,796	77,774,235
<b>Cost of Methanol Sales</b>	2s,7,28	32,246,278	42,666,135
<b>Exploration Expenses</b>	2s,28,33,34	19,043,406	23,847,061
<b>Cost of Crude Oil Purchase</b>	2s,28	4,208,550	5,033,861
<b>Cost of Power Sales</b>	2s,28,33	4,923,531	72,940
<b>Gross Profit</b>		<b>329,412,410</b>	<b>253,472,239</b>
<b>Operating Expenses</b>	2s,12,29	<b>90,072,922</b>	<b>74,208,127</b>
<b>Income from Operations</b>		<b>239,339,488</b>	<b>179,264,112</b>
<b>Other Income (Charges)</b>	2s		
Equity in net gain (loss) of associated entities - net	2g,11	10,962,973	(764,932)
Signing bonus	37	5,000,000	-
Gain (loss) on foreign exchange - net	2d	4,390,237	(6,884,008)
Gain on sale of marketable securities - net	2g	4,292,787	1,082,081
Financing charges - net		(1,083,653)	(10,218,408)
Gain (loss) from swap transactions	2u,19,20,21	(34,655,395)	1,862,437
Interest expense - net	2u,2v,19,20	(48,559,773)	(37,684,194)
Others - net	2o,10,11,12,14,17,20,42	1,425,161	3,458,767
<b>Other Charges - Net</b>		<b>(58,227,663)</b>	<b>(49,148,257)</b>
<b>Income Before Tax Expense</b>		<b>181,111,825</b>	<b>130,115,855</b>

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (continued)**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	<b>Notes</b>	<b>2005</b>	<b>2004 (As Restated, Note 42)</b>
<b>Tax Benefit (Expense)</b>	2t,30		
Current tax		(99,573,680)	(66,148,681)
Deferred tax		(3,919,319)	11,009,898
Tax Expense - net		(103,492,999)	(55,138,783)
<b>Income Before Minority Interests in Net Earnings of Consolidated Subsidiaries</b>		<b>77,618,826</b>	<b>74,977,072</b>
<b>Minority Interests in Net Earnings of Consolidated Subsidiaries</b>	2b,23	<b>(2,921,567)</b>	<b>(1,126,940)</b>
<b>NET INCOME</b>		<b>74,697,259</b>	<b>73,850,132</b>
<b>BASIC EARNINGS PER SHARE</b>	2bb,31	0.0240	0.0238

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	Notes	Capital Stock	Additional Paid-in Capital	Effects of Changes in the Equity Transactions of Subsidiaries/Associated Companies	Translation Adjustments	Revaluation Increment in Property and Equipment	Retained Earnings		Net
							Appropriated	Unappropriated	
Balance, December 31, 2003 (As previously reported)		97,964,228	122,055,889	27,836,821	-	99,597	6,492,210	190,426,629	444,875,374
Restatement due to change in accounting principles	2r,2y,4z	-	-	-	-	-	-	1,968,172	1,968,172
Balance December 31, 2003 (As Restated)		97,964,228	122,055,889	27,836,821	-	99,597	6,492,210	192,394,801	446,843,546
Translation adjustments of subsidiaries' financial statements	2d	-	-	-	(740,901)	-	-	-	(740,901)
Cash dividends	3z	-	-	-	-	-	-	(19,877,468)	(19,877,468)
Net income		-	-	-	-	-	-	73,850,132	73,850,132
Balance, December 31, 2004 (As Restated)		97,964,228	122,055,889	27,836,821	(740,901)	99,597	6,492,210	246,367,465	500,075,309
Treasury stock	2q	42,237	1,131,547	-	-	-	-	-	1,173,784
Effects of changes in the equity transactions of subsidiaries/associated companies	2g,2b	-	-	(10,353,079)	-	-	-	-	(10,353,079)
Translation adjustments of subsidiaries' financial statements	2d	-	-	-	220,474	-	-	-	220,474
Cash dividends	3z	-	-	-	-	-	-	(32,642,972)	(32,642,972)
Net income		-	-	-	-	-	-	74,697,259	74,697,259
<b>Balance, December 31, 2005</b>		<b>98,006,465</b>	<b>123,187,436</b>	<b>17,483,742</b>	<b>(520,427)</b>	<b>99,597</b>	<b>6,492,210</b>	<b>288,421,752</b>	<b>533,170,775</b>

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	Notes	2005	2004 (As Restated, Note 42)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		660,892,954	542,444,462
Cash paid to suppliers and employees		(331,223,262)	(272,975,628)
Cash generated from operations		329,669,692	269,468,834
Interest and financing charges paid		(48,212,569)	(52,123,659)
Income tax paid		(94,562,023)	(81,071,321)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>186,895,100</b>	<b>136,273,854</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of subsidiaries/working interest		102,818,276	-
Additions to (deductions of) related parties accounts		6,176,835	(8,701,990)
Proceeds from signing bonus		5,000,000	-
Interest received		4,123,413	8,668,343
Proceeds from insurance claim		859,373	-
Proceeds from disposal of property and equipment		219,716	406,377
Deductions of other assets		(10,577,688)	(473,065)
Additions to (deductions of) short-term investments	4	(23,881,212)	22,502,351
Acquisition of subsidiaries - net of cash acquired	14,37b	(28,659,571)	(120,244,097)
Additions to oil and gas properties	13	(43,541,816)	(188,157,553)
Acquisitions of property and equipment	12	(46,699,212)	(45,563,715)
Advances for investments in project	11	(48,142,614)	-
Additions to other payables		-	15,079,344
Acquisitions for investments in stock		-	(6,000,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(82,304,500)</b>	<b>(322,484,005)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long-term obligations	21	59,713,180	145,445,875
Proceed from subsidiary's bonds offering		43,237,927	-
Withdrawal (placement) of restricted cash in banks	9	2,348,495	(2,086,918)
Proceeds from sale of treasury stock	24	1,171,206	-
Dividends paid		(33,073,130)	(19,877,468)
(Payment) Proceeds of bank loans	20	(241,182,153)	128,661,039
Proceeds from sale (acquisitions) of treasury notes		-	15,000,000
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		<b>(167,784,475)</b>	<b>267,142,528</b>

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

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

	<u>Notes</u>	<u>2005</u>	<u>2004</u> <u>(As Restated,</u> <u>Note 42)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(63,193,875)</b>	<b>80,932,377</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>215,302,034</b>	<b>134,369,657</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>152,108,159</b>	<b>215,302,034</b>
<b>SUPPLEMENTAL DISCLOSURES</b>			
Non - cash investing and financing activities			
Acquisitions of assets through financing		7,200,000	-

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



**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

**1. GENERAL**

a. General Information

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

The Company's Articles of Association have been amended several times, the latest amendment concerning the function and authority of the directors and commissioners, the authorized capital, and the rules on meetings of directors and commissioners. The latest amendments were covered by notarial deed No. 43 of Mrs. Indah Fatmawati, S.H., dated July 23, 2002, substitute notary of Mrs. Poerbaningsih Adi Warsito, S.H., which were approved by the MOJ in decision letter No. C-15374 HT.01.04 TH 2002 dated August 15, 2002 and were published in State Gazette No. 51, Supplement No. 457 dated June 27, 2003.

The Company is domiciled in Jakarta and its head office is located at Graha Niaga Building, 16<sup>th</sup> Floor, 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 among others, exploration for and production of oil and natural gas, methanol production and other energy activities, including onshore and offshore drilling, and investing (direct and indirect) in subsidiaries. The Company started commercial operations on December 13, 1980.

The Company and its Subsidiaries have approximately 2,373 and 1,930 employees as of December 31, 2005 and 2004, respectively.

The Company's Boards of Commissioners and Directors are as follows:

	December 31, 2005	December 31, 2004
President Commissioner	: Ir. John Sadrak Karamoy	Ir. John Sadrak Karamoy
Independent Commissioners	: Gustiaman Deru : Ir. Sudono N. Suryohudoyo	Gustiaman Deru Ir. Sudono N. Suryohudoyo
Commissioners	: Ir. Yani Yuhani Rodyat Ir. Retno Dewi Arifin	Ir. Yani Yuhani Rodyat Ir. Retno Dwi Arifin Suwit Pitchart Maroot Mrigadat Andrew Purcell
President Director	: Ir. Hilmi Panigoro, MSc	Ir. Hilmi Panigoro, MSc
Directors	: Rashid Irawan Mangunkusumo, BSc, MEng Ir. Darmoyo Doyoatmodjo, MSc, MBA Ir. Darwin Cyril Noerhadi, MBA	Sugiharto, SE, MBA Yongyos Krongphanich Rashid Irawan Mangunkusumo, BSc, MEng

On November 24, 2005, in an Extraordinary Stockholder's Meeting, the stockholders approved the appointment of Mr. Ir. Darwin Cyril Noerhadi, MBA as a Company Director effective October 1, 2005.

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
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**1. GENERAL (continued)**

**a. General Information (continued)**

On March 10, 2005, the Company's stockholders, in an Extraordinary General Stockholders' Meeting, approved the resignation of Mr. Maroot Mrigadat, Suwit Pitchart and Andrew Purcell as the Company's Commissioners and the resignation of Mr. Yongyos Krongphanich as a Company Director, effective on February 28, 2005.

On October 20, 2004, Mr. Sugiharto, SE, MBA, one of the Company's Directors, was appointed as Minister of State - Owned Enterprises of the Republic of Indonesia. The Company's stockholders appointed Mr. Ir. Darmoyo Doyoatmojo, MSc, MBA as his replacement through the Stockholders' Extraordinary General Meeting held on March 10, 2005. In the same meeting, the Stockholders approved the resignation of Mr. Sugiharto, SE, MBA.

On September 15, 2004, the Company's stockholders, in an Extraordinary General Meeting, approved the resignation of Mr. Peerachat Pinprayong as a Director and the appointment of Mr. Yongyos Krongphanich as his replacement.

On January 23, 2004, the Company's stockholders, in their Extraordinary General Stockholders' Meeting, approved the resignation of Mr. Chitrapongse Kwangsukstith as a Commissioner and the appointment of Mr. Suwit Pitchart as his replacement.

Salaries and other fringe benefits paid to the commissioners and directors amounted to US\$5,018,028 and US\$6,214,682 for the years ended December 31, 2005 and 2004, respectively.

**b. Subsidiaries**

(1) As of December 31, 2005 and 2004, the Company has ownership interests of more than 50%, directly or indirectly, in the following subsidiaries:

Subsidiaries and their main activities Place of Incorporation	Description	Percentage of Effective Ownership	Start of Commercial Operations	Total Assets December 31, 2005	Total Assets December 31, 2004
<b>1. <u>Exploration and production of oil and gas</u></b>					
PT Medco E&P Tarakan (MEPT) Indonesia	Production Sharing Contract (PSC) with BP Migas until 2022.	100.00% (99.99% - Company; 0.01% - MEPI)	May 1, 1992	27,637,714	22,376,126
PT Medco E&P Kalimantan (MEPK) Indonesia	Technical Assistance Contract (TAC) with PERTAMINA until 2008.	100.00% (99.99% - Company; 0.01% - MEPI)	May 1, 1992	78,393,667	61,028,387
PT Medco E&P Indonesia (MEPI) Indonesia	PSC with BP Migas until 2013.	100.00% (99.95% - Company; 0.05% - MEPK)	November 3, 1995	180,512,198	135,434,240
Exspan Airsenda, Inc. (EAS) Delaware USA	PSC with BP Migas (until 2023) has been transferred to PT Medco E&P Rimau in October 2005.	100.00%	November 3, 1995	195,123,619	182,393,007
Exspan Airlimau, Inc. (EAL) Delaware USA	PSC with BP Migas (until 2023) has been transferred to PT Medco E&P Rimau in October 2005.	100.00%	November 3, 1995	195,123,619	182,393,007

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries and their main activities Place of Incorporation	Description	Percentage of Effective Ownership	Start of Commercial Operations	Total Assets December 31, 2005	Total Assets December 31, 2004
PT Medco E&P Tomori Sulawesi Indonesia	PSC - JOB with PERTAMINA until 2027.	100.00% (95%- Company ; 5% - MEPI)	Started production in August 2005	52,246,465	33,377,982
PT Medco E&P Tuban Indonesia	PSC - JOB with PERTAMINA until 2018.	99.99%	September 1, 2003	79,864,013	51,097,705
Perkasa Equatorial Sembakung Pty, Ltd. (PES) Singapore	TAC with Pertamina (until 2013) has been transferred to PT Medco E&P Sembakung on December 28, 2005.	100%	May 1, 1994	33,604,885	-
PT Medco E&P Sembakung Indonesia	Assignee of working interest of PES in Sembakung (until 2013)	100.00% (99.9% - company; 0.01% MEPI)	December 28, 2005	57,204,856	-
Exspan Exploration and Production Pasemah, Ltd., (EEP) Bahamas	PSC with BP Migas (until 2023) was relinquished in 2003 based on letter no. 421/BP00000/ 2003-SI.	100.00%	November 3, 1995	-	-
Exspan Pasemah, Inc. (EP) Delaware USA	Non-operating since relinquishment of PSC with BP Migas on February 26, 2003	100.00%	November 3, 1995	-	-
Medco Far East Limited (formerly Enserch Far East Limited) Cayman Island	Holding company	100.00%	February 29, 1988	5,674,666	5,674,666
Medco Simenggaris Pty., Ltd. Australia	PSC - JOB with PERTAMINA until 2028.	60.00%	Has not started commercial operations	13,845,252	8,787,223
Medco Madura Pty. Ltd., Australia	PSC - JOB with PERTAMINA until 2027.	51.00%	Has not started commercial operations	27,418,069	23,951,026
Exspan Myanmar (L), Inc. Malaysia	Non-operating since relinquishment of PSC with BP Myanmar Oil & Gas Enterprise in October 2002.	100.00%	Non-active Company	-	-
EEX Asahan Limited Cayman Island	PSC - JOB Asahan with PERTAMINA (until 2026) was transferred to PT Medco E&P Asahan on November 4, 2004.	100.00% through MIV	Non-active Company	-	-
Medco International Enterprise Ltd. (formerly Medco Lematang Limited) Malaysia	Assignor of working interest of PT Medco E&P Lematang (PSC – Lematang with BP Migas until 2017).	100.00% through MIV	October 1, 2002	-	-

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries and their main activities Place of Incorporation	Description	Percentage of Effective Ownership	Start of Commercial Operations	Total Assets December 31, 2005	Total Assets December 31, 2004
PT Petroner Bengara Energi Indonesia	PSC with BP Migas until 2029.	95.00%	Has not started commercial operations	1,137,079	1,159,009
PT Medco E&P Lematang (MEPL) Indonesia	PSC with BP Migas until 2017.	100.00% (99.99% - Company; 0.01% - MEPI)	2003	30,193,280	31,332,426
PT Medco E&P Yapen Indonesia	PSC with BP Migas until 2029.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	1,642,289	1,654,235
PT Medco Sarana Balaraja Indonesia	PSC Rombebai with BP Migas (until 2028) was transferred to Ramu Rombebai LLC in 2004.	100.00% (99.99% - Company; 0.01% - MEPI)	Non-active Company	1,101,370	113,492
Exspan International (Kakap) Ltd., Mauritius	-	100.00% through EEP	Has not started commercial operations.	-	-
PT Medco E&P Brantas Indonesia	Assignee of working interest of Novus Indonesia Brantas Company on Brantas PSC.	100.00% (99.99% - Company; 0.01% - MEPI)	July 4, 2005	72,558,794	26,911
PT Medco E&P Merangin Indonesia	Merangin PSC with BP Migas until 2033.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	4,007,530	2,444,505
PT Medco E&P Sampang Indonesia	Participating interest with Santos Sampang Pty. Ltd., for a Jeruk well in Sampang PSC under a Sole Risk Agreement was terminated on April 28, 2005 and April 27, 2005, respectively.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	101,628	27,987,757
PT Exspan Pasemah Indonesia	-	95.00%	Has not started commercial operations	-	-
Exspan Exploration and Production Int'l (M) , Ltd., (EPI) Mauritius	-	100.00%	Has not started commercial operations	2	-
Exspan Cumi-Cumi (L), Inc. Malaysia	Non-operating since relinquishment of PSC with BP Migas on August 20, 2003	100.00% through MEPK	Non-active company	64,448	64,448
Senoro Toili (Ind) Ltd., Bahamas	Assignee of PSC - JOB with PERTAMINA in Senoro Block (October 9, 2000).	100.00%	Non-active company	2	2

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries and their main activities Place of Incorporation	Description	Percentage of Effective Ownership	Start of Commercial Operations	Total Assets December 31, 2005	Total Assets December 31, 2004
PT Medco E&P Mogoi Wasian Indonesia	-	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	250,206	-
Medco Strait Service Pty, Ltd Singapore	Assignee of working interest of PT Medco E&P Sampang.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	444,414,198	-
PT Medco E&P Madura	-	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	101,730	-
PT Exspan Energi Nusantara (EEN) Indonesia	Generation and distribution of electricity.	100.00% (99% -MEPK, 1% - MEPI)	Has not started commercial Operations	34,239	35,006
PT Medco E&P Simenggaris Indonesia	Assignee of Madura working interest of Medco Simenggaris Pty., Ltd.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	101,730	-
PT Medco E&P Kakap Indonesia	Assignee of working Kakap interest from Novus UK Kakap and Novus Canada Kakap.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations.	101,627	107,643
PT Medco E&P Asahan Indonesia	Assignor of Asahan PSC with BP Migas (until 2016) to Asia Petroleum Development (Asahan) Ltd. in June 2005.	99.99%	Non-active company	1,000,002	26,911
PT Medco E&P Rimau Indonesia	Assignee of Rimau working interest (PSC with BP Migas until 2023) of Exspan Aairsenda Ltd. and Exspan Airlimau Ltd.	99.99%	Has not started commercial operations	232,162,625	14,891
PT Medco E&P Nunukan Indonesia	PSC with BP Migas until 2034 (from December 12, 2004).	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	3,419,126	-
Medco International (Sampang) Ltd., Mauritius	To engage in business activities as stipulated in its constitution and carry out other business activities relating to the main objectives and purposes of the Company.	100.00% through Exspan Exploration and production Int. (M) Ltd.	Has not started commercial operations	-	1
Medco International Ventures Ltd., (MIV) Malaysia	To acquire interests involving exploration for and production of oil and natural gas.	100.00%	Has not started commercial operations	4,513,155	4,738,698
Medco Energi (Australia) Pty., Ltd., (MEAPL) Australia	Holding Company of Novus Petroleum Ltd.	100.00%	July 2004	386,975,899	408,614,594

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries and their main activities Place of Incorporation	Description	Percentage of Effective Ownership	Start of Commercial Operations	Total Assets December 31, 2005	Total Assets December 31, 2004
<b>2. <u>Drilling and other support services for oil and gas activities</u></b>					
PT Apexindo Pratama Duta Tbk (Apexindo) Indonesia	Onshore and offshore drilling operations, and related services for companies involved in the oil and gas industry.	52.38% in 2005 and 77.53% in 2004	1992	353,394,975	297,186,717
PT Antareja Jasatama Indonesia	Clear areas for mining activities and services related to drilling operations (ceased operations starting April 2004).	52.17% in 2005 and 77.20% in 2004 through Apexindo	June 18, 1999	72,972	126,785
PT Medco LPG Kaji (formerly known as PT Musi Banyuasin Energi) Indonesia	Processing of natural gas and distribution of gas products (LPG).	100.00% (99.99% - Company ; 0.01% - MEPI)	April 4, 2004	21,730,920	22,768,450
PT Exspan Petrogas Intranusa (EPI) Indonesia	Provision of services to companies involved in oil and natural gas exploration and production.	99.99%	1999	18,064,489	18,621,029
PT Musi Raksa Buminusa Indonesia	Provision of services to companies involved in oil and natural gas exploration and production.	98.9901% through EPI	Has not started commercial operations	841,677	15,343
PT Satria Raksa Buminusa Indonesia	Provision of services to companies involved in oil and natural gas exploration and production.	98.9901% through EPI	Has not started commercial operations	635,692	15,343
PT Medco Ethanol Indonesia (formerly PT Medco Musi) Indonesia	Provision of services to companies involved in oil and natural gas exploration and production.	100% (99.99% - Company, 0.01% - MMB)	Has not started commercial operations	820,796	-
PT Mahakam Raksa Buminusa Indonesia	Provision of services to companies involved in oil and natural gas exploration and production.	98.9901% through EPI	Has not started commercial operations	400,173	15,343
PT Sistim Vibro Indonesia Indonesia	Provision of services relating to Vibro Seismic Technology to companies involved in oil and natural gas exploration and production.	79.99% through EPI	March 1, 2004	1,793,825	1,838,184
<b>3. <u>Methanol production</u></b>					
PT Medco Methanol Bunyu (MMB) Indonesia	Production of methanol under a Refinery Agreement with PERTAMINA until 2017.	99.99%	January 29, 1997	30,617,719	24,075,144

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries and their main activities Place of Incorporation	Description	Percentage of Effective Ownership	Start of Commercial Operations	Total Assets December 31, 2005	Total Assets December 31, 2004
<b>4. Power Plant</b>					
PT Medco Power Sengkang Indonesia (MPS) Indonesia	Holder of 5% interest in Sengkang Power Plant.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	131,726	107,643
PT Medco Energi Menamas (MEM) Indonesia	Holding company of MEB.	99.99%	Has not started commercial operations	5,375,497	5,279,284
PT Medco Power Indonesia (MPI) Indonesia	Engage in power plant operations and holding Company of MEB and MEM.	100.00% (99.99% - Company; 0.01% - MEPI)	November 17, 2005	31,209,333	107,643
PT Dalle Energy Batam (DEB) Indonesia	To provide Power Supply pursuant to Agreement with PLN dated January 24, 2005.	58.81% (40% - Company; 18.81% - through DP)	Has not started commercial operations	11,721,646	-
PT Mitra Energi Batam (MEB) Indonesia	Electricity power supply to PLN Batam until 2011.	53.99%	October 29, 2004	28,508,772	30,208,902
PT Medco Geothermal Indonesia (MGI)	To engage in power plant operations.	100.00% (99.99% - Company; 0.01% - MEPI)	Has not started commercial operations	101,831	107,643
PT Medco Gajendra Power Services (MGPS) Indonesia	To engage in power plant operations	51% through MPI	Has not started commercial operations	101,729	-
PT Medco Power Sumatera (MPSu) Indonesia	To engage in power plant operations	99.60%	Has not started commercial operations	25,432	26,911
PT Dalle Panaran (DP) Indonesia	To engage in power plant operations	100.00% through MPI - 99%. Dalle Energy - 1%	Has not started commercial operations	1,063,581	-
<b>5 Others</b>					
Medco Energi Finance Overseas, B.V. (MEFO) The Netherlands	Raise funds through issuance debt securities.	100.00%	October 14, 1999	11,438,578	70,166,248
MEI Euro Finance Limited (MEFL) Mauritius	Raise funds through issuance debt securities.	100.00%	March 19, 2002	249,122,225	282,909,400
Apexindo Asia Pacific B.V. (AAP) The Netherlands	Raise funds to finance Apexindo's construction of a drilling rig.	77.53% through Apexindo	February 25, 2003	3,026,102	58,003,539
Apexindo Khatulistiwa (AK) The Netherlands	Raise funds to finance Apexindo's construction of a drilling rig.	77.53% through Apexindo	Has not started commercial operations	17,293	17,293



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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets December 31, 2005	Total Assets December 31, 2004
<b>6. Parent Company</b>					
Novus Petroleum Limited (NPL)	Holding Company	100% (through MEAPL)	Australia	290,742,069	290,742,069
<b>Controlled Entities</b>					
Novus Management Services Pty. Ltd.	Management Services	100% (through NPL)	Australia	1,377,543	1,601,841
Novus Australia Holdings Pty. Ltd. (NAH)	Holding Company	100% (through NPL)	Australia	175,150,679	167,454,199
Novus Finance Pty. Ltd. (NF)	Finance Company	100% (through NPL)	Australia	336,120,981	360,063,559
<b>Controlled Entities Held Directly and Indirectly by Novus Australia Holdings, Pty. Ltd.</b>					
Novus Petroleum Canada (Kakap) Limited (NPCL)	Exploration and Production	100% (through NPL)	Canada	31,723,650	39,513,279
Novus Lematang Company (NLC)	Exploration and Production	100% (through NPL)	Canada	-	-
Novus Indonesia Brantas Company (NIBC)	Exploration and Production	100% (through NPL)	Cayman Island	102,527,817	87,530,612
Novus UK (Kakap) Limited (NUKL)	Exploration and Production	100% (through NPL)	United Kingdom	70,822,125	82,037,139
Novus Louisiana LLC (NLL)	Exploration and Production	100% (through NPL)	USA	80,290,274	112,316,905
Novus Overseas Holdings Limited (NOHL)	Holding Company	100% (through NPL)	Guernsey	92,898,354	92,910,823
Novus Group Holdings (Malaysia) Sdn Bhd (NGHSB)	Holding Company	100% (through NPL)	Malaysia	2	2
Novus Petroleum Canada (Indonesia) Holdings (NPCH)	Holding Company	100% (through NPL)	Canada	12,556,019	5,871,138
Novus Exploration Holdings Pty. Ltd. (NEHPL)	Holding Company	100% (through NPL)	Australia	210,346,572	210,346,572
Novus Australia Energy Company Pty. Ltd. (NAECPL)	Holding Company	100% (through NPL)	Australia	230,283,487	174,899,634
Novus UK (Indonesian Holding Limited) (NUKIHL)	Holding Company	100% (through NPL)	United Kingdom	37,883,790	38,350,175
Novus US Holding Inc.	Holding Company	100% (through NPL)	USA	7,084,758	112,120,450
Novus Petroleum Canada (Malacca Strait) Limited (NPCL)	Dormant Company	100% (through NPL)	Canada	19,197,910	19,204,390
Novus UK (Malacca Strait) Limited (NUMSL)	Paper Company	100% (through NPL)	United Kingdom	23,469	26,219
Novus Pakistan Pty. Ltd. (NPP) (sold on April 1, 2005 Note 37b)	Exploration and Production	100% (through NPL)	Australia	-	1,049,371
Novus Al Khaleej Limited (NAKL) (sold on July 15, 2005, Note 37b)	Exploration and Production	100% (through NPL)	Guernsey	-	1,798,546

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

<u>Subsidiaries</u>	<u>Description</u>	<u>Percentage of Effective Ownership</u>	<u>Place of Incorporation</u>	<u>Total Assets December 31, 2005</u>	<u>Total Assets December 31, 2004</u>
Novus Oman Limited (NOL) (sold on July 15, 2005, Note 37b)	Exploration and Production	100% (through NPL)	Bermuda	-	72,354,508
Novus Petroleum Management LLC	Holding Company	100% (through NPL)	USA	212,527	-
Novus Nevada Petroleum LLC (NNPL) (sold on November 17, 2005, Note 37b)	Exploration and Production	100% (through NPL)	USA	-	105,561,847
Novus Oil & Gas Texas LLC (NOGTL) (sold on November 17, 2005, Note 37b)	Exploration and Production	100% (through NPL)	USA	-	2,041,868
Novus Oil & Gas LP (NOGL) (sold November 17, 2005, Note 37b)	Exploration and Production	100% (through NPL)	USA	-	58,199,137
Novus Middle East Limited (NMEI) (sold on July 15, 2005, Note 37b)	Holding Company	100% (through NPL)	Guernsey	-	25,133,234
Novus US Finance LLC (NUFL) (liquidated on August 16, 2005, Note 37b)	Financing Company	100% (through NPL)	USA	-	5,551,738
Novus West Asia Limited (NWAL) (sold on July 15, 2005, Note 37b)	Management Services	100% (through NPL)	Guernsey	-	560,530
Novus Nominees Pty. Ltd, (NMPL) (sold on October 27, 2005, Note 37b)	Dormant Company	100% (through NPL)	Australia	-	-
<b><u>Subsidiaries that have not started commercial operations or were liquidated in 2005</u></b>					
CIBC Nominees Pty. Ltd. (CNPL)	Holding Company	100% (through NPL)	Australia	-	-
Akemi Pty. Ltd. (APL)	Dormant Company	100% (through NPL)	Australia	-	-
Bjorklund Nominees Pty. Ltd. (BNPL)	Dormant Company	100% (through NPL)	Australia	-	-
Clyrose Pty. Ltd. (CPL)	Dormant Company	100% (through NPL)	Australia	-	-
Forthland Traders Pty. Ltd. (FTPL)	Dormant Company	100% (through NPL)	Australia	-	-
Jancave Pty. Ltd. (JPL)	Dormant Company	100% (through NPL)	Australia	-	-

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

Subsidiaries	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets December 31, 2005	Total Assets December 31, 2004
Kenzone Pty. Ltd. (KLL)	Dormant Company	100% (through NPL)	Australia	-	-
Melzeal Pty. Ltd. (MPL)	Dormant Company	100% (through NPL)	Australia	-	-
Printing Services Pty. Ltd. (PSPL)	Dormant Company	100% (through NPL)	Australia	-	-
Seagrave Investments Limited (SIL)	Dormant Company	100% (through NPL)	Australia	-	-
Tullis Nominees Pty. Ltd. (TNPL)	Dormant Company	100% (through NPL)	Australia	-	-
Wentworth Equity Pty. Ltd. (WEPL)	Dormant Company	100% (through NPL)	Australia	-	-

(2) The following subsidiaries were established/incorporated or acquired in 2005:

<i>Company</i>	<i>Date of Incorporation/Acquisition</i>	<i>Nature of Business</i>
PT Dalle Energy Batam	March 2, 2005	<i>Operation of power plant</i>
PT Dalle Panaran	June 22, 2005	<i>Operation of power plant</i>
PT Medco E&P Mogoi Wasian	July 22, 2005	<i>Operation of exploration and production of oil and gas</i>
Perkasa Equatorial Sembakung Pty., Ltd.	October 5, 2005	<i>Operation of exploration and production of oil and gas</i>
PT Medco E&P Sembakung	November 18, 2005	<i>Operation of exploration and production of oil and gas</i>
PT Medco E&P Madura	November 18, 2005	<i>Operation of exploration and production of oil and gas</i>
PT Medco E&P Simenggaris	November 18, 2005	<i>Operation of exploration and production of oil and gas</i>
PT Medco Gajendra Power Services	October 20, 2005	<i>Operation of power plant</i>
PT Medco Power Sumatera	October 26, 2005	<i>Operation of power plant</i>
Novus Petroleum Management LLC	July 26, 2005	<i>Holding Company</i>

(3) During 2005, the Company and its subsidiaries have disposed of or transferred share ownership, or liquidated the following subsidiaries:

Subsidiary	Date of Disposal/Sold	% of interest/Sold/Disposed
Novus Pakistan Pty., Ltd.	April 1, 2005	100%
Novus Oman Limited	July 15, 2005	100%
Novus Al Khaleej Limited	July 15, 2005	100%
Novus Middle East Limited	July 15, 2005	100%
Novus West Asia Limited	July 15, 2005	100%
Novus Finance USA (NUFL)	August 16, 2005	100%
Novus Nominees Pty., Ltd.	October 27, 2005	100%
Novus Nevada Petroleum LLC	November 17, 2005	100%
Novus Oil & Gas Texas LLC	November 17, 2005	100%
Novus Oil & Gas (NOGL)	November 17, 2005	100%

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**1. GENERAL (continued)**

**b. Subsidiaries (continued)**

- (4) On September 5, 2005, the Rights Issue I of Apexindo, a consolidated subsidiary, has been declared effective by the BAPEPAM. The Rights Issue which the Company did not participate was concluded on September 29, 2005. Accordingly, the Company's share ownership in Apexindo has been diluted from 77.529% to 52.384%. The Company has recognized a loss on dilution amounting to US\$11,356,246. On August 10, 2005, Apexindo has distributed stock options totaling 100,503 stock options to its employees who fulfill certain conditions at the date of the distribution of the options. Each stock option entitles the holder to 500 shares at exercise price of Rp660 per share, exercisable from August 15, 2005 to July 10, 2009. As of December 31, 2005, stock options exercised totaled 721 stock option (360,500 shares). Accordingly, the Company's share ownership in Apexindo was further diluted to 52.377% and it recognized an additional loss on dilution of US\$534. The losses on dilution are reported under Equity, "Effects of Changes in the Equity Transactions of Subsidiaries/Associated Companies".
- (5) On December 22, 2003, MEAPL announced an unsolicited off-market take over bid for all of the issued share capital of NPL, a company established in Australia and listed on the Australian Stock Exchange, subject to a number of conditions stated in the Executive Share Option Scheme. MEAPL's Bidder Statement for NPL was submitted on December 24, 2003.

On January 23, 2004, the Company's stockholders, in an Extraordinary General Stockholders' Meeting, approved MEAPL's plan to acquire/take over the issued shares in NPL. MEAPL started its on-market purchases of NPL shares from June 10, 2004, and on July 6, 2004, had acquired the majority of the shares (more than 90%) of NPL. On July 13, 2004, NPL was delisted from the Australian Stock Exchange, and MEAPL was required to proceed with the compulsory acquisition of the remaining NPL shares. As of August 20, 2004, MEAPL had acquired ownership of 100% of the shares of NPL. Accordingly, the accounts of NPL and its subsidiaries have been consolidated effective as of July 1, 2004.

Novus has the following petroleum joint venture operations in Asia, the Middle East and the United States of America in 2005 and 2004:

Joint Venture	Country	Ownership Interest (%)	
		2005	2004
Kakap PSC	Indonesia	16	18.75
Sorrento Dome – NUL 14 lease	USA	63.167	63.167
Sorrento Dome – NUL 11 lease	USA	100	100
Sorrento Dome – NUL 13 lease	USA	100	100
MP 64/65 (Main Pass) lease	USA	79.375	79.375
Brantas PSC	Indonesia	32	32
EC 317/318 (East Cameron) leases	USA	50-100	50-100
Block 8 (includes the Bukha field)	Oman	-	40
Block 17	Oman	-	40
Block 15/47 (Block 15 relinquished on October 13, 2004)	Oman	-	100
Block 31	Oman	-	100
Ras-Al-Khaimah Northern Onshore	United Arab Emirates	-	100
Badar Concession	Pakistan	-	7.89
Bolan Concession	Pakistan	-	47.5
Dadhar Concession	Pakistan	-	21.67
SC42 (Coron North Block)	Philippines	-	34.88
Padre Island leases (except La Playa and West Bird)	USA	-	70
La Playa lease	USA	-	31.25
West Bird lease	USA	-	41.17

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**1. GENERAL (continued)**

b. Subsidiaries (continued)

The fair value of the assets and liabilities acquired in respect of the Novus acquisition could only be determined on a provisional basis up to the date of the approval of the 2004 consolidated financial statements using as reference the appraisal report of Grant Samuel & Associates Pty Limited dated January 20, 2004, pending the completion of the on-going sales discussion of the Novus subsidiaries and working interests which are up for disposal/sale to Santos, Silk Route and other third parties (with respect to Novus US assets) (Novus Assets Disposals) (Note 37). Accordingly, the values of the assets and liabilities acquired and the goodwill on acquisition (allocated to Oil and Gas Properties and Other Assets (Notes 13 and 14) was subject to change upon completion of the finalization of the Novus assets disposal and the appraisal of the remaining assets and liabilities. Such adjustment is required to be made by the end of the first annual accounting period commencing after the acquisition.

The fair value of the net assets acquired at the acquisition date was as follows:

Total assets	309,088,890
Total liabilities	(181,397,163)
Goodwill allocated to Oil and Gas Properties and Other Assets (Notes 13 and 14)	125,585,796
<b>Total</b>	<b><u>253,277,523</u></b>

The purchase consideration was as follows:

<b>Cash</b>	<b><u>253,277,523</u></b>
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The determination of the fair values of the assets and liabilities acquired was completed on June 30, 2005 and the related adjustment was reflected in the respective assets.

As of December 31, 2004, the financial impact of the acquisition of the Novus group is as summarized below:

Cash in banks	17,168,390
Receivables	110,736,392
Inventories	3,711,726
Prepaid taxes and expenses	1,465,284
Other current assets (representing assets for sale)	194,873,189
Oil and gas properties	132,808,653
Payables and accruals	67,395,904
Short-term loan	77,000,000
Deferred tax liabilities	28,084,305
Net sales and other operating revenues	95,956,848
Net income	30,570,295

- (6) The Company and Subsidiaries have several new and potential acquisitions and transfers of working interests under Production Sharing Contracts (PSC) (Note 36).

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
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**1. GENERAL (continued)**

b. Subsidiaries (continued)

Refer to Notes 36 and 37 for further discussion of the nature of PSC, PSC-JOB and TAC.

(7) The Company and its Novus Subsidiaries entered into several agreements with several parties whereby they agreed to dispose/sell several of their subsidiaries and working interests in Indonesia, Australia, Pakistan, the Middle East and the United States of America (Note 37).

c. Company's Public Offering

The Company's shares of stock were initially offered to the public and listed on the Jakarta Stock Exchange (JSE) on October 12, 1994. The Company's initial public offering of 22,000,000 shares with a par value of Rp1,000 per share, was approved for listing on September 13, 1994 by the Chairman of the Capital Market Supervisory Agency (Bapepam) in letter No. S-1588/PM/1994.

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

Subsequently, the Company had stock splits on June 26, 1997 from Rp1,000 to Rp500 per share, and on January 25, 2000 from Rp500 to Rp100 per share. The Company's stock split from Rp500 to Rp100 per share was announced by JSE on May 31, 2000.

On May 13, 2005, the Company submitted a letter to BAPEPAM advising the latter of its plan to lists existing shares in the form of Global Depository Receipts on the Luxembourg Stock Exchange (LSE). The registration statement was declared effective by the LSE on July 29, 2005 and 288,100 GDRs (14,405,000 shares) were listed on LSE.

As of December 31, 2005 and 2004 all of the Company's shares totaling 3,332,451,450 are listed on the JSE and (including 6,000,000 shares in the form of 120,000 GDRs).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles that are covered by Statements of Financial Accounting Standards (PSAK) and the regulations of Bapepam.

The consolidated financial statements, except for the consolidated statements of cash flows, have been prepared on the accrual basis using the historical cost concept, except for certain accounts which are measured on the bases as described in the related accounting policies.

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

The reporting currency used in the preparation of the consolidated financial statements is the United States Dollar (US Dollar) (Note 2d).

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its Subsidiaries (MedcoEnergi Group) wherein the Company has a direct or indirect ownership interest of more than 50%.

Subsidiaries are consolidated from the date on which control is transferred to the MedcoEnergi Group and cease to be consolidated from the date on which control is transferred out of the MedcoEnergi Group. The results of subsidiaries acquired or disposed of during the year are consolidated from or to the effective dates of acquisition or disposal.

Minority interests represent the interest of the outside shareholders in the results and net assets of subsidiaries.

All significant intercompany balances and transactions are eliminated to reflect the financial position and the results of operations of the Company and Subsidiaries as one business entity.

c. Business Acquisitions

Acquisitions are accounted for by use of the purchase method in accordance with the requirements of PSAK No. 22 on "Business Combination". The cost of an acquisition is allocated to the identifiable assets and liabilities recognized using as reference their fair values at the date of exchange transactions. Any excess of the cost of the acquisition over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transactions is recognized as goodwill/negative goodwill.

Goodwill of the acquired oil and gas companies is reported under Oil and Gas Properties account to the extent applicable for capitalization and is amortized over the life of the Production Sharing Contracts (PSC) or equivalent contract agreements or 18 years using the unit of production method. Negative goodwill is treated as deferred income and is amortized using the straight-line method over 20 years.

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

d. Foreign Currency Transactions and Balances

The Company and its Subsidiaries, except Medco Energi Finance Overseas, B.V. (MEFO), Medco Energi (Australia) Pty. Ltd. (MEAPL), PT Apexindo Pratama Duta Tbk (Apexindo), PT Medco LPG Kaji (LPG), PT Medco Methanol Bunyu (MMB), PT Exspan Petrogas Internusa (EPI), PT Antareja Jasatama (AJT), PT Mitra Energi Batam (MEB), PT Medco Energi Menamas (MEM), PT Medco Power Sengkang (MPS), PT Medco Power Indonesia (MPI), PT Medco Gajendra Power Services (MGPS), PT Dalle Panaran (DP), PT Dalle Energy Batam and the Novus Australian entities (Note 1b), have maintained their books using United States Dollars (US Dollars). Transactions during the year involving currencies other than US Dollars are recorded in US Dollars at the prevailing rates of exchange in effect on the date of the transactions.



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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

d. Foreign Currency Transactions and Balances (continued)

As of balance sheet date, all denominated currencies other than US Dollar monetary assets and liabilities are translated at the middle exchange rates quoted by Bank Indonesia on those dates. The resulting net foreign exchange gains or losses are credited or charged to current operations.

MEB, MEM, MPS, MPI, MGPS, DP and DEB maintain their books/accounts in Indonesian Rupiah. For consolidation purposes, assets and liabilities of these entities are translated into US Dollars using the rates of exchange prevailing at the balance sheet date, equity accounts are translated using historical rates of exchange, while revenues and expenses and cash flows are translated using average rates of exchange. The resulting foreign exchange differences are credited or charged to "Translation Adjustments" under Equity. The books/accounts of Apexindo, MMB, EPI, LPG and AJT are maintained in Indonesian Rupiah, MEFO in Euro and MEAPL and Novus Australian Entities in Australian Dollar, but their functional currency is the US Dollars. For consolidation purposes, the accounts of these entities have been remeasured into US Dollars in order to reflect more closely their economic substance.

As of December 31, 2005 and 2004, the rates of exchange used are as follows:

	<u>2005</u>	<u>2004</u>
Rupiah/US\$1	9,830	9,290
Euro/US\$1	0.7967	0.7343
Australian Dollar/US\$1	1.2890	1.2828
Singapore Dollar/US\$1	1.5728	1.6340
Japanese Yen 100/US\$1	1.1136	1.0274
Arab Emirates Dirham/US\$1	3.67	3.67
British Poundsterling/US\$1	0.5482	0.5193

e. Transactions with Related Parties

The Company and Subsidiaries have transactions with parties which are related to them. In accordance with PSAK No. 7, "Related Party Disclosures", related parties are defined as follows:

- 1) companies that directly, or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the Company (including holding companies, subsidiaries and fellow subsidiaries);
- 2) associated companies;
- 3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company, and close members of the family of any such individuals (close members of the family are those who can influence or can be influenced by such individuals in their transactions with the Company);
- 4) key management personnel who have the authority and responsibility for planning directing and controlling the Company's activities, including commissioners, directors and managers of the Company and close members of their families; and
- 5) companies in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (3) or (4) or over which such a person is able to exercise significant influence. These includes companies owned by commissioners, directors or major stockholders of the Company and companies which have a common key member of management as the Company.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

e. Transactions with Related Parties (continued)

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

f. Cash Equivalents

Time deposits and other short-term investments with maturity periods of three months or less at the time of placement and are not used as collateral or restricted, are classified as "Cash Equivalents".

g. Investments

Investments consist of:

1. Marketable securities in the form of debt and equity securities

The Company and Subsidiaries apply Statement of Financial Accounting Standards (PSAK) No. 50, "Accounting for Investments in Certain Securities", which classifies marketable securities into three categories:

- Trading

Included in this classification are investments which are purchased for immediate resale, normally characterized by the high frequency of purchase-and-sale transactions. These investments are made to earn immediate gains from the improvement in the short-term prices of the securities. Investments that meet this classification are stated at fair value. The unrealized gain/loss on the appreciation/decline in market value of the investments at the balance sheet date is credited or charged to current operations.

- Held-to-maturity

Investments in debt securities which are held-to-maturity date are stated at cost, adjusted for amortization of premium or accretion of discount to maturity.

- Available-for-sale

Investments which do not meet the classification of trading and held-to-maturity categories are stated at fair value. Any unrealized gain/loss on the appreciation/decline in market value of investments at the balance sheet date is credited/charged to "Unrealized Gain/Loss from Valuation to Market of Securities", under the Equity section of the consolidated balance sheets.

To determine realized gain or loss, cost of securities sold is determined using the last-in first-out method.

2. Time deposits

Time deposits which are either used as collateral or with maturity periods of greater than three months but not more than one year from the time of placement are stated at cost.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

g. Investments (continued)

3. Long-term investments in shares of stock

Investments in shares of stock wherein the Company and Subsidiaries have an ownership interest of at least 20% but not exceeding 50% are accounted for under the equity method. Under this method, the investments are stated at cost, adjusted for the Company and Subsidiaries' share in the net earnings (losses) of the associated companies after acquisition, dividends received, foreign currency translation adjustments arising from financial statements translation, amortization of deferred gains on exchange of non-monetary assets and straight-line amortization over a five (5) year period of the difference between the cost of such investments and the Company/Subsidiary's proportionate share in the underlying net assets of the investee at the date of acquisition. The Company and Subsidiaries review and evaluate periodically the carrying values of goodwill, taking into consideration current results and future prospects of the related associate.

The changes in the equity transactions of subsidiary/associated companies are reflected as additions to or reductions of Equity under the account "Effects of Changes in Equity Transactions of Subsidiaries/Associated Companies" in the consolidated balance sheets. In accordance with the requirements of PSAK No. 40, "Accounting for a Change in the Value of Equity of a Subsidiary/Associated company", gains or losses are recognized when the investments are disposed of.

The net book value of the newly acquired subsidiaries which are primarily intended for immediate disposal or sale, are presented under Other Assets.

h. Restricted Cash in Banks

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

i. 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 year.

j. 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 or the average method. Allowance for decline in value of inventories is provided to reduce the carrying values of inventories to their net realizable values determined based on the review of the individual inventory items at the end of the year.

k. Prepaid Expenses

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**I. Property and Equipment**

Property and equipment except for revalued assets, are stated at cost less accumulated depreciation. Certain assets were revalued based on independent appraisals conducted by a third party in accordance with Indonesian government regulations. Revaluation increments in property and equipment are credited to "Revaluation Increment in Property and Equipment" under Equity.

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

	Years	
	2005	2004
Buildings and improvements	20	20
Machinery	20 - 25	20 - 25
Offshore drilling rigs	20 - 21	20 - 21
Control panel equipment	12	12
Onshore drilling rigs	4 - 8	4 - 8
Rig equipment	4 - 10	4 - 10
Telecommunication equipment	5	-
Vehicles	5	3 - 5
Leasehold improvements	3 - 8	3 - 8
Office and other equipment	3 - 5	3 - 5

Land is stated at cost and is not depreciated.

In 2004, the estimated useful lives of certain offshore drilling rigs and drill pipes which were classified under rig equipment have been changed. The effect of the change in the estimated useful lives was insignificant in terms of 2004 depreciation expense (Note 12).

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

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

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.

**m. Oil and Gas Properties**

Subsidiaries engaged in the oil and gas industry use the successful efforts method of accounting for oil and gas activities. Under this method, costs to acquire interests in oil and gas properties, to drill and equip exploratory wells that locate/result in proved reserves and to drill and equip development wells are capitalized. Geological and geophysical costs and other exploration costs are charged to expense as incurred.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

m. Oil and Gas Properties (continued)

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

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

Depreciation and amortization of oil and gas properties, except unoperated acreage and uncompleted wells, equipment and facilities, is calculated based on the unit-of-production method, using the gross production divided by gross proved developed reserves.

Beginning 2005, the depreciation for the support facilities and equipment is calculated using the straight-line method over four (4) to twenty (20) years (Note 13). The accounting policy for depreciating the support facilities and equipment from the unit-of-production method to straight-line method was made to reflect the more realistic assumption of the economic benefits over the utilization of these assets. The effect of the change, being immaterial, was charged to current operations.

Costs to acquire rights to explore for, and produce oil and gas are recorded as unoperated acreage, which pertains to properties wherein proved reserves have not yet been discovered, or operated acreage. Unoperated acreage is periodically assessed for impairment in value, and a loss is recognized at the time of impairment.

n. Intangible Assets

Costs to acquire and prepare software for use are recorded as intangible assets and are amortized over four to five years using the straight-line method.

o. Issuance Costs

1. Notes Payable

Notes payable issuance costs are deducted directly from the proceeds of the related notes payable to determine the net proceeds. The difference between the net proceeds and face value represents a discount which is amortized using the straight-line method over the term of the notes.

2. Loan Transaction Costs

Transaction costs of bank loans, which consist of fees paid to advisers, are deducted from the proceeds of bank loans and are amortized over the term of the related loans using the straight-line method.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

o. Issuance Costs (continued)

3. Shares Issuance Costs

Shares issuance costs are presented as a reduction to the additional paid-in capital under Equity.

p. Deferred Gain on Exchange of Non-Monetary Assets

The portion of the gain resulting from the exchange of non-monetary assets which represents the economic interest retained in the associated company, is deferred and presented as part of the carrying value of the related investment. Such portion is amortized based on the remaining economic life of the asset transferred and included as part of the equity in net income (loss) of the associated entities (Note 11).

q. Treasury Stock

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

r. Pension and Other Employee Benefits

1. Pension Plan

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

The subsidiaries' pension costs are accrued when incurred.

2. Other Employee Benefits

The Company and Subsidiaries recognize employee benefits liabilities in accordance with the requirements of Labor Law No. 13 Year 2003 (Law No. 13/2003) dated March 25, 2003 which was issued by the President of the Republic of Indonesia.

In July 2004, the Indonesian Institute of Accountants (IAI) issued PSAK No. 24 (Revised 2004), "Employee Benefits" (Revised PSAK No. 24), which provides the accounting and disclosures for employee benefits. Revised PSAK No. 24 replaces PSAK No. 24, "Accounting for Pension Benefits Cost", which was issued in 1994.

The Revised PSAK No. 24 is effective for the preparation and presentation of financial statements covering periods beginning on or after July 1, 2004. The initial application of the requirements of the Revised PSAK No. 24 is applied retrospectively by reporting the amounts of any resulting adjustments that relate to prior periods as adjustments to the beginning balance of retained earnings of the earliest comparative period presented.

The Company and Subsidiaries have applied Revised PSAK No. 24 effective on January 1, 2005.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

r. Pension and Other Employee Benefits (continued)

The consolidated financial statements for the year ended December 31, 2004 have been restated to the extent that the effect of the application of PSAK No. 24 (revised 2004) is material to the 2004 consolidated financial statements, otherwise, the effect is charged to current operations. The effects of the adjustments are disclosed in Note 42.

Under Revised PSAK No. 24, the cost of providing employee benefits under the Law is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gain and losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefit obligation at the date. These gains or losses are recognized on a straight-line basis over the expected average remaining working lives of the employees. Further, past-service costs arising from the introduction of a defined benefit plan or changes in the benefits payable of an existing plan are required to be amortized over the period until the benefits concerned become vested.

s. Revenue and Expense Recognition

Revenue from sales of crude oil and gas is recognized based on delivery to the customer.

Revenue from sales of methanol is recognized upon delivery to the customer.

Revenue from sale of electric power supply is recognized upon delivery to customer.

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

Share of profits of joint ventures is recognized to the extent of the Company's/Subsidiaries' working interests in non-company operated joint ventures.

Other income/revenues are recognized when earned. Expenses are recognized when these are incurred (accrual method).

t. Income Tax

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

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

Subsidiaries involved in oil and gas exploration and production in Indonesia are subject to a corporate income tax at the rate of 35% as stated in the PSC, except for EAS, EAL and PT Medco E&P Rimau for which a rate of 30% applies. Dividend tax applies at 20%, except for MEPI for which the rate is 15% of income after corporate income tax.

Subsidiaries operating under the provisions of TACs are subject to corporate income tax and dividend tax at the rate of 35% and 13%, respectively, based on income net of all production and operating expenditures and other non-taxable and non-deductible items.



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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

t. Income Tax (continued)

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

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

Amendments to tax obligations are recorded when an assessment is received or, if appealed against by the Company/Subsidiaries, when the result of the appeal is determined.

u. Derivative Instruments

The Company and Subsidiaries apply PSAK No. 55, "Accounting for Derivative Instruments and Hedging Activities". PSAK No. 55 establishes the accounting and reporting standards which requires that every derivative instrument (including embedded derivatives) be recorded in the balance sheet as either an asset or liability, measured at its fair value. PSAK No. 55 requires that changes in derivative fair value be recognized currently in earnings unless specific hedges allow a derivative gain or loss offset related results on the hedged item in the statement of income, and requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

v. Capitalization of Borrowing Costs and Foreign Exchange Losses

In accordance with the revised PSAK No. 26, "Borrowing Costs", interest charges and foreign exchange differences incurred on borrowings and other costs incurred to finance the construction or installation of major facilities are capitalized. Capitalization of these borrowing costs ceases when the construction or installation is substantially completed and the asset is ready for its intended use (Note 2I).

w. Segment Information

Segment information is prepared using the accounting policies adopted for preparing and presenting the consolidated financial statements. The primary basis in reporting segment information is based on business segments, while secondary segment information is based on geographical segments.

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Inter-segment revenues are based on intercompany transfer prices.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

x. Impairment of Asset Value

In compliance with PSAK No. 48, "Impairment of Asset Value", asset values are reviewed for any impairment and possible write down to fair values whenever events or changes in circumstances indicate that their carrying values may not be fully recovered.

y. Revised PSAK No. 38, "Accounting for Restructuring of Entities Under Common Control"

In July 2004, the IAI revised PSAK No. 38, "Accounting for Restructuring of Entities Under Common Control", which provides for the realization of the restructuring difference as a gain or loss if the conditions therein are fulfilled. PSAK No. 38 (Revised 2004) is effective for the financial statements covering periods beginning on or after January 1, 2005.

z. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in Indonesia requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported therein and the disclosures of contingent assets and liabilities at the date of the financial statements. While management uses its best estimates and judgements, actual results could differ from these estimates as future confirming events occur, particularly in respect of oil and gas reserves.

aa. Employee Stock Option Program

The compensation expense for a program providing an equity instrument to an employee is recognized for the term of the employee's service period, i.e., by recognizing the compensation expense and crediting paid-in capital if it involves future service. Here the employees' service period not set for an earlier or shorter period, it would be considered the same as the period from date of granting becomes the employees' right as its exercise is no longer dependent on whether the service period is continued or not. If the compensation program is awarded for past service, the compensation expense is recognized in the period of granting the compensation.

bb. Earnings per Share

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

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

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**3. CASH AND CASH EQUIVALENTS**

This account consists of:

	<b>2005</b>	<b>2004</b>
Cash on hand	48,054	139,355
Banks		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	1,435,809	1,334,355
Third parties		
Rupiah		
Citibank, N.A	8,295,028	4,343,406
PT Bank Mandiri (Persero) Tbk	2,042,933	1,515,674
PT Bank Niaga Tbk	747,100	330,985
Standard Chartered Bank	555,096	-
PT Bank Rakyat Indonesia (Persero) Tbk	251,688	113,787
PT Bank Central Asia Tbk	206,375	806,627
PT Bank Internasional Indonesia Tbk	181,388	157,347
PT Bank Mega Tbk	118,077	-
PT Bank Negara Indonesia (Persero) Tbk	60,486	145,600
PT Bank Bukopin	12,087	-
PT Bank Danamon Indonesia Tbk	5,035	-
Others (each below US\$5,000)	3,532	2,944
United States Dollars		
Citibank, N.A	90,751,571	79,468,680
Hibernia Bank	6,120,486	-
Standard Chartered Bank	3,816,637	1,542,513
PT Bank Niaga Tbk	3,796,195	-
Merrill Lynch Capital Services, Inc.	3,286,863	2,485,403
Fortis Banks S.A/N.V.	3,026,102	899,377
PT Bank Central Asia Tbk	1,013,241	1,004,465
Bank of America, NA	300,366	-
ANZ Bank	191,974	5,155,488
PT Bank Mandiri (Persero) Tbk	161,424	126,744
United Overseas Bank Ltd. (including cash in transit amounting to US\$97,956,309 in 2004)	36	105,323,895
Others (each below US\$100,000)	178,558	56,907
Australian Dollars		
Australia New Zealand (ANZ) Bank	314,505	2,265,961
AED Dirham		
Citibank, NA	67,305	62,960
Euro		
ABN AMRO Bank N.V.	12,751	459
LYD		
Bank of Commerce and Development	74,078	-
Poundsterling		
Nat West Bank PLC	10,136	-
Sub-total	127,036,862	207,143,577

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**3. CASH AND CASH EQUIVALENTS (continued)**

	<b>2005</b>	<b>2004</b>
<u>Cash equivalents</u>		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	1,322,483	1,442,412
Third parties		
Rupiah		
Citibank, N.A	6,000,000	-
PT Bank Mega Tbk	2,397,393	2,583,262
PT Bank Bukopin	462,685	-
United States Dollars		
PT Bank Niaga Tbk	-	3,938,650
Standard Chartered Bank	11,000,000	54,778
Citibank, N.A	2,619,195	-
PT Bank Mega Tbk	1,221,487	-
Sub-total	<u>25,023,243</u>	<u>8,019,102</u>
<b>Total</b>	<b><u>152,108,159</u></b>	<b><u>215,302,034</u></b>
Interest rate per annum on time deposits		
Rupiah	7.25% - 13%	5.75% - 7.50%
United States Dollars	2.73% - 4%	0.68% - 2.20%

**4. SHORT-TERM INVESTMENTS**

This account consists of:

	<b>2005</b>	<b>2004</b>
Marketable Securities		
Money Market - BNI Investment	-	1,453,175
Medium Term Bond (MTB)		
PT Bank Mandiri (Persero) Tbk	8,005,205	8,327,800
PT Bank Tabungan Negara (Persero)	810,744	-
PT Bank Rakyat Indonesia (Persero) Tbk	308,515	334,230
Dana Ganesa Abadi	224,746	238,334
Shares of Stock		
Goldman Sachs	29,623,214	-
Kresna Graha Sekurindo	6,927,004	2,162,988
PT Indopremier Securities	6,804,345	6,737,696
Andalas Artha Advice Securities	5,250,000	5,000,000
Niaga Asset Manajemen	632,800	738,772
PT Danatama Makmur	-	5,419,579
<b>Total</b>	<b><u>58,586,573</u></b>	<b><u>30,412,574</u></b>
Interest rate per annum		
Bonds	7% - 13.5%	7% - 13.5%

Certain time deposits are used as collateral for the issuance of short-term bank guarantee certificates, letters of credit and performance bonds and bid bonds.

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**5. TRADE RECEIVABLES - Net**

The details of this account are as follows:

a. By Debtor

	<b>2005</b>	<b>2004</b>
Related parties		
Medco Moeco Langsa Ltd.,	550,530	91,478
Mesa Drilling Inc.	-	774,184
Sub-total	550,530	865,662
Allowance for doubtful accounts	(55,674)	(774,184)
<b>Net</b>	<b>494,856</b>	<b>91,478</b>
Third parties		
Local debtors	68,249,897	55,628,974
Foreign debtors	36,378,772	19,207,850
Joint Venture receivables	-	3,699,633
Sub-total	104,628,669	78,536,457
Allowance for doubtful accounts	(3,161,784)	(2,149,855)
<b>Net</b>	<b>101,466,885</b>	<b>76,386,602</b>
<b>Total</b>	<b>101,961,741</b>	<b>76,478,080</b>

b. By Aging Category

	<b>2005</b>	<b>2004</b>
Not yet due	67,197,697	62,130,859
1 - 30 days past due	33,765,028	8,942,293
31 - 60 days past due	251,720	2,503,607
61 - 90 days past due	88,033	168,485
91 - 120 days past due	67,434	969,217
More than 120 days past due	3,809,287	4,687,658
Total	105,179,199	79,402,119
Allowance for doubtful accounts	(3,217,458)	(2,924,039)
<b>Net</b>	<b>101,961,741</b>	<b>76,478,080</b>

c. By Currency

	<b>2005</b>	<b>2004</b>
United States Dollars	101,782,674	76,687,899
Rupiah	3,396,525	2,714,220
Total	105,179,199	79,402,119
Allowance for doubtful accounts	(3,217,458)	(2,924,039)
<b>Net</b>	<b>101,961,741</b>	<b>76,478,080</b>

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**5. TRADE RECEIVABLES - Net (continued)**

The change in the allowance for doubtful accounts is as follows:

	<b>2005</b>	<b>2004</b>
At beginning of year	2,924,039	2,900,194
Provision during the year	293,419	23,845
<b>At end of year</b>	<b>3,217,458</b>	<b>2,924,039</b>

Based on the review of the status of the individual receivable accounts at the end of the year, management is of the opinion that the allowance for doubtful accounts is adequate to cover possible losses on uncollectible accounts.

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

As of December 31, 2005 and 2004, trade receivables totaling US\$6,344,137 and US\$13,738,327, respectively, were used as security for loans received from PT Bank Central Asia Tbk (BCA) in 2005 and from Fortis Bank and BCA in 2004 (Note 20).

**6. OTHER RECEIVABLES - Net**

This account consists of:

	<b>2005</b>	<b>2004</b>
BP Migas	31,531,932	19,433,858
Tax office (Note 17)	7,228,627	1,432,577
Allens Arthur Robinson	6,000,000	-
Joint Venture receivables	3,320,503	7,905,941
Loans to employees	2,865,375	2,746,000
PT Dalle Energy	2,293,489	-
PT Pelayanan Listrik Nasional Batam (PLN Batam)	1,360,891	1,542,064
Probe Technology Services (Note 11)	1,049,667	-
Pertamina DOH Sumbagteng	399,949	1,058,274
Others (each below US\$1,000,000)	22,159,107	11,743,254
<b>Total</b>	<b>78,209,540</b>	<b>45,861,968</b>
Long-term portion	(1,303,793)	(1,439,996)
Current portion	76,905,747	44,421,972
Allowance for doubtful accounts	(909,538)	(133,565)
<b>Net</b>	<b>75,996,209</b>	<b>44,288,407</b>

Accounts receivable from BP Migas represent Value Added Tax (VAT) that has been paid by Subsidiaries involved in the oil and gas industry which is reimbursable from BP Migas, as well as BP Migas's field operational expenses advanced by subsidiaries.

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**6. OTHER RECEIVABLES – Net (continued)**

Receivables from PLN Batam represents the amounts advanced by a subsidiary to install Gas Turbine Genset Dual Fuel on behalf of PLN Batam, which advances will be repaid by PLN Batam on an installment basis at a fixed amount per production output of electricity as stated in the related agreement (Note 37e).

Based on the review of the status of the individual receivable accounts at the end of each year, management is of the opinion that the allowance for doubtful accounts in 2005 and 2004 is adequate to cover possible losses from non-collection of the accounts.

**7. INVENTORIES - Net**

Inventories consist of:

	<b>2005</b>	<b>2004</b>
Spareparts, well supplies and others	35,989,863	19,742,974
Materials in transit	1,651,794	11,467,617
Methanol	877,348	1,148,580
<b>Total</b>	<b>38,519,005</b>	<b>32,359,171</b>
Allowance for decline in value	(1,063,620)	(688,261)
<b>Net</b>	<b>37,455,385</b>	<b>31,670,910</b>

The changes in the allowance for decline in value of inventories are as follows:

	<b>2005</b>	<b>2004</b>
At beginning of year	688,261	1,373,576
Provision during the year	375,359	67,022
Written-off	-	(752,337)
<b>At end of year</b>	<b>1,063,620</b>	<b>688,261</b>

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

All inventories were insured with various insurance companies as of December 31, 2005 and 2004 (Note 12).

**8. PREPAID TAXES**

The details of this account are as follows:

	<b>2005</b>	<b>2004</b>
Company		
Corporate income tax overpayments	1,600,642	1,039,490
Sub-total	1,600,642	1,039,490



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**8. PREPAID TAXES (continued)**

	<b>2005</b>	<b>2004</b>
Subsidiaries		
Corporate income tax overpayments	12,670,694	11,944,854
Value added tax	8,828,022	4,584,246
Sub-total	21,498,716	16,529,100
<b>Total</b>	<b>23,099,358</b>	<b>17,568,590</b>

**9. RESTRICTED CASH IN BANKS**

The details of this account are as follows:

	<b>2005</b>	<b>2004</b>
Current		
Third parties		
United States Dollars		
Merrill Lynch Capital Services Inc.	9,109,533	-
PT Bank Central Asia Tbk	6,212,891	2,111,842
Fortis Bank S.A./N.V.	-	15,563,740
<b>Total</b>	<b>15,322,424</b>	<b>17,675,582</b>
Non-current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	6,030,062	6,225,212
Third parties		
Rupiah		
PT Bank Niaga Tbk	4,088,110	4,235,414
PT Bank Mega Tbk	2,336,597	-
PT Bank Negara Indonesia 1946 Tbk	1,052,391	1,378,902
PT Bank Mandiri (Persero) Tbk	370,907	269,107
United States Dollars		
Standard Chartered Bank	4,178,026	4,000,000
Citibank, NA	4,310,255	-
Morgan Stanley & Co. Int'l Ltd.	-	6,253,050
<b>Total</b>	<b>22,366,348</b>	<b>22,361,685</b>

Restricted cash in Fortis Bank S.A./N.V, Singapore Branch (Fortis Bank) represents time deposits placed by a Subsidiary in compliance with the provisions of the loan agreements with the same bank. In 2005, the Subsidiary has fully repaid the loan (Note 20).

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**9. RESTRICTED CASH IN BANKS (continued)**

Restricted cash in banks (Rupiah) in PT Bank Himpunan Saudara 1906, PT Bank Niaga Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Mandiri (Persero) Tbk represent Subsidiaries' time deposits and current accounts used for employees' loans collateral.

Current accounts in Merrill Lynch Capital Services, Inc., Standard Chartered Bank, Citibank N.A. and Morgan Stanley & Co. Int'l Ltd. represent eligible collateral in connection with swap transactions between the Company and Subsidiaries and the respective banks. Such collateral shall be held by the respective banks until the termination date of the swap contracts (Note 19).

The current accounts placed in PT Bank Central Asia Tbk (BCA) represents an escrow account in relation to bank loans obtained by Subsidiaries from the same bank (Note 20).

A portion of the current account with Standard Chartered Bank (SCB) represents eligible collateral in connection with bank guarantee facilities obtained by the Company and Subsidiaries from SCB (Notes 20 and 37).

The restricted time deposits placed with PT Bank Mega Tbk represents the sinking fund for Subsidiary's bonds (Note 21).

**10. RECEIVABLES FROM RELATED PARTIES**

This account consists of the following:

	2005	2004
Medco Moeco Langsa Limited (MML)	3,926,526	9,717,765
Mesa Drilling Inc.	-	268,546
Consortium CPA-Exspan	-	81,979
<b>Total</b>	<b>3,926,526</b>	<b>10,068,290</b>

The receivable from MML mainly represents unsecured revolving credit facility provided by MEFL, a subsidiary, to MML. The loan bears interest of 1% above the cost of funds of MEFL (Note 34).

**11. INVESTMENTS**

**A. Investments in Shares of Stock**

This account consists of the following:

	December 31, 2005		
Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings	Total
<i>At Equity</i>			
Medco Moeco Langsa Limited (MML)	50.00	1	9,562,601
<i>At Cost</i>			
PT Energi Sengkang (ES)	5.00	3,760,000	-
<b>Total</b>		<b>3,760,001</b>	<b>9,562,601</b>

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**11. INVESTMENTS (continued)**

**A. Investments in Shares of Stock (continued)**

	December 31, 2004				
	Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Others	Net
<u>At Equity</u>					
Probe Technology Services Inc. (Probe)	36.89	1,408,038	(406,724)	-	1,001,314
Consortium CPA – Exspan (CCE)	50.00	70,000	3,099	(70,000)	3,099
Medco Moeco Langsa Limited (MML)	50.00	1	(1,010,445)	-	(1,010,444)
Sub-Total		1,478,039	(1,414,070)	(70,000)	(6,031)
Allowance for unrecoverable investment		-	(3,099)	-	(3,099)
Net		1,478,039	(1,417,169)	(70,000)	(9,130)
<u>At Cost</u>					
Mesa Drilling Inc, (MESA)	50.00	2,023,416	-	-	2,023,416
		3,501,455	(1,417,169)	(70,000)	2,014,286
Advance for investment					1,000,000
<b>Total</b>					<b>3,014,286</b>

The equity in net earnings (losses) of associated entities for the years ended December 31, 2005 and 2004 are as follows:

	2005	2004
MML	10,573,046	(1,010,445)
Probe	389,927	242,414
Consortium CPA-Exspan	-	3,099
<b>Net</b>	<b>10,962,973</b>	<b>(764,932)</b>

a. Investments Under Equity Method

1. MML

MML was incorporated in Mauritius and operates in Indonesia. MML is engaged in the exploration for and production of crude oil and gas in the Langsa contract area of East Aceh, Sumatera under a TAC (Note 37b). MML is the operator of the Langsa Block TAC where it also has a 70% undivided interest in the TAC and the JOA. It started commercial production on November 7, 2004 and its commercial lifting occurred on January 6, 2005.

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**11. INVESTMENTS (continued)**

**A. Investments in Shares of Stock (continued)**

a. Investments Under Equity Method (continued)

2. Probe

Probe is an entity incorporated in and currently operating in USA. The investments in shares of stock of Probe was initially acquired by EPI, a consolidated subsidiary on May 11, 2000. In 2002, EPI increased its ownership interest in Probe from 36.6% to 44.50%.

During 2003 and 2004, Probe issued new shares to investors thereby reducing EPI's interest to 36.89% as of December 31, 2004.

In March 2005, Probe reacquired 106,200 shares from its shareholders thereby increasing the effective ownership of EPI in Probe to 39.55%. On December 2, 2005, EPI sold its ownership interest in Probe for US\$1,749,447 (consisting of US\$699,780 in cash and US\$1,049,667 receivable in installments at US\$524,833.50 each on December 15, 2006 and 2007), with interest at 2.5% above the one year LIBOR rate per annum).

3. MESA

MESA is an entity incorporated in and currently operating in USA. On June 15, 2001, Apexindo transferred a drilling rig to MESA in exchange for a 50% ownership interest in the said company. Apexindo recognized deferred gain of US\$1,541,188 in relation to such transaction as which were amortized over 8 years.

In January 2004, Apexindo's Board of Commissioners approved Apexindo's plan to dispose all of its investments in MESA. Accordingly, the investment was accounted for at cost and the amortization of the deferred gain was discontinued effective January 1, 2004.

In December 2004, the drilling rig which was transferred by Apexindo to MESA in exchange for a 50% ownership interest in the said company, has been sold by MESA to a third party for US\$8,000,000, in connection with Apexindo's plan to dispose of all of its investments in MESA. Accordingly, the outstanding balance of the deferred gain on exchange of a non-monetary asset amounting to US\$1,059,566 was recognized as income at the time of the sale of such rig.

On March 31, 2005, Apexindo sold its 50% ownership interest in MESA for US\$2 million to MESA and recognized a loss amounting US\$23,416 on the disposal.

4. CCE

CCE was established in Indonesia on November 11, 2002 and started to operate in 2003. This consortium is a joint venture between EPI and PT Chalim Putra Alim (CPA) to provide support service to the oil industry using Vibro Seismic Impact Technology (VSIT).

On August 10, 2005, EPI and CPA have a signed circular resolution whereby both parties have resolved, among others, to approve the termination of the joint of venture.

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**11. INVESTMENTS (continued)**

**A. Investments in Shares of Stock (continued)**

b. Investments at Cost

PT Energi Sengkang

This account represents the Companys' 5% ownership interest in PT Energi Sengkang, which interest was acquired on February 2, 2005 (Note 37).

c. Advance for Investment

Advance for investment in 2004 represents advance for the investment in shares of stock in PT Energi Sengkang (Note 37).

**B. Investments in Projects**

Investments in projects consist of the following:

	<b>2005</b>	<b>2004</b>
Jeruk Project	21,453,369	-
Bawean Project	19,322,830	5,000,000
Sengkang Project	5,820,569	-
Tanjung Jati B Project	3,429,562	-
Indo Muba Power Project	356,284	-
<b>Total</b>	<b>50,382,614</b>	<b>5,000,000</b>

1. Jeruk Project

The outstanding balance of the investment in the Jeruk Project represents the amount to be paid by Medco Straits Service Pte., Ltd. (Medco Straits), a consolidated subsidiary, to Cue Sampang Pty., Ltd (Cue), and Singapore Petroleum Company Ltd. (SPC), in accordance with the Jeruk Project Agreement entered into by Medco Straits with Cue and SPC on January 4, 2006 (Note 41).

2. Bawean Project

This account represents advances to Bawean Project made by Medco International Ventures Ltd. (MIV), a consolidated subsidiary, in accordance with the agreement entered into by MIV with Camar Resources Canada Inc. (Note 38).

3. Power Projects

Investments on Sengkang, Tanjung Jati B and Indo Muba Projects represent amounts incurred by PT Medco Power Indonesia in connection with several Power projects.

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**12. PROPERTY AND EQUIPMENT - NET**

This account consists of the following:

	December 31, 2005					
	Beginning Balance	Additions	Deductions	Reclassifications	Translation Adjustment	Ending Balance
<u>Carrying value</u>						
Land	1,034,387	-	-	-	-	1,034,387
Buildings and						
land improvements	6,527,732	190,130	77,016	-	35,278	6,605,568
Machinery	45,194,508	151,506	-	-	1,238,532	44,107,482
Control panel equipment	2,706,793	64,147	-	-	148,695	2,622,245
Drilling rigs and equipment	400,826,928	5,777,216	1,390,894	3,441,140	-	408,654,390
Vehicles	8,542,832	548,543	546,889	-	3,179	8,541,307
Office and other equipment	4,831,522	941,514	24,079	-	663	5,748,294
Leasehold improvement	5,018,518	-	-	-	-	5,018,518
Telecommunication						
equipment	-	10,173	-	-	-	10,173
Construction in progress	1,123,031	71,869,390	-	(3,441,140)	-	69,551,281
<b>Total Carrying Value</b>	<b>475,806,251</b>	<b>79,552,619</b>	<b>2,038,878</b>	<b>-</b>	<b>1,426,347</b>	<b>551,893,645</b>
<u>Accumulated Depreciation</u>						
Buildings and						
land improvements	1,578,197	272,650	-	-	554	1,850,293
Machinery	3,528,914	3,496,051	-	-	15,661	7,009,304
Control panel equipment	37,596	219,360	-	-	3,837	253,119
Drilling rigs and equipment	184,979,289	22,310,089	1,386,589	-	-	205,902,789
Vehicles	8,408,526	357,203	538,825	-	594	8,226,310
Office and other equipment	2,570,094	992,345	88,196	-	126	3,474,117
Leasehold improvement	2,707,375	802,770	-	-	-	3,510,145
Telecommunication						
equipment	-	1,709	-	-	14	1,695
<b>Total Accumulated Depreciation</b>	<b>203,809,991</b>	<b>28,452,177</b>	<b>2,013,610</b>	<b>-</b>	<b>20,786</b>	<b>230,227,772</b>
<b>Net Book Value</b>	<b>271,996,260</b>					<b>321,665,873</b>
<b>December 31, 2004</b>						
	Beginning Balance	Additions	Deductions	Reclassifications		Ending Balance
<u>Carrying value</u>						
Land	741,665	-	-	-	292,722	1,034,387
Buildings and						
land improvements	3,436,570	1,638,461	-	-	1,452,701	6,527,732
Machinery	3,376,811	27,885,622	-	-	13,932,075	45,194,508
Control panel equipment	-	2,706,793	-	-	-	2,706,793
Drilling rigs and equipment	390,157,056	6,570,522	93,386	4,192,736	-	400,826,928
Vehicles	8,271,268	378,283	106,719	-	-	8,542,832
Office and other equipment	4,191,171	592,685	30,178	77,844	-	4,831,522
Leasehold improvement	4,046,168	1,170,290	197,940	-	-	5,018,518
Construction in progress	16,601,411	4,469,698	-	(19,948,078)	-	1,123,031
<b>Total Carrying Value</b>	<b>430,822,120</b>	<b>45,412,354</b>	<b>428,223</b>	<b>-</b>		<b>475,806,251</b>
<u>Accumulated Depreciation</u>						
Buildings and						
land improvements	1,432,414	145,783	-	-	-	1,578,197
Machinery	1,329,971	2,198,943	-	-	-	3,528,914
Control panel equipment	-	37,596	-	-	-	37,596
Drilling rigs and equipment	163,710,710	21,321,412	52,833	-	-	184,979,289
Vehicles	8,152,015	360,607	104,096	-	-	8,408,526
Office and other equipment	2,171,762	426,330	27,998	-	-	2,570,094
Leasehold improvement	1,764,637	1,031,275	88,537	-	-	2,707,375
<b>Total Accumulated Depreciation</b>	<b>178,561,509</b>	<b>25,521,946</b>	<b>273,464</b>	<b>-</b>		<b>203,809,991</b>
<b>Net Book Value</b>	<b>252,260,611</b>					<b>271,996,260</b>

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**12. PROPERTY AND EQUIPMENT - NET (continued)**

Allocation of depreciation expense is as follows:

	<u>2005</u>	<u>2004</u>
Cost of sales	27,114,525	24,631,057
Operating expenses	1,337,652	890,889
<b>Total</b>	<b><u>28,452,177</u></b>	<b><u>25,521,946</u></b>

MMB and Apexindo, subsidiaries, own several pieces of land located in Pondok Pinang, Jakarta and Balikpapan with Building Use Rights (Hak Guna Bangunan or HGB) for a period of 20 years until 2018 and 2008, respectively. Management believes that the HGB certificates can be extended upon their expiration.

Apexindo also owns 31,651 m<sup>2</sup> of land in Bojonegara. As of April 28, 2006, Apexindo is still in the process of transferring the landright certificate in Bojonegara to be under its name.

Construction in progress mainly represents the construction of an offshore jack-up drilling rig, rig equipment and refurbishment and up-grading of an onshore drilling rig, and power plant in 2005 (Note 37) and of an offshore, jack-up-drilling rig and drilling equipment in 2004.

In 2004, the estimated useful lives of certain offshore rigs and offshore drill pipes have been changed to reflect a more realistic assumption of the economic benefits of the utilization of such assets. The details of the change in useful lives are as follows:

	Years	
	<u>Before</u>	<u>After</u>
Offshore drilling rigs		
Rig Raniworo	18	20
Rig Raisia	17	20
Rig equipment	4-5	4-10

The change in estimated useful lives has decreased direct cost by US\$2,422,823 and increased net income by US\$1,314,890 in 2004.

Interest and other financing costs capitalized as part of the property and equipment amounted to US\$2,734,325 and US\$2,438,891 as of December 31, 2005 and 2004, respectively.

Certain property and equipment are used as collateral for loan facilities obtained from several banks and for bonds payable (Notes 20, 21 and 37).

All property and equipment, except land, and inventories were insured against fire, theft and other possible risks for US\$659,479,899 and Rp165,437,982 thousand as of December 31, 2005 and US\$769,716,903 and Rp24,829,100 thousand as of December 31, 2004. Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

Based on the review of the individual property and equipment accounts at the end of the year, the Company and Subsidiaries' management are of the opinion that no provision for decline in value of property and equipment is necessary as of December 31, 2005 and 2004.



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**13. OIL AND GAS PROPERTIES - Net**

- a. This account consists of the following:

	<b>2005</b>	<b>2004</b>
Operated acreage	49,562,047	44,996,947
Unoperated acreage	5,090,792	4,704,065
Wells and related equipment and facilities	801,991,353	525,565,485
Office equipment	9,614,253	9,556,821
Vehicles	3,269,995	3,237,636
Uncompleted wells, equipment and facilities	89,379,682	135,728,868
Fair value adjustments	105,475,443	113,628,945
<b>Total</b>	<b>1,064,383,565</b>	<b>837,418,767</b>
Accumulated depreciation and amortization	(456,700,336)	(356,836,054)
<b>Net Book Value</b>	<b>607,683,229</b>	<b>480,582,713</b>

- b. As of December 31, 2005 and 2004, all wells and related equipment and facilities of subsidiaries involved in oil and gas exploration and production were insured for US\$252,554,625 and US\$207,476,083, respectively.
- c. Beginning 2005, the depreciation for certain support facilities for oil and gas operations has been calculated using the straight-line method over 4 to 20 years, instead of the unit-of-production method to reflect a more realistic assumption of the economic benefits of the utilization of the assets. The change in the method of depreciation has decreased the depreciation expense by US\$833,148 and increased the net income by US\$463,431 in 2005.

The details of the changes are as follows:

	Depreciation Method	
	Unit of Production	Straight Line Number of Years
Construction warehouse and related facilities	UOP	20 years
Water transportation	UOP	10 years
Construction utilities, auxiliary, drilling and production tools	UOP	10 years
Construction equipment	UOP	6 years
Furniture and office equipment	UOP	5 years
Light vehicles	UOP	4 years

- d. This account includes oil and gas properties of Medco Madura Pty. Ltd. (Medco Madura) amounting to US\$24,278,144 in 2005 and US\$20,678,939 in 2004 in respect of the Madura Block PSC. The exploration license is due to expire on May 15, 2005. Medco Madura has submitted a request for the extension of this license in its letter dated March 22, 2005 to BP Migas. In the June 17, 2005 letter of BP Migas to the Director General of Oil and Gas (MIGAS) No. 368/BP00000/2005-SI, BP Migas has recommended the extension of the exploration license of Medco Madura for another one year up to May 15, 2006.

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**13. OIL AND GAS PROPERTIES - Net (continued)**

Medco Madura subsequently received the following letters in connection with its request for the extension of its exploration license:

1. Directorate General of Oil and Gas Letter No. 11580/23/M.DJM/2005 dated September 27, 2005, approving Medco Madura's request for extension of the exploration period for Onshore Madura JOB Pertamina – Medco E&P Madura from May 16, 2005 to May 15, 2006 or until the completion of drilling of Konang exploration well.
2. BP MIGAS Letter No. 692/BP00000/2005-S1 dated October 27, 2005, approving Medco Madura's request for the extension of the exploration period and of the postponement of the application provision of the working area of Madura Onshore Block – West Java from May 16, 2005 to May 15, 2006 or until the completion of the drilling of the Konang exploration well without changing the period of the contract of 30 years.
3. BP MIGAS Letter No. 101/BP00000/2006-S1 dated February 16, 2006, approving the replacement of the work plan proposal and 2006 budget of the Madura Block working area (Replacement Usulan Rencana Kerja dan Anggaran Tahun 2006).
4. BP Migas response to JOB Pertamina – Medco Madura Pty. Ltd. Letter No. MGMM 033/II/06 dated February 22, 2006, approving the application of Medco Madura to defer the provision and the request for extension of the exploration period for the Madura Block from May 16, 2005 to May 15, 2006 or until the completion of the drilling of the Konang exploration well without changing the period of the contract of 30 years.

Based on the above approval letters, management is of the opinion that the delineation drilling of the Konang well will be able to progress in April 2006, allowing for a better evaluation of the feasibility of the Konang well.

- e. Oil and gas properties include US\$132,808,653 (including fair value adjustment of US\$56,693,929) in relation to Novus subsidiaries which were acquired in 2004 (Notes 1b and 2c).

**14. OTHER ASSETS**

This account consists of the following:

	<b>2005</b>	<b>2004</b>
<u>Current</u>		
Advances	188,532	624,955
Assets for sale	30,930	194,873,189
<b>Total</b>	<b>219,462</b>	<b>195,498,144</b>
<u>Non-current</u>		
Advance payments for property and equipment	13,347,914	3,095,626
SAP Software costs - net	933,507	1,785,900
Security deposits	307,095	1,851,711
Others	4,947,310	2,224,901
<b>Total</b>	<b>19,535,826</b>	<b>8,958,138</b>
Allowance for possible losses on notes receivable and advance payments for property and equipment	-	(3,095,626)
<b>Net</b>	<b>19,535,826</b>	<b>5,862,512</b>

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**14. OTHER ASSETS (continued)**

Assets for sale represent the net assets and working interests of Novus subsidiaries which were for disposal or which the Company intends to dispose/sell or transfer in accordance with existing agreements signed by the Company or its subsidiaries with several third parties (Note 37). Assets for sale include US\$127,481,273 (including fair value adjustment in 2004 of US\$68,891,867) representing oil and gas properties of these subsidiaries.

Advance payments for property and equipment amounting to US\$3,095,626 represent advances for the purchase of office space in Graha Niaga 2, under a strata title ownership plan, located in Jalan Jenderal Sudirman Kav. 58. The developer has stopped the construction of the project since 1999, hence management has made a 100% provision for possible losses on this account. On March 14, 2006, PT API Metra Graha (AMG), the new developer of the Graha Niaga 2 building, has confirmed its intention to continue the development of the building. Accordingly, management has reversed the 100% provision for possible losses on this account as of December 31, 2005.

On December 27, 2005, PT Medco Power Indonesia, a subsidiary, entered into an agreement with PT Rolitrans International (RTI) in connection with United Arab Emirates (UAE) customs regulations that requires the transporter and/or any other party to provide bond/security payments in the amount of 5% of the cargo value to the Dubai Customs and Excise Department. The bond is fully refundable upon completion of export and presentation of all documents to the related authorities. MPI's portion of the bond/security payment amounted to US\$200,000.

**15. TRADE PAYABLES**

This account consists of the following:

a. By Creditor

	<b>2005</b>	<b>2004</b>
Related parties		
PT Andrawina Praja Sarana	613,504	788,337
PT Kohipsi	128,892	-
Sub-total	<u>742,396</u>	<u>788,337</u>
Third parties		
Local suppliers	40,414,754	45,844,696
Foreign suppliers	7,955,750	3,556,070
Sub-total	<u>48,370,504</u>	<u>49,400,766</u>
<b>Total</b>	<b><u>49,112,900</u></b>	<b><u>50,189,103</u></b>

b. By Aging Category

	<b>2005</b>	<b>2004</b>
Up to 1 month	41,749,836	41,383,295
1 - 3 months	5,197,424	4,412,730
3 - 6 months	1,319,915	3,012,520
6 months - 1 year	344,020	446,066
More than 1 year	501,705	934,492
<b>Total</b>	<b><u>49,112,900</u></b>	<b><u>50,189,103</u></b>

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**15. TRADE PAYABLES (continued)**

c. By Currency

	<b>2005</b>	<b>2004</b>
United States Dollars	37,876,186	40,994,530
Rupiah	10,701,217	8,626,086
Singapore Dollars	514,119	442,461
Euro	13,840	126,026
Arab Emirates Dirham	7,538	-
<b>Total</b>	<b>49,112,900</b>	<b>50,189,103</b>

Purchases of materials and services, both from local and foreign suppliers, have credit terms of 30 to 60 days.

**16. OTHER PAYABLES**

	<b>2005</b>	<b>2004</b>
<u>Current</u>		
Joint Venture payables	17,236,911	11,632,966
Singapore Petroleum Sampang Ltd. (SPS)	15,398,391	-
Cue Sampang Pty. Ltd. (Cue)	5,774,397	-
Falcon Oil Ltd.	5,140,351	4,980,529
BP MIGAS	4,389,165	2,206,734
ENPRIMA	2,892,858	-
Ministry of Finance	2,046,173	1,809,292
Others	10,952,368	4,792,827
<b>Total</b>	<b>63,830,614</b>	<b>25,422,348</b>
<u>Non-Current</u>		
BP	4,536,217	4,536,217
Others	80,841	34,962
	<b>4,617,058</b>	<b>4,571,179</b>

Payable to BP amounting to US\$4,536,217 represents the amount to be paid by PT Medco E&P Tomori Sulawesi, a subsidiary, to BP once the petroleum production from the Senoro-Toili Block has reached a certain volume as stipulated in the agreement.

Payables to SPS and Cue arise from the Jeruk Project Agreement entered into by Medco Straits Services Pte., Ltd. with SPS and Cue (Note 41).

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**17. TAXES PAYABLE**

This account consists of:

	<b>2005</b>	<b>2004</b>
<u>Company</u>		
Income tax		
Article 21	246,028	336,619
Article 23	216,069	56,089
Article 26	417,348	1,023,094
Value added tax	319,000	258,742
Sub-total	<u>1,198,445</u>	<u>1,674,544</u>
<u>Subsidiaries</u>		
United States of America tax liabilities	149,751	-
Corporate income tax	23,424,800	7,975,026
Income tax		
Article 4 (2)	11,585	4,483
Article 15	3,088	2,325
Article 21	1,285,119	1,853,609
Article 23	1,513,509	1,098,359
Article 25	542,248	36,167
Article 26	537,560	6,952
Tax on revaluation of fixed assets - current portion	-	1,722,519
Value added tax	4,014,645	3,264,337
Sub-total	<u>31,482,305</u>	<u>15,963,777</u>
<b>Total</b>	<b><u>32,680,750</u></b>	<b><u>17,638,321</u></b>

US Tax Obligations

The Secretary of the State of Delaware, USA had designated 3 (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 2003. Management has filed certificates of revival in respect of these companies as it believes that these companies have been revived with the same force and effect as if their certificates of incorporation had not been voided and any actions taken while the companies were void have been validated.

The Company and Subsidiaries have made it a top priority to become compliant with their US corporate income tax obligations since 2004. This process has included the filing on March 15, 2004 of a request for extension for filing the 2003 US corporate income tax return, and full payment in March 2004 of the estimated 2003 tax obligations. The Company, in its letter to the Territory Manager of the Internal Revenue Services (IRS) of Houston dated September 8, 2004, had requested the IRS for a waiver, on the grounds of reasonable cause, of potential penalties to be assessed by the IRS with respect to its Subsidiaries delinquent forms 1120, and the related forms, for tax years 1995 – 2003. Management, at the advice of its US tax advisors, believes that there is a strong case to obtain a waiver from penalty provisions related to its US corporate income tax obligations. In the letter of the Territory Manager of the IRS in September 2004 to the Director of the Philadelphia Service Center, it was indicated that any applicable penalties related to the Subsidiaries delinquent filing of the returns should be waived.

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**17. TAXES PAYABLE (continued)**

US Tax Obligations (continued)

In 2004, tax obligations settled by the Subsidiaries with the IRS with respect to their 1995-2003 tax obligations amounted to approximately US\$9.9 million including interest amounting to approximately US\$1.7 million. The difference between the amounts of the tax obligations accrued and amounts actually paid amounting to US\$5.4 million was credited to Other Income in 2004.

Indonesian Tax Obligations

a. Company

On July 19, 2004, the Company received an assessment letter from the Tax Office in relation to its overpayment of 2002 corporate income tax. The Company's overpayment as approved by the Tax Office amounted to US\$623,870 (Rp5,654,335,723). On the same date, the Company received assessments from the Tax Office for deficiencies tax payments (including penalties) for Articles 21 and 26 for 2002 totaling US\$41,978 (Rp380,462,077). The tax refund amounted to US\$567,668 (Rp5,273,873,646) which was received by the Company on July 28, 2004.

On October 12, 2005, the Company received an assessment letter from the Tax Office confirming an overpayment of US\$176,050. On the same date, the Company received assessments from the Tax Office for underpayment of taxes (including penalties) for Articles 4(2), 21, 23, and 26 for 2003 fiscal year and value added tax for 2003 totaling US\$381,492 (Rp3,249,119,067). The Company has paid the net tax liabilities as assessed by the tax office amounting to US\$205,442 (Rp1,749,726,772) in 2005.

On November 25, 2005, the Company submitted objection letters for the 2003 assessments and requested an additional refund amounting to approximately US\$439,523 (Rp3,731,987,787). As of April 28, 2006, the Company has not yet received any response from the Tax Office.

b. Apexindo and Subsidiaries

In 2003, Apexindo and its subsidiary (Apexindo) received several assessment letters from the Tax Office for over and underpayments of 2001 corporate income tax. As required under the Indonesian taxation system, Apexindo has fully settled the assessed underpayment in 2003 for a total amount of approximately US\$842,646 (Rp7,828,183 thousand). At the same time, Apexindo submitted objection letters for the said assessments. On September 9, 2004, Apexindo received approvals from the Tax Office for its tax objections and received a tax refund of approximately US\$705,805 (Rp6,556,931 thousand) on June 28, 2005. However, the related interest receivables has not yet been refunded by the Tax Office and amounted to US\$8,234 (equivalent to Rp80,936 thousand) and US\$8,712 (equivalent to Rp80,936 thousand) as of December 31, 2005 and 2004, respectively.

During 2005 and 2004, Apexindo also received several tax assessments letters as follows:

- i. Underpayments of taxes (including penalties) for Articles 4(2), 15, 21, 23 and 26 and value added tax for fiscal year 2003 and 2004 totaling Rp2,902,760 and adjusted Apexindo's tax loss in 2003 from US\$9,824,515 (Rp96,574,987 thousand), to US\$8,775,202 (Rp86,260,235 thousand). Apexindo has fully settled its obligation for such tax assesment to Tax Office.

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**17. TAXES PAYABLE (continued)**

Indonesian Tax Obligations (continued)

b. Apexindo and Subsidiaries (continued)

- ii. On June 22, 2005, AJT received assessments from the Tax Office for underpayment of taxes (including penalties) for Articles 21 and 23 for 2003 fiscal year totaling Rp8,765 thousand and adjusted AJT's tax loss in 2003 from Rp346,863 thousand to Rp74,058 thousand. The Tax Office also approved an appeal for income tax refund for 2003 fiscal year amounting to Rp115,578 thousand, which was received by AJT on July 14, 2005.
- iii. In 2004, Apexindo received a decision letter from the Tax Office approving Apexindo's appeal for 2003 and 2002 value added tax totaling US\$4,300,065 (Rp35,637,893 thousand), which amounts were refunded on March 24, 2004 and April 8, 2004.
- iv. In 2001, Apexindo had revalued its property and equipment. Income tax payable under Article 19 on the revaluation amounted to Rp80,011,055 thousand which can be paid in installments over five years.
- v. As of December 31, 2005, Apexindo and certain subsidiaries are still in the objection process for claims for income tax refunds for fiscal years 2003 and 2002.

c. EPI

On December 15, 2005, the Tax Office approved the claim of EPI for value added tax for the period from January until June 2005 amounting to US\$147,606, net of deficiency. As of December 31, 2005, EPI has not yet received the above tax refund.

In 2004, EPI received assessments from the Tax Office for underpayment of taxes (including penalties) totaling US\$944,619 for fiscal years 1999 and 2002. EPI has paid US\$172,280 in 2005 and US\$723,603 in 2004 in respect of such assessments. On May 12, 2004, EPI submitted objections for the above tax assessment to the Tax Office. As a April 28, 2006, EPI is still in the objection process relation to underpayments for 1999 fiscal years.

**18. ACCRUED EXPENSES**

	<b>2005</b>	<b>2004</b>
Interest	9,252,426	8,708,369
Severance	5,329,503	1,962,471
Joint venture	4,794,439	-
Rental	4,558,349	594,623
Abandonment and site restoration (Note 40)	4,388,051	1,204,689
Production bonus	1,500,000	-
Labor supply	626,388	280,595
Others	15,492,321	7,934,113
<b>Total</b>	<b>45,941,477</b>	<b>20,684,860</b>



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## 19. DERIVATIVES

- i. On June 19, 2003 as amended by an agreement on July 2, 2004, MEFL entered into a forward interest rate swap agreement with Morgan Stanley & Co. International Limited (MS) for a notional amount of US\$50 million. Under the agreement, MEFL will receive a fixed rate of 8.75% per year, and pays a floating rate equivalent to US Dollar-Libor BBA plus 4.88%, both payable every May 22 and November 22 and commencing on May 22, 2004. The agreement shall be effective from November 24, 2003 and will expire on May 22, 2010. Under the agreement, MEFL is required to maintain a restricted fund account (referred to as "eligible collateral") which amounted to US\$5,884,652 as of December 31, 2004 (Note 9). The swap is being used to hedge the exposure to changes in the fair value of MEFL's 8.75% fixed Guaranteed Notes (Note 21).

The fair value of the swap payable amounted to US\$3,557,398 as of December 31, 2004, while the net gain on settlement of the interest rate payment amounted to US\$2,749,347 for the year ended December 31, 2004. On April 29, 2005, MEFL has unwound the contract and paid MS US\$4,200,000 as final settlement.

- ii. On July 13 and July 15, 2004, the Company entered into cross-currency interest rate swap (CCIRS) agreements with Merrill Lynch Capital Services, Inc (ML) for a notional amount of US\$25 million each. Under the agreements, the Company will receive a fixed rate of 13.125% per year, and pay a floating rate equivalent to US\$-Libor BBA plus 2.45%, both receivable/payable every October 12, January 12, April 12 and July 12 and commencing on October 12, 2004. The agreements shall be effective on July 13, 2004 and will expire on July 12, 2009. On April 1, 2005, the Company restructured the original transaction with ML from floating rate into fixed rate while all other terms in the original agreements remained unchanged. Under the new terms, the Company will pay fixed rates of 6.98% and 6.99% per year. The swaps have been unwound at zero cost on March 21, 2006 (Note 41).

On June 2, 2005, the Company entered into another CCIRS for a notional amount of US\$25 million. Under the agreement, the Company will receive a fixed rate of 13.125% per year and pay a fixed rate equivalent to 7.98%. The agreement shall be effective on July 12, 2005 and will expire on July 12, 2009.

The fair value of the swap payable amounted to US\$9,109,533 and US\$1,723,340 as of December 31, 2005 and 2004, respectively, while the net gain on settlement of the interest rate payments amounted to US\$3,250,339 and US\$1,099,700 for the years ended December 31, 2005 and 2004, respectively. The swap contract was unwound on February 8, 2006 for US\$295,000. The cash collateral amounting to US\$8,000,000 has been withdrawn on February 16, 2006 (Note 41).

- iii. On August 3, 2004, the Company entered into a CCIRS agreement with Standard Chartered Bank (SCB) for a notional amount of US\$25 million (equivalent to Rp228,125,000,000) to cover its cross currency and interest exposure on its 13.125% fixed rate IDR bonds (Note 21). Under the agreement, the Company pays on the initial exchange on August 5, 2004, the Indonesian Rupiah notional amount and receives the US dollar notional amount. At the final exchange on July 10, 2009, the Company pays the US Dollar notional amount and will receive from SCB the Indonesian Rupiah mark to market notional amount. The Company shall also receive a fixed rate of 13.125% per year and pay a floating rate equivalent to 3 months US Dollar Libor plus 2.90% every October 10, January 10, April 10 and July 10. Under the agreement, if the US Dollar/Indonesian Rupiah spot rate is at or above Rp10,000 at any time during the term of the agreement, the mark to market provision shall apply. The fair value of the net swap payable amounted to US\$4,108,857 as of December 31, 2005, while the net swap receivable amounted to US\$669,750, as of December 31, 2004 and the net gain on settlement of the interest rate payments amounted to US\$1,499,594 and US\$394,561 for the years ended December 31, 2005 and 2004, respectively. On April 25, 2005, the Company has entered into an amendment on the agreement with SCB whereby the interest to be paid by the Company on the due dates shall be based on fixed rates of 7.23% per year.

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**19. DERIVATIVES (continued)**

On March 28, 2005, the Company entered into a CCIRS agreement with Standard Chartered Bank (SCB) for a notional amount of US\$25 million (equivalent to Rp235,250,000,000) to cover its cross currency and interest exposure on its 13.125% fixed rate IDR bonds (Note 21). Under the agreement, the Company pays on the initial exchange on March 24, 2005, the Indonesian Rupiah notional amount and receives the US Dollar notional amount. At the final exchange on October 12, 2005, the Company pays the US Dollar notional amount and will receive from SCB the Indonesian Rupiah mark to market notional amount. The Company shall also receive a fixed rate of 13.125% per year and pay a fixed rate of 9.15% per year on April 12 and July 12, 2005. Under the agreement, if the US dollar/Indonesian Rupiah spot rate is at or above Rp10,000 at any time during the term of the agreement, the mark to market provision shall apply. The net loss on settlement of the interest rate payment in October 2005 amounted to US\$1,493,890.

On October 7, 2005, the Company entered into another short-term CCIRS agreement with SCB for a notional amount of US\$12.5 million (equivalent to Rp125,875,000,000) to cover its cross currency and interest exposure on its 13.125% fixed rate IDR bonds (Note 21). Under the agreement, the Company pays on the initial exchange on October 12, 2005, the Indonesian Rupiah notional amount and receives the US Dollar notional amount. At the final exchange on January 12, 2006, the Company pays the US Dollar notional amount and will receive from SCB the Indonesian Rupiah mark to market notional amount. The Company shall also receive a fixed rate of 13.125% per year and pays a fixed rate of 1% on January 12, 2006. The fair value of the swap receivable amounted to US\$371,562 as of December 31, 2005.

- iv. On October 19, 2004, the Company entered into a CCIRS agreement with Citibank, N.A. for a notional amount of US\$25 million (equivalent to Rp228,125,000,000) to cover its cross currency and interest exposure on its 13.125% per year fixed rate IDR bonds (Note 21). Under the agreement, the Company pays on the initial exchange on October 19, 2004, the Indonesian Rupiah and receives the US Dollar notional amount. At the final exchange on July 12, 2009, the Company pays the US Dollar notional amount and will receive from Citibank the Indonesian Rupiah at the exchange rate amount of Rp226,250,000,000. The Company shall also receive a fixed rate of 13.125% per year and pay a floating rate equivalent to US Dollar Libor-BBA plus 2.45% every January 12, April 12, July 12 and October 12, commencing on January 12, 2005. Under the agreement, Citibank may demand collateral in US Dollars if its mark to market exposure is higher than US\$1,250,000. The fair value of the interest rate swap payable amounted to US\$4,310,255 and US\$431,704 as of December 31, 2005 and 2004, respectively. The net gain on settlement of the interest rate payments amounted to US\$211,628 for the year ended December 31, 2005.
- v. On November 5, 2004, the Company entered into a foreign exchange swap contract with PT Investindo Nusantara Sekuritas. Under the agreement, on the initial exchange on November 9, 2004, the Company received US\$6 million and US\$7 million on November 10, 2004, and paid Rp51,522,000,000 and Rp60,109,000,000, respectively. At the final exchange on May 9, 2005, the Company shall receive the Indonesian Rupiah for the same amount in exchange for the US\$13 million. As of December 31, 2004, the fair value of the forward exchange swap amounted to US\$1,045,515. The Company has unwound the foreign exchange swap contract on May 9, 2005 and recognized a loss on the swap amounting to US\$1,235,170.
- vi. On May 21 and November 21, 2003, AAP entered into Interest Rate Swap Agreements with Fortis Bank S.A./N.V., Singapore (Fortis) for a notional amount of US\$30 million with maturity period ending May 1, 2007, and US\$17.9 million with maturity period ending September 1, 2006, respectively. The fair value of interest rate swap assets amounted to US\$208,674 as of December 31, 2004. On May 3, 2005 and June 1, 2005, AAP has unwound the swap contracts at zero cost.

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**19. DERIVATIVES (continued)**

vii. Apexindo has five (5) Cross Currency Swap Agreements (Swap Agreements) with Standard Chartered Bank. The Swap Agreements are effective on April 8, 2005. The total Rupiah notional amounts of the five (5) Swap Agreements is Rp750,000,000,000 in Rupiah and US\$78,947,368 in US Dollars.

Under the Swap Agreements, Apexindo pays on the initial exchange on April 8, 2005, a total Rupiah notional amount of Rp750,000,000,000 and receives a total US dollar notional amount of US\$78,947,368. Apexindo will also receive interest of 12.25% per year on the total Rupiah nominal amount of Rp750,000,000,000 and pays interest on the total US dollar nominal amount of US\$78,947,368 as follows:

- 8.65% per year on US\$27,631,579;
- 8.45% per year on US\$11,842,105 and;
- Three months US dollar Libor BBA plus 4.05% per year on US\$39,473,684

Interest will be receivable/payable every January 7, April 7, July 7 and October 7 and commencing on July 7, 2005. At the final exchange on April 7, 2010, Apexindo shall pay the total US dollar notional amount of US\$78,947,368 and receives the total Rupiah notional amount of Rp750,000,000,000.

The total fair value of the swap payables and the loss on swap transaction amounted to US\$15,536,927 (or equivalent to Rp152,727,992,000) as of December 31, 2005 and for the year then ended, respectively.

**20. BANK LOANS**

This account consists of:

	<b>2005</b>	<b>2004</b>
<u>SHORT-TERM BANK LOAN</u>		
United Overseas Bank Ltd.	-	<b>150,000,000</b>
<u>LONG - TERM BANK LOANS</u>		
PT Bank Central Asia Tbk	31,674,317	40,161,924
DEG - Deutsche Investitions - Und Entwicklungsgesellschaft MBH	8,050,000	-
United Overseas Bank Ltd.	-	50,000,000
Fortis Bank S.A./N.V., Singapore	-	40,744,546
Total	39,724,317	130,906,470
Less current portion	<b>16,091,336</b>	<b>30,863,132</b>
Long-term portion	<b>23,632,981</b>	<b>100,043,338</b>
Interest rates per annum		
Rupiah	12.5%	12.5%
United States Dollars	4.51% - 7.38%	3.31% - 7.38%

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**20. BANK LOANS (continued)**

a. Syndicated Loan

On May 24, 2004, the Company entered into a loan agreement with United Overseas Bank Limited (UOB), whereby UOB agreed to provide the Company with an unsecured US\$120 million bridging loan facility. The proceeds of the facility were used to part-finance the acquisition of NPL and to refinance the Novus notes obligation. The loan bears interest at SIBOR plus a margin of 5 (five) % per year. The loan shall be repaid in full on the final repayment date, which is 6 (six) months after the date on which the first advance was made (first advance should be made no later than August 21, 2004). In addition to the interest, the Company shall also pay a commitment fee and rollover fee as stipulated in the loan agreement. The agreement requires the Company to comply with the following, among others, unless the majority lenders otherwise agree in writing:

- Maintain its corporate existence and ensure that each of its subsidiaries maintains its corporate existence;
- Ensure that its obligation under this agreement at all times ranks at least pari passu in all respects with all its other unsecured and unsubordinated obligations;
- Use the proceeds exclusively for the purpose specified in the agreement;
- Not to reduce its share capital or make a distribution of assets or other capital distributions to its stockholders;
- Ensure that none of its subsidiaries merge or consolidate with any other entity if such action would materially and adversely affect the Company's ability to perform any of its obligations;
- Not to enter into any derivative transactions for speculative purposes;
- Ensure that none of its subsidiaries shall issue any notes, debentures, bonds or other similar instruments which obligations are senior to the obligations of the Company;
- Limitation on affiliate transactions as specified in the agreement;
- Apply all the proceeds from the Rupiah Bond issue in and towards prepayment of the loan;
- Negative pledge with respect to obtaining indebtedness and/or providing guarantees to the Company's subsidiaries.
- Provide financial information.

On June 30, 2004, the Company entered into an Amendment and Restatement Agreement of the Bridging Loan Facility with UOB and Overseas-Chinese Banking Corporation Limited (OCBC) as arrangers and UOB as agent, of which the amount of the facility was increased to US\$200 million. The loan which shall be available from August 24, 2004, bears interest at SIBOR plus a margin of 4% per annum. All the terms and conditions of the previous agreement dated May 24, 2004 remain the same.

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**20. BANK LOANS (continued)**

a. Syndicated Loan (continued)

Subsequently on December 30, 2004, the Company signed another loan agreement with the arrangers, lenders and the facility agent. Under the agreement, US\$105 million of the US\$200 million Bridging loan facility was converted into a US\$105 million Transferrable Loan Facility, with interest at SIBOR plus a margin ranging from 3% to 6.50% as specified in the agreement. The facility which shall be available beginning on January 7, 2005, shall be repayable in full amount on April 1, 2006. All the terms and conditions of the previous agreements dated May 24, 2004 and June 30, 2004 remain the same.

On June 2, 2005, the Company entered into a Supplement Agreement relating to the US\$105 million loan agreement with UOB. Under the agreement, the clause on disposal events was revised mainly to reflect the divestment of the Middle East assets.

The loan was repaid on July 15, 2005.

b. PT Bank Central Asia Tbk (BCA)

The BCA loans consist of US\$14,595,288 obtained by Apexindo and US\$17,079,029 obtained by MEB in 2005 and consisted of US\$19,171,612 obtained by Apexindo and US\$20,990,312 (equivalent to Rp195 billion) obtained by MEB in 2004.

(i) Apexindo

On August 25, 2003, Apexindo entered into a Banking Facilities Credit Agreement with BCA, whereby the latter agreed to provide banking credit facilities as follows:

- Investment Credit (CI) amounting to US\$20 million, with an interest rate based on BCA's prime lending rate minus 0.625% per year. The term loan is payable over 4 (four) years with a grace period of 6 (six) months commencing on the first loan drawing.
- Local Credit (CL) amounting to US\$5 million, with an interest rate based on BCA's prime lending rate minus 0.75% per year. This revolving loan is payable over 1 (one) year.
- Bank guarantee amounting to US\$5 million for 3 (three) years.

The above facilities are collateralized by Apexindo's Maera drilling rig and cash flow waterfall retained from the Maera and Raisis rigs, to be placed in an escrow account (Notes 9 and 12).

Principal payment of Investment Credit will be made quarterly based on the following schedule (after the grace period):

- 1<sup>st</sup> – 3<sup>rd</sup> installments: 5% each of the principal amount
- 4<sup>th</sup> – 7<sup>th</sup> installments: 6.5% each of the principal amount
- 8<sup>th</sup> – 11<sup>th</sup> installments: 8% each of the principal amount
- 12<sup>th</sup> – 15<sup>th</sup> installments: 6.75% each of the principal amount

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**20. BANK LOANS (continued)**

b. PT Bank Central Asia Tbk (BCA) (continued)

(i) Apexindo (continued)

Apexindo is required to obtain BCA's approval before entering into the following transactions, among others:

- Obtain new loan or credit facility from other parties that will increase the Debt to Equity ratio to more than 2 (Note 41).
- Lend money to third parties, except for operational activities.
- Merger, takeover, liquidation and change in its status and Articles of Association.
- Payment of loans to stockholders, except for those obtained prior to signing of the bank credit facility agreement.
- Acquire new investments or establish new businesses, involving a value exceeding 10% of Apexindo's revenue or 20% of its total equity.
- Sell, guarantee, and disposal of assets.

On November 5, 2004, Apexindo has signed an Amendment of Loan Agreement with BCA whereby both parties agreed to:

- Extend the maturity date of the local credit facility in United States Dollar amounting to US\$5,000,000 to become due on August 25, 2005.
- Approval of an additional local credit facility in Rupiah amounting to Rp10 billion which will mature on August 25, 2005.

On February 8, 2005, BCA has given approval for the issuance of a five-year debt and an amendment with respect to debt-to-equity ratio requirement (Note 21b).

The investment credit facility bears annual interest at 7.38% in 2005 and 2004, while the local credit facility bears annual interest at 7.25% in 2005 and 2004.

(ii) MEB

The Rp195 billion loan to MEB from BCA was obtained from the project credit facility with maximum limit of Rp195 billion. The loan bears interest at 12.5% per annum for the first six months from the first withdrawal, and shall be adjusted on a progressive basis in accordance with loan agreement, which interest ranged from 12% to 16% per annum in 2005 and 2004. The loan is collateralized by all of MEB's property and equipment, rights over receivables of the Panaran I Project, shares of stock of MEB, advance payment guarantee for Rolls Royce, performance bonds (Note 5), rights on project insurance, and all BCA accounts related to the project (Note 12). The loan is payable monthly in 84 equal installments from August 10, 2004. On April 28, 2005, MEB has entered into a First Amendment of Credit Agreement with BCA, of which the monthly principal installments were changed into 82 installments beginning on March 29, 2005 through January 29, 2011, while the other terms and conditions stipulated in loan agreement dated August 10, 2004 remain the same.

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**20. BANK LOANS (continued)**

b. PT Bank Central Asia Tbk (BCA) (continued)

(ii) MEB (continued)

In accordance with the loan agreement, MEB is required to obtain BCA's approval before entering into transactions among others; (1) obtaining new loans or credit facilities from third party except for projects where BCA cannot provide the related financing; and (2) disposal of assets except for those relating to the regular conduct of business. BCA also requires MEB to maintain several accounts with BCA based on the minimum and maximum balances as specified in the agreement.

MEB also obtained a consumer credit facility from BCA for a maximum amount of Rp300 million (US\$30,519 thousand) to finance its guest house (villa). The loan bears interest at 11% per annum for the first year and shall be adjusted on a progressive basis in accordance with the loan agreement. The loan is payable monthly for 48 equal installments from September 2005. The loan is collateralized by the villa (Note 12).

c. GE Capital Services

On December 17, 2005, PT Medco Power Indonesia (MPI), a subsidiary, entered into a loan facility agreement with GE Capital Services Pte, Ltd., for a maximum facility of US\$12 million, payable in 36 months. The loan shall be used solely to purchase TM2500 GE Power Systems Equipment. The loan is secured by a standby letter of credit from HSBC, covering 100% of the loan principal and interest. As of December 31, 2005, MPI has received the first drawdown amounting to US\$7,200,000. Interest payable on the loan amounted to US\$2,715,124 as of December 31, 2005.

d. Fortis Bank

- i. On July 19, 2003, Apexindo as sponsor and AAP as borrower, with Fortis Bank, Singapore (Fortis) as sole arranger, facility agent and security trustee, entered into a Yani Syndicated Loan Facility Agreement, whereby the latter agreed to provide US\$26 million or 65% of the total construction cost of the rig Yani, whichever is lower, to finance the construction of the rig. The term loan carried interest at LIBOR plus 2.15% - 2.35% per annum and payable over four years in twelve equal quarterly repayments, with the first payment due on December 1, 2003.

The Yani Syndicated Loan Facility Agreement also contains provisions for the order of enforcement of the rights of lenders upon the occurrence of an Event of Default under the Raissa Term Loan Facility Agreement as well as circumstances that are considered as an Event of Default under the Yani Syndicated Loan Facility Agreement.



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**20. BANK LOANS (continued)**

d. Fortis Bank (continued)

- ii. On March 6, 2003, Apexindo as sponsor and AAP as borrower, with Fortis as sole arranger, facility agent and security trustee, entered into a Raissa Syndicated Loan Facility Agreement, whereby the latter agreed to provide US\$39 million or 75% of the total construction cost of the rig Raissa, whichever is lower, to finance the construction of the rig. The term loan carried interest at LIBOR plus 2.15% - 2.55% per annum and is payable over four years in sixteen equal quarterly repayments with the first payment due on the earlier of the date falling three months after May 27, 2003 and the date falling three months after the Actual Commencement Date (as defined in the agreement).

On May 27, 2003, AAP received the full amount of the facility amounting to US\$39 million.

The significant provisions of the above-mentioned agreements with Fortis are as follows:

- Assignment of project contracts, which include, among others, the Raissa Shipbuilding Contract and Drilling Contracts, to the Security Trustee.
- Assignment of Project Insurance to the Security Trustee.
- Execution Mortgage over the rig Raissa as collateral for Fortis Bank as the Security Trustee.
- AAP's Debt Service Cover Ratio (DSCR) for each of the last two immediately succeeding quarters will not be less than 1.25 and provided that if DSCR is less than 1.35, AAP and Apexindo shall agree with the majority lenders as to the measures that Apexindo intends to take to ensure that AAP will be able to meet its obligations.

In addition to the terms and conditions described above, AAP and Apexindo are restricted by certain covenants, without prior approval from Fortis, to undertake, among others, any of the following:

- Merger or consolidation;
- Declare or pay dividends and/or other portions of income (applicable only if an event of default has occurred);
- Repay stockholders' loans (applicable only if an event of default has occurred);
- Create or attempt or agree to create or permit to arise or exist any encumbrance over all or any part of its property, assets or revenues, present or future, with the exception of (i) Permitted Encumbrance based on the agreement, (ii) possessory lien arising by operation of law in the ordinary course of business or any encumbrance, (iii) any encumbrance when aggregated with the indebtedness secured by all other Permitted Encumbrance, does not exceed US\$15 million (or its equivalent in other currency).

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**20. BANK LOANS (continued)**

d. Fortis Bank (continued)

Apexindo and AAP also entered into the following agreements in compliance with the requirements of Fortis Bank:

- Sale and Purchase Agreement between Apexindo and AAP dated February 28, 2003, whereby Apexindo sold and transferred all its rights and obligations over the rig Raissa to AAP.
- Installment Asset Sale Agreement dated May 22, 2003, whereby Apexindo agreed to buy back the rig Raissa from AAP.
- Sale and Purchase Agreement dated June 4, 2003, whereby Apexindo agreed to sell and transfer all its rights and obligations on the rig Yani to AAP.
- Conditional Installment Asset Sale Agreement dated June 4, 2003, whereby Apexindo agreed to buy back the rig Yani from AAP.

On April 11, 2005, Apexindo has sent a letter to Fortis Bank S.A./N.V., Singapore, indicating its intention to pay of its syndicated term bank loan for the rig Raissa amounting to US\$23,275,389 and for Yani rig amounting to US\$13,536,811 on May 3 and June 1, 2005, respectively. Subsequently, on May 3 and June 1, 2005, Apexindo has fully settled these bank loans.

e. DEG-Deutsche Investitions-Und Entwicklungsgesellschaft MBH (DEG)

On March 19, 2004, PT Medco LPG Kaji (LPG) entered into a loan agreement with DEG – Deutsche Investitions – Und Entwicklungsgesellschaft Mbh (DEG), whereby DEG agreed to provide LPG with a loan facility totaling US\$13.3 million to finance the LPG project relating to the plant in Kaji Oil Field Rimau Block, South Sumatra. The loan, which was available from May 31, 2004 with the final repayment due on September 15, 2008, shall bear interest based on DEG Base Rate plus margin. The loan is collateralized by fiduciary transfer of movable properties totaling US\$10,472,285 and insurance coverage on assets totaling US\$28,054,004.

Based on the restated loan agreement dated December 13, 2004, the loan shall be made available to LPG up to March 31, 2005 unless earlier terminated and shall bear an interest rate of the DEG base rate based on the US Dollar Interbank Swap Rate for a period equal or comparable to the average tenure of the loan.

On December 13, 2004, the Company, LPG and DEG entered into a deed of undertaking whereby LPG assigned to the Company all its rights and obligations in the loan agreement although the obligations will be maintained in the books of LPG.

On February 3, 2005, LPG made withdrawal of the loan totaling US\$13.3 million (net of bank charges) from the facility. The loan currently bears an interest equal to the cost of funds of the Company plus 4% per annum (or equivalent to 7.75% per annum) and is collateralized by all of the properties and equipment of LPG (Note 12). The loan will be repayable over nine equal installments from March 15, 2005.

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**20. BANK LOANS (continued)**

e. DEG-Deutsche Investitions-Und Entwicklungsgesellschaft MBH (DEG) (continued)

The loan agreement requires LPG to among others, comply with:

- (1) Financial undertakings as stated in the agreement, including certain financial ratios compliance, limitations on the sale, transfer or disposal of its assets, change of scope of its operations or activities and incurrence of other indebtedness or obligations.
- (2) Submit required reports such as audited annual financial statements and annual environmental and social monitoring reports
- (3) Share and dividend undertakings

The agreement also requires that the obligation will at all times rank at least pari passu in all respects with all the other unsecured and unsubordinated obligations, except those which in a winding up of the Company will be preferred solely by operation of law.

As of December 31, 2005 and 2004, there were no violations on any covenants of the above loans, except for the financial ratio requirement for the DEG loan obtained by LPG in 2005. LPG has obtained a waiver for this covenant which exempted LPG from meeting the related financial ratio covenant.

**21. OTHER LONG-TERM OBLIGATIONS**

This account consists of:

	<b>2005</b>	<b>2004</b>
Notes Payable		
Guaranteed Notes (GN) due in 2010	325,411,000	325,411,000
Senior Guaranteed Notes (SGN) due in 2007	27,500,000	27,500,000
Treasury notes	(70,863,000)	(70,863,000)
<b>Net</b>	<b>282,048,000</b>	<b>282,048,000</b>
Less unamortized discounts	5,946,352	7,818,810
<b>Net</b>	<b>276,101,648</b>	<b>274,229,190</b>
Rupiah Bonds		
Due in 2009	137,334,690	145,445,875
Treasury bonds	(16,785,351)	-
<b>Net</b>	<b>120,549,339</b>	<b>145,445,875</b>
Less unamortized discounts	916,689	1,283,286
<b>Net</b>	<b>119,632,650</b>	<b>144,162,589</b>

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**21. OTHER LONG-TERM OBLIGATIONS (continued)**

	<b>2005</b>	<b>2004</b>
Due in 2010	76,297,050	-
Treasury bonds	(2,034,588)	-
Net	74,262,462	-
Less unamortized discounts	1,284,997	-
Net	72,977,465	-
<b>Total Rupiah Bonds</b>	<b>192,610,115</b>	<b>144,162,589</b>
<u>Loan</u>		
GE Capital	7,200,000	-
Less current portion	542,014	-
<b>Long-term portion</b>	<b>6,657,986</b>	<b>-</b>
Interest rates per annum		
Rupiah	12.25% - 13.125%	13.125%
United States Dollars	8.75% - 10%	8.75% - 10%

Long-Term Rupiah Bonds Due in 2009

On June 29, 2004, the Company issued Rupiah Bonds (IDR Bonds) involving a nominal value of Rp1,350 billion, payable on July 12, 2009. The proceeds of the bonds were used to finance the acquisition of Novus (Note 1b). The bonds bear interest at 13.125% per annum, payable quarterly with the first payment due on October 12, 2004.

Under the terms and conditions of the IDR Bonds, the Company is restricted from undertaking the following actions, among others, without prior approval from the designated trustees:

1. Merger or acquisitions resulting in the dissolution of the Company.
2. Decrease of the authorized, issued and fully paid capital stock of the Company.
3. Change in the main business.
4. Grant loans to third parties, except loans which have been secured and/or pledged before the trustee agreement or loan, loans to employees, employees' welfare organizations/programs.
5. Pledge the Company's assets including the Company's rights on income on those assets, except those pledged for:
  - payment of outstanding payables based on bond and trustee agreements.
  - those existing before the trustee agreement.

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**21. OTHER LONG-TERM OBLIGATIONS (continued)**

Long-Term Rupiah Bonds Due in 2009 (continued)

- those in connection with new facilities to refinance the original obligations where such assets have already been pledged.
  - those which have been given before merger or acquisition or take over.
  - Adequate pledge and/or burden in connection with the Company's operations.
6. Transfer of the Company's assets except (a) transfer of non-earning assets, and (b) transfers of assets in connection with asset securitization.
  7. Issue bonds or obtain loans from other parties, except for: (a) loan for project financing and, (b) loan which is special treatment in accordance with the Company's assets securitization.
  8. Propose to request for bankruptcy or delaying loan payment prior to the payment of the bond's interest and principal.
  9. Declare and pay dividends in excess of 50% of consolidated net income.

The IDR bonds are collateralized by all movable and non-movable properties of the Company that existed and will be owned in the future by the Company in an amount equal to the total obligation to the bondholders as stated in the Jumbo Bond Certificate.

Under the Bonds agreement, the Company has the right to buy-back the bonds directly or indirectly, at any time before the maturity date of the bond principal but prior to one year from their issuance.

The Company has entered into several swap transactions in relation to the IDR bonds (Note 19).

In 2005, the Company bought-back Rupiah bonds with a total value of US\$16,361,265 (equivalent to Rp165,000,000,000). As of December 31, 2005, the outstanding balance of the bought-back bonds amounted to US\$16,785,351, with a market value amounting to US\$15,501,271.

On June 7, 2004, PT Pemeringkat Efek Indonesia (PEFINDO), the local rating agency assigned an "AA-" corporate rating with stable outlook to the Rp1,350 billion Notes.

Long-Term Apexindo Rupiah Bonds I Due in 2010

On February 8, 2005, Apexindo has submitted the Registration Statement to BAPEPAM for the issuance of conventional bonds and Syariah Ijarah Bonds Apexindo Pratama Duta 1 Tahun 2005 totalling to Rp750 billion. The Registration Statement was declared effective by BAPEPAM on March 30, 2005.

The conventional bonds bear interest at 12.25% per annum, payable quarterly with the first payment due on April 8, 2005.

The Syariah bonds are subject to an ijarah fee of Rp29,400,000,000 per annum, payable quarterly from April 8, 2005.

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**21. OTHER LONG-TERM OBLIGATIONS (continued)**

Long-Term Apexindo Rupiah Bonds | Due in 2010 (continued)

The terms and conditions of Apexindo's Rupiah bonds contain certain covenants which among others, require Apexindo to maintain fund deposits equal to a 1 (one) time payment of interest on bonds and the ijarah fee to the trustee and to maintain its bond rating as stipulated in the offerings.

Apexindo has entered into several swap transactions in relation to these bonds (Note 19).

During the year, the Company bought-back Apexindo Rupiah bonds with a total value of US\$1,469,148 (equivalent to Rp15,000,000,000). As of December 31, 2005, the outstanding balance of the bought-back bonds amounted to US\$2,034,588 with a market value amounting to US\$1,847,202.

On January 31, 2005, PT Pemeringkat Efek Indonesia (PEFINDO), the local rating agency assigned an "A-" corporate rating with stable outlook to Apexindo's Rupiah Bonds .

Senior Guaranteed Notes (SGN) Due in 2007 and Guaranteed Notes (GN) Due in 2010

On March 19, 2002, MEFL issued US\$100 million of Senior Guaranteed Notes (SGN) maturing on March 19, 2007 at an initial offering price of 98.093% through Credit Suisse First Boston (CSFB).

The SGN bear interest at 10% per annum, payable on March 19 and September 19 of each year, commencing on September 19, 2002. The SGN are guaranteed by the Company and are listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The terms and conditions of the SGN contain certain covenants which, among others, require the Company and Subsidiaries to maintain certain financial ratios, prohibit the declaration and payment of dividends to stockholders of the Company in excess of 50% of consolidated net income and restrict the Subsidiaries from incurring additional indebtedness except for certain permitted indebtedness. The terms and conditions also do not allow the Company and Subsidiaries to merge unless certain conditions have been met.

On May 22, 2003, MEFL has issued another US\$250 million of Guaranteed Notes (GN) payable on May 22, 2010 at an initial offering price of 99.011% through UBS Warburg and Credit Suisse First Boston. The GN bear interest at 8.75% per annum, and payable on May 22 and November 22 of each year, commencing on November 22, 2003. The GN are guaranteed by the Company and listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The terms and conditions of the GN contain certain covenants which among others, require the Company and Subsidiaries to maintain certain financial ratios, prohibit the Company from issuing any notes or other similar instruments that are senior to the notes, not to sell, lease, transfer or otherwise dispose of its fixed assets other than due to impairment and nor to declare any dividends or other distribution in excess of 50% of consolidated net income.

Concurrent with the issuance of the Guaranteed Notes, MEFL launched a program called "Exchange Offer and Consent Solicitation" for the US\$100 million of SGN previously issued on March 19, 2002. The holders of US\$72.5 million of the SGN agreed to exchange their SGN with the new notes, while the holders of US\$27.5 million preferred only to amend the conditions of the SGN pertaining to, among others, the Company's obligation with respect to incurrence of indebtedness and limitations on affiliate transactions.

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**21. OTHER LONG-TERM OBLIGATIONS (continued)**

Senior Guaranteed Notes (SGN) Due in 2007 and Guaranteed Notes (GN) Due in 2010 (continued)

On December 31, 2003, the Company bought-back SGN and GN with a total face value of US\$85,863,000 for US\$87,750,948. In 2004, the Company sold its buy-back notes with a total face value of US\$15,000,000 for US\$15,562,305.

The Company was assigned a "B+" corporate credit rating with stable outlook by Standard & Poor's on March 25, 2003 and May 2, 2003. The same rating was assigned to the US\$250 million Guaranteed Notes and the US\$100 million SGN issued by MEFL. On January 29, 2002 and May 5, 2003, PT Pemeringkat Efek Indonesia (PEFINDO), the local rating agency assigned an "AA-" corporate rating with stable outlook to the US\$100 million SGN.

MEFL has entered into several swap transactions in relation to these notes (Note 19).

As of December 31, 2005 and 2004, the outstanding balance of the buy-back notes amounted to US\$69,369,012 and US\$ 68,898,567, respectively (net of unamortized discounts of US\$1,493,988 and US\$1,964,433, respectively), with a market value amounting to US\$72,856,664 and US\$72,047,212, respectively.

**22. NEGATIVE GOODWILL**

Negative goodwill arose from the acquisition of the following subsidiaries:

	<b>2005</b>	<b>2004</b>
Exspan Exploration and Production Pasemah, Ltd.	3,104,411	3,104,411
Exspan E&P Pasemah, Inc.	3,104,411	3,104,411
Enserch Far East Ltd.	1,337,421	1,337,421
PT Medco E&P Kalimantan	1,012,044	1,012,044
Exspan Airstenda, Inc.	729,857	729,857
Exspan Airlimau, Inc.	729,857	729,857
PT Apexindo Pratama Duta Tbk	339,215	339,215
PT Medco Sarana Balaraja	213,445	213,445
PT Medco E&P Tarakan	79,555	79,555
<b>Total</b>	<b>10,650,216</b>	<b>10,650,216</b>
Less accumulated amortization	(9,696,696)	(8,851,438)
<b>Net book value</b>	<b>953,520</b>	<b>1,798,778</b>

Negative goodwill of non-active or non-operating or under liquidation subsidiaries totaling US\$790,678 and US\$1,329,798 were fully amortized (credited to "Depreciation and Amortization") in 2005 and 2004, respectively.



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**23. MINORITY INTERESTS**

a. Minority interests in net assets of subsidiaries:

	<b>2005</b>	<b>2004</b>
PT Apexindo Pratama Duta Tbk	88,252,982	31,393,759
PT Medco Energi Menamas	6,899,276	4,356,082
PT Exspan Petrogas Intranusa	3,044	174,434
PT Medco Methanol Bunyu	1,927	1,516
<b>Total</b>	<b>95,157,229</b>	<b>35,925,791</b>

b. Minority interests in net income of subsidiaries:

	<b>2005</b>	<b>2004</b>
PT Exspan Petrogas Intranusa	171,389	60,072
PT Medco Methanol Bunyu	(410)	(460)
PT Medco Energi Menamas	(709,887)	(63,912)
PT Apexindo Pratama Duta Tbk	(2,382,659)	(1,126,274)
PT Medco E&P Indonesia	-	3,524
PT Medco E&P Lematang	-	110
<b>Net</b>	<b>(2,921,567)</b>	<b>(1,126,940)</b>

**24. CAPITAL STOCK**

Stockholders	<b>2005</b>			
	Number of Shares	Ownership Percentage	Amount	
			Rp '000	US\$
Densico Energy Resources Pte. Limited	1,113,641,792	33.42%	111,364,179	33,805,822
Aman Energy Resources Pte. Ltd.	575,751,214	17.28%	57,575,121	17,479,491
PT Medco Duta	28,276,987	0.85%	2,827,699	859,813
PT Nuansa Grahacipta	50,000	0.00%	5,000	1,518
PT Multifabrindo Gemilang	2,000,000	0.06%	200,000	60,693
Public	1,612,731,457	48.39%	161,273,146	48,947,127
<b>Total</b>	<b>3,332,451,450</b>	<b>100.00%</b>	<b>333,245,145</b>	<b>101,154,464</b>
Less treasury stock	(223,597,000)	-	(22,359,700)	(3,147,999)
<b>Net</b>	<b>3,108,854,450</b>	<b>100.00%</b>	<b>310,885,445</b>	<b>98,006,465</b>

Stockholders	<b>2004</b>			
	Number of Shares	Ownership Percentage	Amount	
			Rp '000	US\$
New Links Energy Resources Limited	2,849,414,565	85.51%	284,941,457	86,497,182
PT Medco Duta	14,914	0.00%	1,491	452
PT Nuansa Grahacipta	2,885,000	0.09%	288,500	91,039
PT Multifabrindo Gemilang	2,000,000	0.06%	200,000	60,693
Public (less than 5%)	478,136,971	14.34%	47,813,698	14,505,098
<b>Total</b>	<b>3,332,451,450</b>	<b>100.00%</b>	<b>333,245,146</b>	<b>101,154,464</b>
Less treasury stock	(226,597,000)	-	(22,659,700)	(3,190,236)
<b>Net</b>	<b>3,105,854,450</b>	<b>100.00%</b>	<b>310,585,446</b>	<b>97,964,228</b>

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**24. CAPITAL STOCK (continued)**

On January 29, 2005, Encore International Ltd. (Encore) signed a Conditional Shares Purchase Agreement with PTTEP Offshore Investment Company Limited (PTTEPO) and Cumin Limited (Cumin) to purchase 40% and 19.9% of the share ownership of PTTEPO and Cumin in New Links Energy Resources Limited (New Links), respectively, the Company's majority shareholder. The Purchase Agreement was completed on February 17, 2005. Accordingly, Encore, becomes the sole shareholder of New Links or the only indirect controlling shareholder of the Company. Subsequently, on March 31, 2005, the Company received a letter from New Links whereby New Links advised the Company of its transfer of a 33.032% (representing 1,100,767,216 shares) ownership in the Company to Aman Energy Resources Pte. Ltd. (Aman) effective March 18, 2005. Aman is a wholly-owned subsidiary of Encore.

On April 19, 2005, Aman advised the Company of its transfer of 3.775% (representing 125,810,559 shares) ownership interest in the Company to Tamwin Limited, one of Encore's creditors.

On May 17, 2005, New Links also transferred all of its remaining 52.473% (representing 1,748,647,349 shares) ownership in the Company to Densico Energy Resources Pte. Ltd. (Densico), a wholly-owned subsidiary of Encore; such transfer of shares was recorded on the Register of Company's stockholders on May 16, 2005.

On July 15, 2005, Densico through the Company, has undertaken an offering of common shares directly or in the form of Global Depository Shares (GDS). The GDS have been listed on the Luxembourg Stock Exchange and included for trade in the Internal Order Book System of the London Stock Exchange and the portal market of the Nasdaq Stock Market. No proceeds from the offering of common shares or GDS went to the Company.

Changes in the shares outstanding in 2005 and 2004 are as follows:

	Number of Shares
Number of shares after stock split on May 31, 2000	3,332,451,450
Less acquisition of treasury shares:	
2000	(13,361,500)
2001	(175,121,500)
2002	(39,715,500)
	3,104,252,950
Deduction	
Add resale of treasury shares:	
Sale of treasury stock - 2003	1,601,500
<b>Balance of 2004</b>	<b>3,105,854,450</b>
Add resale of treasury shares:	
Sale of treasury stock - 2005	3,000,000
<b>Balance of 2005</b>	<b>3,108,854,450</b>

The Company sold 3,000,000 shares of its treasury shares for US\$1,169,361 in 2005. Outstanding treasury stock amounted to 223,597,000 shares and 226,597,000 shares as of December 31, 2005 and 2004, respectively.

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**25. ADDITIONAL PAID-IN CAPITAL**

This account consists of:

	<b>2005</b>	<b>2004</b>
Issuance of 321,730,290 shares through rights offering I to stockholders in 1999	139,908,988	139,908,988
Sale of 22,000,000 shares through public offering in 1994	33,500,000	33,500,000
Resale of shares	1,073,325	192,894
Distribution of bonus shares in 1998	(32,254,579)	(32,254,579)
Additional paid - in capital on treasury shares	(19,040,298)	(19,291,414)
<b>Total</b>	<b>123,187,436</b>	<b>122,055,889</b>

**26. EFFECT OF CHANGES IN THE EQUITY TRANSACTIONS OF SUBSIDIARIES/ASSOCIATED COMPANIES**

This account consists of:

	<b>2005</b>	<b>2004</b>
Revaluation increment converted into capital stock	28,753,083	28,753,083
Conversion of additional paid-in capital into common stock by a subsidiary	1,697,294	1,697,294
Additional paid-in capital resulting from employee stock options	677,738	-
Donated capital	107,870	107,870
Unrealized gain in market value of short-term investments	2,783	-
Effect of new shares issued in relation to initial public offering of a subsidiary	(2,769,920)	(2,769,920)
Effect of new shares issued by a subsidiary	(10,985,106)	48,494
<b>Net</b>	<b>17,483,742</b>	<b>27,836,821</b>

**27. SALES AND OTHER OPERATING REVENUES**

Net sales and other operating revenues were derived from the following:

	<b>2005</b>	<b>2004</b>
Oil and gas sales	432,361,384	367,367,607
Drilling operations and related services	89,026,128	94,438,585
Methanol sales	44,954,265	55,490,344
Other contracts	25,825,241	11,550,952
Share of profit of joint ventures	19,781,592	19,733,452
Electric power sales	8,204,808	1,534,484
<b>Total</b>	<b>620,153,418</b>	<b>550,115,424</b>

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**27. SALES AND OTHER OPERATING REVENUES (continued)**

Details of net oil and gas sales for the years ended December 31, 2005 and 2004 which represent a significant portion of the net sales and operating revenues, are as follows:

	<b>2005</b>	<b>2004</b>
Itochu Petroleum Co. (S) Pte. Ltd.	267,833,256	14,768,868
PT Pertamina (Persero)	83,386,843	59,365,215
BP Migas	37,392,479	30,418,584
Novus overseas customers	21,176,419	35,024,228
PT Perusahaan Listrik Negara (Persero)	19,476,113	13,170,647
PTT Public Company Ltd. (Note 37)	2,587,830	113,041,449
Mitsui Oil (Asia) Hongkong Ltd.	-	99,819,325
Others	508,444	1,759,291
<b>Total</b>	<b>432,361,384</b>	<b>367,367,607</b>

**28. COST OF SALES**

A. The Company and Subsidiaries incurred the following expenses to operate, process and sell their products and services:

a. Production and Lifting Costs

This account consists of:

	<b>2005</b>	<b>2004</b>
Field operations overhead	31,734,635	34,639,816
Operations and maintenance	26,616,102	26,101,025
Pipeline and transportation fees	9,910,889	7,628,155
Operational supports	6,347,170	9,405,239
<b>Total</b>	<b>74,608,796</b>	<b>77,774,235</b>

b. Exploration Expenses

This account consists of:

	<b>2005</b>	<b>2004</b>
Dry hole costs	8,623,199	13,420,527
Geological and geophysical	5,593,547	5,424,356
Seismic	3,083,436	2,795,632
Exploration overheads	1,743,224	2,206,546
<b>Total</b>	<b>19,043,406</b>	<b>23,847,061</b>

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**28. COST OF SALES (continued)**

c. Depreciation and Amortization

This account represents depreciation and amortization for the following:

	<b>2005</b>	<b>2004</b>
Oil and gas operations	60,367,082	49,992,558
Drilling and related services	24,706,760	23,083,607
Methanol	1,269,810	1,343,083
Electric power	1,137,955	204,367
<b>Total</b>	<b>87,481,607</b>	<b>74,623,615</b>

d. Drilling Operations Costs

This account consists of:

	<b>2005</b>	<b>2004</b>
Labor	23,452,883	21,096,543
Drilling equipment	12,483,008	10,001,684
Repairs and maintenance	9,251,391	13,807,999
Rental	7,458,608	9,855,563
Transportation	4,727,310	1,946,667
Insurance	4,703,469	5,309,635
Catering	4,227,138	4,815,056
Rigs movements	-	2,665,343
Others	1,925,033	3,126,848
<b>Total</b>	<b>68,228,840</b>	<b>72,625,338</b>

e. Cost of Methanol Sales

This account consists of:

	<b>2005</b>	<b>2004</b>
Rental	17,767,719	22,975,810
Feed gas	10,665,318	12,473,147
Salaries and other allowances	1,564,984	1,603,134
Processing plant operational costs	1,309,022	4,830,389
Fuel	318,052	277,421
Contract labor	169,131	279,397
Others	180,820	43,807
Total production costs	31,975,046	42,483,105
Inventories:		
At beginning of year	1,148,580	1,331,610
At end of year (Note 7)	(877,348)	(1,148,580)
<b>Total</b>	<b>32,246,278</b>	<b>42,666,135</b>

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**28. COST OF SALES (continued)**

f. Cost of Power Sales

This account consists of the following:

	<u>2005</u>	<u>2004</u>
Maintenance costs	4,765,072	68,178
Salaries and benefits	158,459	4,762
<b>Total</b>	<b><u>4,923,531</u></b>	<b><u>72,940</u></b>

g. Cost of Crude Oil Purchases

This accounts consists of cost of crude oil purchased by the Company from BP Migas.

- B. Purchases of materials of methanol, spare parts and catering services in 2005 and 2004 included purchases from the following suppliers which individually represent more than 10% of the total purchases for the respective years:

	<u>2005</u>	<u>2004</u>
PT Pertamina (Persero) DOH Kalimantan	10,180,213	11,625,852
PT Halliburton Indonesia	6,345,010	-
PT Andrawina Praja Sarana	3,403,299	3,771,232
Oil Service and Trading Inc.	2,155,329	2,498,481
CV Tiga Putra	1,571,271	-
Midcontinent Tubular Pte. Ltd.	-	71,759
<b>Total</b>	<b><u>23,655,122</u></b>	<b><u>17,967,324</u></b>

**29. OPERATING EXPENSES**

This account consists of:

	<u>2005</u>	<u>2004</u>
General and administrative		
Salaries, wages and other employee benefits	33,767,350	26,327,576
Contract charges	13,026,504	8,437,660
Professional fees	12,234,824	6,835,553
Office supplies and equipment	2,974,524	2,807,023
Insurance	1,890,248	443,785
Depreciation	1,337,652	890,889
Rental	1,085,253	1,122,128
Provision for doubtful accounts	1,010,697	1,050,308
Repairs and maintenance	222,865	276,524
Others (each below US\$100,000)	8,634,903	8,031,494
<b>Total</b>	<b><u>76,184,820</u></b>	<b><u>56,222,940</u></b>

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**29. OPERATING EXPENSES (continued)**

	<b>2005</b>	<b>2004</b>
Selling		
Export expenses	10,999,220	15,506,328
Business travel	1,985,277	1,858,885
Advertising and promotion	553,678	85,102
Entertainment	349,927	534,872
Total	13,888,102	17,985,187
<b>Total Operating Expenses</b>	<b>90,072,922</b>	<b>74,208,127</b>

**30. INCOME TAX**

Tax expense of the Company and Subsidiaries consists of the following:

	<b>2005</b>	<b>2004</b>
Current tax expense		
Subsidiaries	(99,573,680)	(66,148,681)
Deferred tax expense (benefit)		
Company	(5,009,959)	4,139,080
Subsidiaries	1,090,640	6,870,818
Sub-total	(3,919,319)	11,009,898
<b>Total tax expense</b>	<b>(103,492,999)</b>	<b>(55,138,783)</b>

Current Tax

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

	<b>2005</b>	<b>2004</b>
Income before tax expense per consolidated statements of income	181,111,825	130,115,856
Less income before tax expense of subsidiaries	(155,404,219)	(67,472,952)
Income before tax expense of the Company	25,707,606	62,642,904
Temporary differences		
Other employee benefits	201,803	289,439
Depreciation and amortization	507,313	(200,279)
Permanent differences		
Non - deductible expenses	2,469,529	585,813
Net income from Medco Moeco Langsa Pty. Ltd.	(10,573,047)	-
Income subjected to final income tax	(2,003,296)	(1,083,376)



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**30. INCOME TAX (continued)**

Current Tax (continued)

	<b>2005</b>	<b>2004</b>
Taxable income before utilization of tax loss carryforwards	16,309,908	62,234,501
Utilization of prior year tax losses	(20,486,013)	(84,542,434)
Expired tax loss carried forward	1,099,070	1,821,920
<b>Tax losses carried forward, end of year</b>	<b>(3,077,035)</b>	<b>(20,486,013)</b>

No provision for current income tax was made for the years ended December 31, 2005 and 2004 because the Company is still in tax loss position.

Deferred Tax

The details of deferred tax assets and liabilities are as follows:

As Restated Note 42							
	January 1, 2004	Cummulative deferred tax assets/liabilities of acquired Subsidiary	Charged (credited) to statements of income	December 31, 2004	Cummulative deferred tax assets/liabilities of acquired Subsidiary	Charged (credited) to statements of income	December 31, 2005
<b>Deferred Tax Assets</b>							
<u>Company</u>							
Fiscal loss	2,034,033	-	(4,111,771)	6,145,804	-	5,222,693	923,111
Depreciation of property and equipment	15,127	-	59,523	(44,396)	-	(152,194)	107,798
Deferred charges	-	-	(86,832)	86,832	-	(60,540)	147,372
Sub-total	2,049,160	-	(4,139,080)	6,188,240	-	5,009,959	1,178,281
<u>Subsidiaries</u>	29,175,033	-	(1,831,067)	31,006,100	-	(1,298,709)	32,304,809
Deferred Tax Assets - Net	31,224,193	-	(5,970,147)	37,194,340	-	3,711,250	33,483,090
<b>Deferred Tax Liabilities</b>							
<u>Subsidiaries</u>	(80,320,717)	(31,433,101)	(5,039,751)	(106,714,067)	(14,450,747)	(2,614,989)	(118,549,825)
Deferral tax relating to Subsidiaries disposed	-	-	-	-	-	-	1,474,182
Translation adjustment Cummulative deferred tax liabilities of entities previously reported as assets for disposal	-	-	-	-	-	-	3,506
Deferred Tax Liabilities - Net	(80,320,717)	(31,433,101)	(5,039,751)	(106,714,067)	(14,450,747)	(2,614,989)	(117,550,234)
<b>Deferred Tax Expense (Income)</b>			<b>(11,009,898)</b>			<b>1,096,261</b>	
Joint venture presentation			-			2,823,058	
<b>Deferred tax (income) - Net</b>			<b>(11,009,898)</b>			<b>3,919,319</b>	

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**30. INCOME TAX (continued)**

Deferred Tax (continued)

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

	<b>2005</b>	<b>2004</b>
Income before tax expense per consolidated statements of income	181,111,825	130,115,856
Less income before tax expense of Subsidiaries	(155,404,219)	67,472,952
Income before tax of the Company	25,707,606	62,642,904
Tax expense using statutory tax rates	(7,712,282)	(18,792,871)
Tax effects of permanent differences:		
Income already subjected to final income tax	600,989	325,013
Non-deductible expenses	(740,859)	(175,744)
Net income from Medco Moeco Langsa Pty. Ltd.	3,171,914	-
Net	3,032,044	149,269
Utilization of tax loss carryforward	4,892,973	18,670,350
Deferred tax adjustment - tax loss	(5,222,694)	4,112,332
Tax benefit (expense):		
Company	(5,009,959)	4,139,080
Subsidiaries	(98,483,040)	(59,277,864)
<b>Tax Expense - Net</b>	<b>(103,492,999)</b>	<b>(55,138,784)</b>

**31. EARNINGS PER SHARE**

a. Earnings per share

The computation of basic earnings per share is based on 3,107,354 thousand and 3,105,854 thousand shares, representing the weighted average number of shares in 2005 and 2004, respectively.

	<b>2005</b>	<b>2004</b>
<u>Earnings per share</u>		
Net income for the current year	74,697,259	73,850,132
<b>Basic earnings per share</b>	<b>0.0240</b>	<b>0.0238</b>

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**31. EARNINGS PER SHARE (continued)**

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no dilutive potential ordinary shares in the two years presented.

**32. CASH DIVIDENDS**

On June 9, 2005, the Company's stockholders in the Annual General Meeting, approved the distribution of cash dividends amounting to US\$0.0105 per share or equivalent to US\$32,642,972.

On May 12, 2004, the Company's stockholders, in the Annual General Meeting, approved the distribution of cash dividends amounting to US\$0.0064 per share or equivalent to US\$19,877,468.

**33. PENSION AND OTHER EMPLOYEE BENEFITS**

Pension Plans

Subsidiaries involved in oil and gas exploration and production have established defined contribution pension plans covering all their local permanent employees. These plans provide pension benefits based on salaries and years of service of the employees. The pension plans are managed by Dana Pensiun Lembaga Keuangan Tugu Mandiri (DPLK Tugu Mandiri) which deed of establishment was approved by the Minister of Finance of the Republic of Indonesia in decision letter No. Kep. 234/KM.17/1995 dated August 16, 1995. The pension plans are funded by contributions from both the Subsidiaries at 6% of gross salaries and their employees at 2% of gross salaries.

The reconciliation of pension liability of the subsidiaries involved in the oil and gas exploration and production is as follows:

	<b>2005</b>	<b>2004</b>
Beginning balance	33,561	53,074
Pension cost for the year	427,490	399,618
Pension contribution paid during the year	(426,111)	(398,489)
Gain (loss) on foreign exchange	54	(20,642)
<b>Ending balance</b>	<b>34,994</b>	<b>33,561</b>

Other Employee Benefits

The Company and Subsidiaries also recognize employee benefit obligations for their qualifying employees in accordance with applicable regulations. The post retirement benefits of the employees involved in oil and gas operations are being funded by placing funds in time deposits under the name of Dana Pensiun Pesangon Exspan Sumatera.

The number of employees eligible for the benefits is 2,373 and 1,902 in 2005 and 2004, respectively.

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**33. PENSION AND OTHER EMPLOYEE BENEFITS (continued)**

Other Employee Benefits (continued)

- a. An analysis of employee benefit obligations recognized in the consolidated balance sheets is as follows:

	<b>2005</b>	<b>2004</b>
Present value of employee benefits obligations	41,763,848	43,727,387
Fair value of plan assets	(29,669,332)	(31,859,736)
Unfunded employee benefits obligations	12,094,516	11,867,651
Unrecognized past service cost - non vested	(1,691,062)	(2,014,948)
Unrecognized transitional liability	-	(44,009)
Unrecognized actuarial gain	(422,281)	(937,892)
Current year employee benefits expense adjustment	(1,352)	(5,237,025)
<b>Employee benefit obligations</b>	<b>9,979,821</b>	<b>3,633,777</b>
Presented as accrued liabilities	(4,993,599)	-
Employee benefit obligations	4,986,222	3,633,777

- b. An analysis of the employee benefits costs in the consolidated statements of income is as follows:

	<b>2005</b>	<b>2004</b>
Current service cost	7,754,543	2,936,815
Interest expense	3,435,427	3,157,297
Amortization of actuarial losses	1,144,064	8,822,246
Amortization of transitional liability	370,973	93,165
Termination cost	125,469	-
Amorization of past service cost	20,391	22,432
Effect of Revised PSAK No. 24	1,416	-
Actual return on plan assets	(1,770,681)	(1,435,621)
<b>Net</b>	<b>11,081,602</b>	<b>13,596,334</b>

- c. An analysis of the movements of employee benefit obligations in the consolidated balance sheets is as follows:

	<b>2005</b>	<b>2004</b>
Balance at beginning of year	3,633,777	11,793,491
Employee benefits cost	11,081,602	13,596,334
Gain on foreign exchange	(34,054)	(453,760)
Benefits paid to employees	(1,836,600)	(1,221,902)

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**33. PENSION AND OTHER EMPLOYEE BENEFITS (continued)**

Other Employee Benefits (continued)

	<b>2005</b>	<b>2004</b>
Contributions for the year	(3,000,000)	(15,004,576)
Net adjustment to current year - employee benefits	135,096	(5,075,810)
Balance at end of year	9,979,821	3,633,777
Presented as accrued liabilities	(4,993,599)	-
<b>Employee benefits obligation</b>	<b>4,986,222</b>	<b>3,633,777</b>

The present value of the employee benefit obligations was calculated by independent actuaries, using the following assumptions:

	<b>2005</b>	<b>2004</b>
Discount rates	11% - 13%	8% - 11%
Expected ate of return on assets - IDR Portfolio	-	8%
Salary increment rate	9% - 11%	6% - 9%
Mortality rate	TMI 1999	TMI 1999 and CSO 1980
Morbidity rate (disability)	10% mortality rate	10% mortality rate
Resignation rate:		
- Oil and gas subsidiaries	-	0-1% per year
- Others	1% per year	1% per year
	1% per year up to age 25 then decreasing linearly to 0.05% at age 49-55	1% per year up to age 25 then decreasing linearly to 0.05% at age 49-54
Proportion of early retirement	0,15%	0.15%
Proportion of normal retirement	100% minus 15%	100% minus 15%

**34. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES**

Nature of Relationship

- a. Companies whose major stockholder and management control are the same as the Company:
  - PT Medco Inti Dinamika (INTI)
  - PT Medco Central Asia (MCA)
  - PT Bank Himpunan Saudara 1906
  
- b. Companies which partly have the same key members of management as the Company:
  - PT Andrawina Praja Sarana (APS)
  - PT Multifabrindo Gemilang

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

Nature of Relationship (continued)

- c. PTT Public Company Ltd., PTT Exploration and Production (PTTEP) and Credit Suisse First Boston (Hong Kong), Ltd. (CSFB) are indirect stockholders of the Company.
- d. PT Medco Duta (DUTA) is a stockholder of the Company.
- e. INTI is the major stockholder of PT Bank Himpunan Saudara 1906.

Transactions with Related Parties

In the normal course of business, the Company and Subsidiaries entered into certain transactions with related parties. These transactions included the following:

- a. Placement of time deposits and current accounts in PT Bank Himpunan Saudara 1906.
- b. Engaging APS to render catering services, which according to management, were made at same prices and conditions as those with third parties. Catering services from a related party for the years ended December 31, 2005 and 2004 amounted to US\$3,403,299 and US\$3,771,232, respectively. At balance sheet date, outstanding liabilities for these services were presented as Trade Payables which constituted 1.2% and 1.4% of the total trade payables as of December 31, 2005 and 2004, respectively.
- c. Apexindo rents office building from INTI at an annual rental fees of US\$123,223 and US\$114,376 in 2005 and 2004, respectively.
- d. On May 1, 2003, the Company entered into a secondment agreement with PTTEP, which ended in February 2005.
- e. The Company has a crude oil sale agreement with PTT Public Company since June 2003 which was extended in June 2004 for another seven months.

Conflicts of Interest

The transactions below represent transactions which are construed as conflicts of interest between the Company and Subsidiaries as discussed in BAPEPAM Regulation No. IX.E.1 concerning "Certain Conflict of Interest Transactions", and represent material transactions as discussed in BAPEPAM regulation No. IX.E.2 concerning "Material Transactions and Change in Main Business Activity".

- 1. The plan for compensation payment by AAP, a wholly-owned subsidiary of Apexindo, to MEFO for its share in the construction cost of the Submersible Swamp Barge Raissa and the Yani Rig. This plan was approved by the Company's independent stockholders in their Third Extraordinary Stockholders' Meeting held on April 21, 2004 and in Apexindo's General Independent Stockholders' Meeting held on April 28, 2003.

On April 11, 2005, Apexindo has repaid its insurance claim on the Maera rig to MEFO based on a previous signed Insurance Claim Purchase Agreement involving an amount of US\$18,511,010.

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

Conflicts of Interest (continued)

2. Apexindo's drilling services rendered or to be rendered to related parties are as follows:

- a. The execution of agreement with JOB PERTAMINA - Medco Madura Pty. Limited based on contract No. K026R/JOBM/EXPL on August 26, 2002 covering the use of rig No. 2.
- b. The execution of an agreement with PT Medco E&P Tomori Sulawesi to provide drilling services using rig No. 10.
- c. The execution of agreements dated May 1 and 2, 2003 with PT Medco E&P Indonesia (MEPI) to provide drilling services using land rigs.

The above transactions were approved by the independent stockholders of Apexindo in their General Meeting held on April 28, 2003.

3. Loan Agreement between Medco Moeco Langsa Ltd (MML) (Note 10), MEFL and Mitsui Oil Exploration Co. Ltd. (Moeco), whereby MEFL and Moeco agreed to provide MML with an unsecured US\$15 million revolving credit facility on a 50:50 basis. The facility which shall be available to MML from January 31, 2004 up to January 31, 2009 shall bear interest of 1% above the cost of funds of MEFL, which was 9.5% per annum as of December 31, 2005 and 2004.

On December 31, 2004, the parties have agreed to amend the loan agreement to increase the loan from US\$15 million to US\$22 million. As of December 31, 2005 and 2004, the outstanding balance of the loan (including interest) amounted to US\$7,853,052 and US\$19,435,530 respectively, and is reported under Other Receivables - Non Current (Note 10).

This transaction is exempted from the requirement of obtaining the approval of majority independent stockholders by virtue of Article 3.b of BAPEPAM Regulation No. IX.E.1.

**35. SEGMENT INFORMATION**

The Company and Subsidiaries classify and evaluate their financial information into two major reportable segments which is business segment as the primary segment and geographical segment as the secondary segment.

Business Segment

The Company and Subsidiaries are presently engaged in the following business activities:

- a. Exploration for and production of oil and gas
- b. Drilling and other related services
- c. Methanol production
- d. Electric power generation
- e. Others

Segment information of the Company and Subsidiaries is as follows:

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**35. SEGMENT INFORMATION (continued)**

Business segment (continued)

2005	Exploration for and production of oil and gas	Drilling and other related services	Methanol production	Electric power generation	Others	Elimination	Consolidated
<b>REVENUES</b>							
External sales	452,142,976	105,922,007	44,954,265	17,134,170	-	-	620,153,418
Inter-segment sales	255,489,496	30,126,042	-	-	-	(285,615,538)	-
Total revenues	707,632,472	136,048,049	44,954,265	17,134,170	-	(285,615,538)	620,153,418
<b>RESULTS</b>							
Segment results	191,656,138	31,698,478	4,457,520	6,918,578	(57,547)	4,666,321	239,339,488
Income from operations							239,339,488
Loss from swap transactions	(18,475,866)	(15,536,927)	-	-	(642,602)	-	(34,655,395)
Gain (loss) on foreign exchange - net	4,233,984	1,001,572	86,672	(931,991)	-	-	4,390,237
Interest expense – net	(1,751,502)	(13,184,598)	70,700	(2,286,394)	(31,417,588)	9,609	(48,559,773)
Equity in net earnings of associated entities - net	6,073,241	389,926	-	-	-	4,499,806	10,962,973
Gain on sale of marketable securities - net	4,292,787	-	-	-	-	-	4,292,787
Financing charges - net	(1,072,222)	-	-	(11,431)	-	-	(1,083,653)
Signing bonus	5,000,000	-	-	-	-	-	5,000,000
Others - net	24,149,124	(1,831,304)	1,417,827	(764,774)	(442,010)	(21,103,702)	1,425,161
Income before tax expense							181,111,825
Tax benefit (expense)	(102,275,526)	1,570,585	(1,928,899)	(768,176)	(90,983)	-	(103,492,999)
Minority interests in net earnings of consolidated subsidiaries	(20)	171,322	-	(709,823)	-	(2,383,046)	(2,921,567)
<b>NET INCOME</b>							<b>74,697,259</b>



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**35. SEGMENT INFORMATION (continued)**

Business segment (continued)

2005	Exploration for and production of oil and gas	Drilling and other related services	Methanol production	Electric power generation	Others	Elimination	Consolidated
<b>OTHER INFORMATION</b>							
<b>ASSETS</b>							
Segment assets	2,812,203,429	391,835,159	30,617,617	52,363,467	260,560,805	(2,068,352,764)	1,479,227,712
Investments in shares of stock	8,822,796	-	-	-	-	4,499,806	13,322,602
Investments in project	41,080,001	-	102	9,606,415	-	(303,904)	50,382,614
<b>TOTAL ASSETS</b>							<u>1,542,932,928</u>
<b>LIABILITIES</b>							
Segment liabilities	1,884,567,783	204,452,184	11,349,970	49,326,953	360,084,249	(1,500,018,386)	1,009,762,753
Capital expenditures	139,158,823	44,910,456	-	7,442,136	-	-	191,511,415
Depreciation and amortization	57,537,005	24,706,760	1,269,810	1,137,955	-	2,830,077	87,481,607
Non-cash expenses other than depreciation and amortization	816,586	194,111	-	-	-	-	1,010,697
2004	Exploration for and production of oil and gas	Drilling and other related services	Methanol production	Electric power generation	Others	Elimination	Consolidated
<b>REVENUES</b>							
External sales	387,101,059	105,989,537	55,490,344	1,534,484	-	-	550,115,424
Inter-segment sales	219,262,328	17,816,795	-	-	5,734,888	(242,814,011)	-
Total revenues	606,363,387	123,806,332	55,490,344	1,534,484	5,734,888	(242,814,011)	550,115,424
<b>RESULTS</b>							
Segment results	178,935,181	18,204,656	6,695,494	486,633	2,226,371	(27,284,223)	179,264,112
Income from operations							179,264,112
Gain from swap transactions	-	420,071	-	-	1,442,366	-	1,862,437
Gain (loss) on foreign exchange - net	(4,777,966)	(2,917,631)	(382,723)	-	1,226,306	(31,994)	(6,884,008)
Interest expense – net	(4,535,090)	(11,510,213)	19,052	(430,182)	(21,252,315)	24,554	(37,684,194)
Equity in net earnings (losses) of associated entities - net	-	245,513	-	-	(1,010,445)	-	(764,932)

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**35. SEGMENT INFORMATION (continued)**

Business segment (continued)

2004	Exploration for and production of oil and gas	Drilling and other related services	Methanol production	Electric power generation	Others	Elimination	Consolidated
Gain on sale of marketable securities - net	-	-	-	-	1,082,081	-	1,082,081
Financing charges - net	(10,218,408)	-	-	-	-	-	(10,218,408)
Others - net	8,786,753	(3,757,729)	1,337,676	127,010	(3,358,965)	324,022	3,458,767
Income before tax expense							130,115,855
Tax benefit (expense)	(58,855,495)	1,813,069	(2,481,023)	(46,230)	4,430,896		(55,138,783)
Minority interests in net earnings of consolidated subsidiaries	(12)	59,833	-	(63,467)	-	(1,123,294)	(1,126,940)
<b>NET INCOME</b>							<b><u>73,850,132</u></b>
<b>OTHER INFORMATION</b>							
<b>ASSETS</b>							
Segment assets	1,012,739,737	373,079,404	24,075,144	30,364,943	873,852,124	(849,878,570)	1,464,232,782
Investments in shares of stock	10,245	3,024,730	-	-	493,736,052	(493,756,741)	3,014,286
Investments in project	-	-	-	-	5,000,000	-	5,000,000
<b>TOTAL ASSETS</b>							<b><u>1,472,247,068</u></b>
<b>LIABILITIES</b>							
Segment liabilities	316,416,527	173,605,156	8,911,215	25,924,881	1,281,572,761	(834,258,781)	972,171,759
Capital expenditures	235,092,010	11,535,415	-	-	100,611		246,728,036
Depreciation and amortization	51,717,870	21,358,295	1,343,083	204,367	890,889		75,514,504
Non-cash expenses other than depreciation and amortization	15,819,680	-	-	-	6,779,452		22,599,132

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**35. SEGMENT INFORMATION (continued)**

Geographical Segment

The following table shows the distribution of the Company and Subsidiaries' revenues by geographical market:

	2005	2004
<b><u>Geographical segment</u></b>		
Indonesia	328,148,117	252,111,688
Overseas		
Asia	270,828,881	227,629,642
Middle East	3,102,966	27,918,244
United States of America	18,073,454	25,986,661
Australia	-	16,469,189
<b>Total</b>	<b>620,153,418</b>	<b>550,115,424</b>

As a result of the acquisition of Novus in 2004, the Company and Subsidiaries' activities have been concentrated into four major geographic locations (Asia, USA, Middle East and Australia). The assets that are directly used in the Subsidiaries' main operations are located in those respective areas, with Indonesia being the main concentration of activities.

**36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW**

Production Sharing Arrangements

The oil and gas Subsidiaries have various production sharing arrangements with BP Migas. A general description of those arrangements is as follows:

a. Production Sharing Contract (PSC)

A 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 the Minister of Energy and Mineral Resources. 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.

BP Migas is typically responsible for managing all PSC operations, obtaining approvals and permits needed for the projects and approving the contractor's work program and budget. The responsibilities of a contractor under a PSC generally include financing all activities and preparing and executing the work program and budget. In return, the contractor may freely lift, dispose of and export its share of crude oil and gas production.

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**36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW (continued)**

Production Sharing Arrangements (continued)

a. Production Sharing Contract (PSC) (continued)

In each PSC, the contractor and BP Migas share the total production in any given period in a ratio agreed between the two under the terms of that PSC. The contractor generally has the right to recover all finding and development costs, as well as operating costs in each PSC against available revenues generated by the PSC after deduction of First Tranche Petroleum (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 and, investment credits. FTP for each year is generally shared between BP Migas and the contractor in accordance with the standard sharing splits.

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

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

The total of the contractor's share of FTP, production attributable to cost recovery and profit share represents its crude entitlement for a given period.

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

b. Technical Assistance Contracts (TAC)

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

c. Joint Operating Body (JOB)

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

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**36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW (continued)**

Revised Oil and Gas Law

The revised Oil and Gas Law No. 22/2001 came into force in November 2001, replaces the old Law No. 8 of 1971 (regarding PERTAMINA) and Law No. 44 of 1960 (regarding the oil and gas mining law).

As a consequence of the Revised Oil and Gas Law, all of PERTAMINA's rights and obligations arising from existing production sharing contracts, including their ancillary contracts, were transferred to BP Migas which replaced PERTAMINA as the Government party to all production sharing contracts.

The Revised Oil and Gas Law is an umbrella legislation setting forth general principles that are expected to be further developed in a series of Government regulations, presidential decrees and ministerial decrees, few of which have been promulgated. Under the Revised Oil and Gas Law, upstream activities are performed through production sharing contracts or other forms of cooperation contract. The main principles governing these future contracts are similar to those governing the current production sharing arrangements. Under the Revised Oil and Gas Law, the key principles are that title over the resources in the ground continues to remain with the Government (and title to the oil and gas lifted for the contractor's share passes at the point of transfer), operational management control is with BP Migas, and all funding and risks are to be assumed by the contractors. Negotiation of production sharing arrangement terms with potential contractors will be handled primarily by the Ministry of Energy and Natural Resources, and the Indonesian Parliament must be notified of the production sharing arrangements. Only one working area can be given to any one legal entity (also known as Ring-Fencing).

The Revised Oil and Gas Law may have the following implications in the upstream sector:

- Under the existing PSC structure, contractors are only required to supply 25% of oil produced domestically at a price specified in the contract. The revised Oil and Gas Law imposes the obligation to supply up to maximum of 25% of oil and or gas production to the domestic market. This requirement will be further elaborated in an implementing Government regulation which will essentially contain the domestic market conditions, implementing mechanism and pricing rules, as well as incentive policies.
- Under the existing PSC structure, contractors are required to pay corporation and dividend taxes with the corporate tax rate being the rate in effect at the inception/extension of contract. Cooperation contracts 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.
- Under the Revised Oil and Gas Law, a contractor is entitled to elect to lock-in prevailing Government tax rates for the entire term of a new production sharing arrangement at the time the arrangement commences.

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### 37. COMMITMENTS

#### a. Production Sharing Arrangements

The Subsidiaries have entered into PSC and PSC-JOB agreement with BP Migas 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:

Oil and gas produced is shared based on the provisions of the related contracts.

The Subsidiaries are obliged to pay between US\$1,000,000 to US\$5,000,000 representing a production bonus to BP Migas if the oil production averages 50,000 barrels per day for a period of 120 consecutive days and an additional bonus of US\$1,000,000 to US\$10,000,000 if production increases to an average of 75,000 barrels to 100,000 barrels per day for a period of 120 consecutive days.

Up to a certain period, Subsidiaries are required to surrender parts of the contract areas to BP Migas. The obligation to surrender parts of the contract areas do not apply to the surface area of any field in which hydrocarbon resources has been discovered.

Upon the expiration or termination of the contract, relinquishment of part of the Contract Area, or abandonment of any fields, the Subsidiaries maybe required to remove all equipment and installations from the Contract Area, and perform site restoration activities in accordance with the term of the contract or applicable government regulations. The cost of abandonment and site restoration work is cost recoverable from BP Migas.

#### b. Acquisitions and Transfers

- i. On December 12, 2004, PT Medco E&P Nunukan, a subsidiary, entered into a Production Sharing Contract with BP Migas for the Nunukan block located in East Kalimantan. The term of this contract shall be thirty (30) years up to 2034.
- ii. On January 29, 2005, the Company was awarded the right to explore Block 47, involving a 6,812 kilometer area in the Ghadames basin in Northwest Libya. The award has been followed by the signing of an Exploration and Production Sharing Agreement (EPSA) with Libya's National Oil Company, as ratified by the Libyan Government. The effective date of the contract is March 12, 2005.

The EPSA provides the Company and Verenex Energy Inc. (Verenex), each holding a 50% interest, with the right to explore for oil and gas for a five-year period and to exploit any commercial discoveries over 25 years.

- iii. As discussed in Note 1b to the consolidated financial statements, MEAPL has completed its takeover of all the issued share capital of Novus Petroleum Ltd., (NPL) on July 6, 2004.

Significant transactions entered into by the Company, MEAPL and Novus after the takeover are as follows:

##### a) Sale of Cooper Basin, Patchawarra, Kakap and Brantas Assets to Santos Entities

On June 4, 2004, the Company and certain of its Novus subsidiaries entered into heads of agreements with Santos Limited (SL), Santos International Holdings Pty., Ltd. (SIHPL) and Santos Brantas Pty., Ltd. (SBPL) (collectively referred to as "Santos") to sell NPL's interest in the Cooper Basin assets and the 36% NPL interest in the Indonesian assets - Kakap and Brantas. As stated in the agreements, the sale and transfers are effective on January 1, 2004. The excerpts of the heads of agreements are as follows:

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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

- (i) Purchase Agreement for Brantas/Cooper Basin (dated September 24, 2004).

The agreement was signed between SL and SBPL (herewith referred to as "Buyers") and Novus Australia Energy Company Pty Limited (NAEC), Novus Indonesia Brantas Company (Novus Brantas) (herewith referred to as "Vendors"), NPL and the Company. Under the agreement, the Vendors agree to sell, and the Buyers agree to purchase, the shares of Novus Australia Resources NL (NAR) (owner of a 4.75% working interest in the Cooper Basin and a 2.9688% interest in Patchawarra) and the Brantas PSC interest (representing an 18% participating interest in the Brantas PSC and 18% participating interest in the Brantas JOA and on all rights and interest derived from or incidental to these interests) on the terms and subject to the conditions of the agreement. Subsequently after September 24, 2004, several agreements were also signed by the parties to complete the sale and transfer transactions.

The sale and transfer were consummated on December 31, 2004 for a consideration of approximately US\$87.2 million.

- (ii) Purchase Agreement for 6.25% interest in the Kakap PSC (dated September 24, 2004).

The agreement was signed between SL and SIHPL ("Buyers"), Novus UK (Indonesian Holdings) Limited ("Vendor"), NPL and the Company. Under the agreement, the Vendor agreed to sell the shares of Novus UK (Kakap 2) Limited ("Novus Kakap 2") (owner of a 6.25% working interest in the Kakap PSC) on the terms and subject to the conditions of the agreement. Subsequently after September 24, 2004, several agreements were also signed by the parties to complete the sale and transfer transactions. The sale and transfer were consummated on December 31, 2004 for a consideration of US\$10.2 million.

- (iii) Agreement Relating to the Transfer 2.75% Interest in Kakap and Related Contracts (dated December 24, 2004).

The agreement was signed between Novus Petroleum Canada (Kakap) Limited (NPC Kakap) and Novus Nominees Pty. Limited (NNPL), subsidiaries. Under the agreement, NPC Kakap agreed to sell and transfer to NNPL its 2.75% interest in Kakap PSC and Related Contracts on the terms and subject to the conditions of the agreement. The sale and transfer were consummated on October 27, 2005 for a consideration of US\$3.68 million. A loss arose on this transaction amounted to US\$3.18 million.

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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

- (b) Sale of Pakistan and Middle East Assets and Participation in the Profit from Sale of US Assets with Silk Route.

The Company entered into a Procurement Agreement with Silk Route Investments (Silk Route) on June 7, 2004, whereby Silk Route was provided with an option to acquire 49% of NPL's interest in the Middle East assets and the Pakistan assets for a price indicated in the agreement, and the right to participate in any profit on sale of NPL's US assets above the US asset sales price benchmark as indicated in the agreement. As stated in the agreement, the Company agreed to pay Silk Route a performance bond of US\$1 million which is non-refundable but applicable to the would-be share of Silk Route in the sale of the US assets (recorded under Other Non-Current Assets). As also stated in the agreement, Silk Route may exercise the option at any time on or after, but before the date that is 6 months after the conditions stated in the agreement have been satisfied or waived.

On January 5, 2005, Silk Route indicated its intention to exercise the option in relation to the Middle East assets.

In accordance with the agreement with Silk Route, on November 11, 2004, Eastern Petroleum Limited (EPL), a wholly-owned subsidiary of Silk Route, entered into a Novus Pakistan Share Sale Agreement with NAEC (owner of the Pakistan subsidiary, the Novus Pakistan Pty. Limited (NPPL)). Under the agreement, NAEC agreed to sell the shares of NPPL, including its current interest on the onshore and offshore oil and gas concessions in Badar and Bolan, to EPL for a purchase price of US\$1, which is to be paid upon completion of the conditions stated in the agreement, and subject to the adjustment for the working capital payments as stated in the agreement.

NAEC entered into a Deed of Release and Indemnity Agreement with NPPL (dated March 31, 2005) and Deed of Guarantee Agreement with Crosby Capital Partners Inc. (dated April 1, 2005), to complete the requirements for the sale of NPPL shares to EPL. The sale of NPPL shares to EPL was consummated on April 1, 2005 for a consideration of US\$544,553.

The sale of the shares of stock of Novus Pakistan Pty., Ltd. was completed on April 1, 2005, pursuant to the Share Sale Agreement dated November 11, 2004. Based on the agreement, the purchase price of the shares was US\$1 and the Company received US\$544,553 for working capital. The net loss from this transaction amounted to US\$573,554.

- a. Sale of US Assets

i. Newfield/Main Pass/East Cameron

In connection with the acquisition of Novus, Darcy Energy Limited (Darcy) has exercised its option on the Newfield/Novus well on August 27, 2004 (with an effective date as of June 1, 2004) in accordance with the Scouting Agreement dated September 16, 2000 between Darcy and Novus US Holding Inc., as amended on June 1, 2004 with an effective date on September 16, 2002, for US\$1,443,338 as consideration.



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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

a. Sale of US Assets (continued)

ii. Stratton Field

On December 27, 2004, Apache Corporation (Apache) also exercised its preferential right to purchase Novus interest in certain properties in Stratton Field pursuant to the Operating Agreement dated November 26, 2001 between Apache and Novus Oil & Gas LLP (with an effective date as of June 11, 2004) for a consideration amounting to US\$47,000,000 (before the working capital adjustment of US\$1,743,278).

iii. Merit/East Cameron

In accordance with the Sale and Purchase Agreement (SPA) between Novus Louisiana LLC (Novus Louisiana) and Darcy Energy Limited (Darcy) dated January 14, 2005, Darcy exercised its option to acquire 25% of all the rights, title and interest of Novus Louisiana in the Merit/Novus transactions as defined under the SPA and in the Darcy Scouting Agreement dated September 16, 2000 between Darcy and Novus US Holding Inc., as amended on June 1, 2004, with an effective date on September 16, 2002. The Company received US\$1,222,955 in consideration for the sale.

iv. Padre Island

On July 29, 2005, Novus US Holdings, Inc, (NUSHI) signed an LLC Interest Purchase Agreement ("Agreement") with Long Flat, Ltd. ("Long Flat"), a company established under the Laws of Texas, USA, whereby NUSHI agreed to sell its Padre Island oil and gas block in the USA. The Company indirectly owned 70% interest in the Padre Island Block through Novus USA subsidiaries, Novus Nevada Petroleum, LLC and Novus Oil & Gas Texas, LLC. The Agreement was effective on July 1, 2005. NUSHI received US\$1 million in consideration for the sale at the closing date on November 17, 2005. The net loss on the disposal amounted to US\$2.9 million.

b. Sale of Middle East Assets

On July 8, 2005, the Company and Novus Australia Energy Company Pty Limited, wholly-owned subsidiary, entered into a Share Purchase Agreement with Meridian Oil & Gas (Middle East) Limited ("Meridian"), a Cayman Islands company, to sell 100% of the shares in Novus Middle East Limited ("Novus Middle East") for US\$65 Million. Novus Middle East is an indirect subsidiary of the Company and owned 100% of the shares of Medco West Asia Ltd., Novus Al Khaleej Ltd., and Novus Oman Ltd. The sale was consummated on July 15, 2005, and the net gain realized on the disposal amounted to US\$6.72 million.

- iv. On February 27, 2004, the Company entered into a Stockholders' Agreement with PT Menamas whereby both parties agreed to establish PT Medco Energi Menamas for the purpose of acquiring 54% of the shares of PT Menamas in PT Mitra Energi Batam (MEB), an entity established and owned by PT Menamas and YPK-PLN. Currently, the other stockholders of MEB with thirty (30%) and sixteen (16%) ownership interest are PT PLN Batam and YPK PLN, respectively. MEB owns and operates 2 x 27.5 MW Simple Cycle Gas Turbine located in Panaran, Batam, Indonesia. On March 29, 2004, PT Menamas transferred 54% its ownership in MEB to PT Medco Energi Menamas (Note 37e).

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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

- v. On January 14, 2004, the Company through PT Medco E&P Lematang (MEPL), a subsidiary, entered into a Working Interest Sale and Purchase Agreement with Indo-Thai Lematang Limited to purchase 4.1176% working interest in Lematang PSC. The sale was approved by BP Migas on May 18, 2004.
- vi. On December 24, 2003, Medco Moeco Langsa Limited (MMLL), a jointly controlled entity established with Mitsui Oil Exploration Co. Ltd., entered into a Sale and Purchase Agreement (SPA) with Modec Production (Langsa) Pte., Ltd. (MODEC SPC) and Modec Inc. for the purchase of Modec SPC's 70% interest in the Langsa TAC and JOA, subject to conditions precedent as specified in the SPA. The transfer was approved by BP Migas on January 19, 2004. MMLL is currently engaged as operator in the exploration for crude oil and gas in the Langsa contract area in East Aceh, Sumatra under the said JOA and TAC.
- vii. On November 5, 2003, PT Medco E&P Sampang (MS) entered into an agreement with Santos (Sampang) Pty., Ltd. (Santos Sampang) to participate on a 50:50 basis in a sole-risk PSC drilling at Jeruk well. Santos Sampang is the operator of Sampang Block and Santos proposed to drill a Jeruk well on a sole-risk basis because Coastal Indonesia Sampang Ltd., and Cue Sampang Pty., Ltd., the other interest holders the Sampang PSC, elected not to participate in such Jeruk well. If the sole-risk Jeruk well is a dry-hole, MS is entitled to its investment through Santos' cost recovery from the other producing wells. If the sole-risk Jeruk well is commercially successful, MS and Santos shall either:
  - (a) share of the production proceeds on a 50:50 basis, or
  - (b) in case Coastal and Cue decide to back-in and participate in the sole-risk Jeruk well, Coastal and Cue shall be obliged to pay a premium as stipulated in the Sampang PSC Joint Operating Agreement.

On April 29, 2005, Cue Energy Resources Limited (Cue) and Singapore Petroleum Company Limited (SPC) have announced their intention to reinstate their rights in the Jeruk Oil Discovery. Under the Sole-Risk Agreement, MS shall be entitled to reimbursement for all the paid cash calls upon the announcement of the reinstatement scheduled on May 30, 2005. On June 1, 2005, the Company received US\$30,369,160 in settlement of the amounts in accordance with the agreement with Santos and has assigned its sole-risk drilling rights in the Jeruk well to Cue and SPC based on Jeruk Participation and Operating Agreement. The Company was also entitled to penalty income in accordance with the reassignment agreement.

In connection with the Jeruk Project Agreement entered into by Medco Straits Service Pte Ltd., a subsidiary, MS waived its rights stipulated in the previous agreement (Note 41b).

- viii. On October 1, 2003, the Company entered into a Conditional Share Sales and Purchase Agreement with PT Trihasra Sarana Jaya Purnama to purchase its 5% (five percent) share holding in PT Energi Sengkang for US\$3,760,000, subject to the fulfillment of conditions precedent as stipulated in the agreement. PT Energi Sengkang is a joint-venture company operating a power plant located in Sengkang, South Sulawesi. As of December 31, 2004, the Company's advances for this purchase transaction are recorded as "Advances for Investments" (Note 11). The Company completed the purchase of the 5% ownership in ES on February 2, 2005, hence, the related advances have been reclassified as investments in shares of stock.

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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

- ix. On January 16, 2004, MEPI entered into a Gas and Sales Agreement with PT Krakatau Steel (KS) (Persero), whereby the Company agreed to supply KS's requirement for 100 million cubic feet per day (MMSCFD) of natural gas, commencing on the first delivery to KS until April 6, 2017. MEPI will start the delivery of such natural gas after the construction of the Pagardewa – Cilegon gas pipeline, which is owned by PT Perusahaan Gas Negara and is estimated to be completed by July 2006.
- x. On January 16, 2004, MEPI entered into a Liquefied Petroleum Gas (LPG) Sales and Purchase Agreement with PT Pertamina (Persero), whereby MEPI will deliver and sell LPG pursuant to the conditions set forth in the agreement. The term of the agreement is five (5) years commencing on the first delivery date of LPG as agreed by the parties.
- xi. On January 21, 2004, MEPI entered into a Gas Supply Agreement with PT Pertamina (Persero), whereby MEPI agreed to supply gas with total quantity of 31,035 BBTU, commencing on the agreed first day of delivery until March 31, 2008 or until the quantity has been fully supplied, whichever comes first. Starting January 1, 2004, gas price is agreed to be US\$2.5/MMBTU.
- xii. On June 10, 2005, PT Medco E&P Lematang (MEP Lematang) and MEPI signed a Heads of Agreement (HOA) for gas sales commitment with PLN Keramasan, South Sumatera and an Amendment to the Gas Sales Agreement for PLN Gunung Belah Tarakan, East Kalimantan, respectively. Under the HOA, MEP Lematang is to supply 24 BBTUD for a total of 90 BCF to PLN Keramasan for 10 years from 2006.
- xiii. On November 5, 2002, MIV entered into a Farm-Out Agreement on behalf of PT Exspan Yapen (now known as PT Medco E&P Yapen) (MEPY) with Continental Energy Yapen Ltd. (Continental). Based on the Agreement, MEPY acquired a 90% participating interest in the Yapen PSC. As part of the consideration for the interest acquired, MEPY has committed to:
- Drill at least one exploration well within the Yapen Block which shall be spudded on or before June 30, 2004.
  - Perform all the work and meet all Yapen PSC financial expenditure commitments subject to MIV's Carry Obligation as defined in the Agreement.

Due to the lapse of the period for the performance of such commitments, MEPY has reassigned the 75% working interest ownership in the Yapen PSC to Continental (now known as Continental-Geopetro (Yapen) Ltd.) and Maraja (Yapen Energy Ltd.) as stipulated in a Deed of Assignment dated June 29, 2004.

- xiv. On July 9, 2004, MEPI has entered into a Sale and Supply of Gas Agreement with ConocoPhillips (Grissik) Ltd., whereby MEPI agreed to supply gas at 0.8 BBTU/day. The term of agreement is for five years commencing at the date after all conditions set forth in the agreement are met.

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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

- xv. On December 12, 2004, MEPI has entered into a Sale and Supply of Gas Agreement with PT PLN (Persero), whereby MEPI agrees to supply gas of a total quantity of 20,559.58 BBTU. The gas price is agreed to be from US\$2.685/MMBTU to US\$2.75/MMBTU. The term of the agreement will commence on January 1, 2009 until May 31, 2013 or up to the time total quantity is met, whichever comes first.
- xvi. On December 12, 2004, MEPI entered into a Sale and Supply of Gas Heads of Agreement with PT Meta Epsi and PT Pembangkitan Jawa-Bali, whereby MEPI agrees to supply gas of a total quantity of 37,187.9 BBTU. The average gas price is agreed to be US\$2.4084/MMBTU. The term of the agreement is twenty years commencing on February 1, 2006.
- xvii. On December 12, 2004, MEPI entered into an Amendment of a Sale and Supply of Gas with PT Pertamina (Persero), whereby MEPI agrees to supply gas of a total quantity of 54.7 trillion BTU. Gas price is agreed to be from US\$1.4/MMBTU to US\$1.55/MMBTU. The agreement shall be effective on September 1, 2004 until December 31, 2007.
- xviii. On July 21, 2004, PT Medco E&P Tomori Sulawesi and PT Pertamina (Persero) have entered into a Memorandum of Understanding with PT Perusahaan Gas Negara (Persero) Tbk, whereby both companies agreed to supply gas of a total quantity of 350 MMSCFD, commencing in 2008 for twenty years.
- xix. On September 23, 2005, Medco Far East Limited ("Medco Far East"), a wholly-owned subsidiary, has entered into a Shares Purchase And Sales Agreement ("Agreement") with Synergy Petroleum Limited ("Synergy"), a company established under the laws of the Republic of Mauritius, to buy 100% shares of Perkasa Equatorial Sembakung Ltd., for US\$29,722,800. Medco Far East will also pay an additional amount of US\$2,021,491 as settlement of PESL's liability to Synergy. The Agreement is effective on September 30, 2005.
- xx. On July 29, 2005, PT Medco E&P Merangin ("Medco Merangin"), a wholly-owned subsidiary, signed a Farm-Out Agreement with MOECO Merangin Co., Ltd. (MOECO Merangin"), a wholly-owned subsidiary of Mitsui Oil Exploration Co., Ltd. ("MOECO"), to assign 20% of its 61% interest in the Merangin-I PSC. Medco Merangin received consideration of US\$521,200 for the transaction.

On July 18, 2005, Medco Merangin also signed a similar Agreement with PTTEP Offshore Investment Company ("PTTEPO"), a subsidiary of PTT Exploration and Production Public Company Limited ("PTTEP"), a Thailand-based oil and gas company, to assign a 39%-interest in the Merangin-I PSC for a consideration of US\$1,016,340.

The effective dates for the transfers of the 20% and 39% interest in the Merangin-I's PSC to MOECO and PTTEPO, respectively, will be dependent upon approval from BP MIGAS.

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**37. COMMITMENTS (continued)**

b. Acquisitions and Transfers (continued)

xxi. On July 15, 2005, PT Medco E&P Asahan ("Medco Asahan"), a wholly-owned subsidiary, signed a Farm-Out Agreement with Asia Petroleum Development (Asahan) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Serica Energy Corporation, for its 15% interest in the Asahan PSC. The effective date of the Agreement will be August 1, 2005, subject to BP MIGAS approval.

xxii. On July 26, 2005, the Company signed an Exploration Joint Venture Agreement ("Agreement") with Anadarko Petroleum Corporation ("Anadarko"), one of the largest Independent Oil and Gas Exploration and Production companies with headquarters in Houston, Texas, USA. The Agreement is intended to intensify exploration activities in most of its existing acreages in Indonesia of which the working interests are held and operated by the Company's exploration and production Subsidiaries. The Agreement will be effective for three (3) years and will take into effect after both parties have met all the conditions stipulated in the Agreement.

Under the Agreement, the Company and Anadarko will jointly develop exploration programs covering the Seismic, Geological & Geophysical, and Exploration Drilling activities, and Anadarko will spend US\$80 million for the joint development exploration.

In return, the Company will release a maximum of 40% of its economic interests over the new reserves discovered to Anadarko, convertible into working interest ownerships in the areas where the new reserves are discovered. The operatorship of these working areas will remain with the Subsidiaries.

In connection with above agreement, the Subsidiaries entered into several support agreements as follows:

- (1) Exploration Service Contract between PT Medco E&P Indonesia (MEPI) with Daging Citra Petroleum Technology Services dated June 1, 2005.
- (2) Tarakan Seismic Data Cost Sharing Agreement between MEPI and Anadarko Indonesia MEJV Company dated December 7, 2005.
- (3) Seismic Data Processing Agreement between MEPI and PT Horizon Nusantara Explora dated September 9, 2005.
- (4) Nunukan Drilling Agreement between PT Medco E&P Nunukan and Anadarko Indonesia MEJV Company dated December 7, 2005.
- (5) Simenggaris Drilling Agreement between Medco E&P Simenggaris Pty., Ltd. and Anadarko Indonesia MEJV Company dated December 7, 2005.

c. Drilling Contract

i. Apexindo has the following outstanding drilling contracts:

Company	Date of Agreement
Statoil SP Gas AS	May 14, 2003
Total E&P Indonesia	October 9, 2002, August 8, 2002, June 16, and December 9, 2004 renewal; for Raissa, Yani, Maera, Rasis
Indago Oman Limited	November 24, 2005
Crescent Petroleum Company Inc.	December 21, 2005

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**37. COMMITMENTS (continued)**

c. Drilling Contract (continued)

- ii. On October 8, 2004, Apexindo and PPL Shipyard Pte., Ltd. (PPL) entered into a Rig Construction Agreement (Agreement) whereby PPL agreed to design, construct, launch, equip, test and deliver an Offshore Jack-up Drilling Rig for a contract price of US\$123,500,000, payable in installments as stated in the Agreement. The Jack-up Rig financing plan was approved by Apexindo's Board of Commissioners on April 19, 2004 .

On January 20, 2005, Apexindo and PPL signed an Amendment to the Rig Construction Agreement (Amendment). The total contract value for the rig has been revised to become US\$133,726,250. This agreement is effective on February 4, 2005. Based on the amendment, PPL will deliver the rig at the latest of 24 (twenty four) months from the effective date. On January 18, 2005, Apexindo had paid US\$30 million as a downpayment. On February 8, 2005, PPL has returned US\$3,254,735 to Apexindo as a result of the change of the contract value. As of December 31, 2005, the downpayment is presented as part of "Construction in Progress" (Note 12).

In 2005, Apexindo has paid US\$26,745,265 as downpayment (20% of the contract value) to PPL. The remaining balance of the contract price will be due upon delivery of the rig. As of December 31, 2005, Apexindo has recorded US\$25,809,151 payable to PPL representing the outstanding unpaid balance (presented as "Payable under Construction Contract").

d. Banking Facilities

As of December 31, 2005, the Company and Subsidiaries have the following outstanding banking facilities:

Bank	Facility	Maximum Facility	Unused Portion of the Facility as of December 31, 2005
Standard Chartered Bank	General Banking Facility	US\$20,000,000	US\$6,371,392
PT Bank Mandiri (Persero) Tbk	Bank Guarantee Facility- Revolving	US\$10,000,000	US\$5,489,549
PT Bank Central Asia Tbk	Spot Line Facility Agreement - Foreign Currency Facility	US\$1,500,000	US\$1,500,000
	Bank Guarantee Facility	US\$5,000,000	US\$5,000,000
	Local Credit Facility - Rupiah	Rp10,000,000,000	Rp10,000,000,000
	Credit Loan	Rp195,000,000	Nil
	Letter of Credit and Bank Guarantee Facility	US\$25,000,000	US\$25,000,000

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**37. COMMITMENTS (continued)**

d. Banking Facilities (continued)

Bank	Facility	Maximum Facility	Unused Portion of the Facility as of December 31, 2005
PT Bank Danamon Indonesia Tbk	Bank Guarantee Facility, Letter of Credit Facility and Trust Receipt Facility	US\$25,000,000	US\$3,386,009
The Hongkong and Shanghai Banking Corporation Limited	Loan Revolving Facility, Letter of Credit Import Facility, Deferred Payment Credit Facility and Bank Guarantee Facility	US\$14,000,000	US\$1,948,864

e. Gas Supply and Transfer of Power Purchase Agreement

- i. On September 30, 2005, the Company and PTT Public Co. Ltd. (PTT) have signed a Memorandum of Understanding (MOU) to explore for gas developments both in Indonesia and Thailand. This MOU will effective for a period of 24 (twenty four) months from the signing date and may be extended by mutual agreement between the parties.

On September 20, 2005, the Company has also signed a Memorandum of Understanding (MOU) with PT PLN (Persero) to provide natural gas in the form of Compressed Natural Gas (CNG) to Gas Fueled Power Plants (PLTG) in Bali and Sulawesi.

On August 15, 2005, the Company, through PT Medco E&P Tuban, and its partner in the Joint Operating Body Pertamina-Petrochina East Java, PT Pertamina and Petrochina international Java Ltd., signed Heads of Agreement (HOA) for Gas Sales and Purchases with PT PLN for a power plant in East Java. The HOA will be valid for six months.

- ii. On July 9, 2004, the Company through its subsidiary, Medco Madura Pty. Ltd., and together with PERTAMINA, entered into a Memorandum of Understanding (MOU) with PT Pembangunan Jawa-Bali to supply gas of about 20 (twenty) million metric standard cubic feet per day (MMSCFD) to Pembangunan Jawa-Bali's power plant in Sebaya, Pamekasan, Madura (East Java) for 15 (fifteen) years beginning in 2006. The execution of this MOU is still subject to several terms and conditions stipulated therein.
- iii. On the same date, the Company through its subsidiary, PT Medco E&P Lematang, entered into a Memorandum of Understanding (MOU) with PT Perusahaan Gas Negara (Persero) Tbk (PGN) to supply a gas of about 100 (one hundred) million metric standard cubic feet per day (MMSCFD) to PGN for 15 (fifteen) years beginning in 2009. The execution of this MOU is still subject to several terms and conditions stipulated therein.

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**37. COMMITMENTS (continued)**

e. Gas Supply and Transfer of Power Purchase Agreement (continued)

- iv. On April 29, 2004, PT Mitra Energi Batam (MEB) entered into a Transfer of Power Purchase Agreement with PT Menamas (Menamas) and PT Pelayanan Listrik Nasional Batam (PLN Batam), wherein the rights and obligations of Menamas in relation to PLN Batam as stated in the Power Purchase Agreement between Menamas and PLN Batam, have been transferred to MEB. Based on the Agreement, MEB is required to fund, design, establish and operate 2 units of Gas Turbine Genset Dual Fuel with a commercial operation date of June 30, 2004 for unit 1 and August 17, 2004 for unit 2. Since the commercial operation dates could not be fulfilled, the parties have entered into an additional agreement I of Power Purchase Agreement dated July 14, 2004 in which the parties agreed, among others, to change the commercial operation dates to become August 30, 2004 for unit 1 and September 30, 2004 for unit 2.

Under the agreement, PLN Batam will purchase electricity of a minimum of 408,391,200 kwh/year at a price of Rp190/kwh for 12 years. The parties further agreed that the costs incurred by MEB to install the Gas Turbine Genset Dual Fuel shall be repaid by PLN Batam in installments at Rp7/kwh or a maximum of 408,391,200 kwh/year over 12 years (Note 6). MEB started its commercial operations on October 29, 2004.

- v. On December 30, 2003, MEPI entered into a Sale and Supply of Gas Agreement with PT PLN (Persero), whereby MEPI agreed to supply gas from working area of MEPI located in South Sumatera to PLTG in Borang, South Sumatera of a total quantity of 40,638 BBTU.

The delivery of gas will be conducted for nine (9) years to start on the agreed-upon first day of delivery until May 31, 2013. The procedures for delivery are subject to approval of both parties and to be approved by the Technical Director for Oil and Gas, Director General for Oil and Gas and ESDM Department.

The gas price is agreed in a range from US\$2.42/MMBTU to US\$2.25/MMBTU for 365 days from the commencement of delivery. After 365 days, the gas price will be calculated based on the formula provided in the contract.

On December 12, 2004, the parties agreed to amend the agreement to change the quantity of gas to be supplied into 80,123,000 MMBTU, the sales price into US\$2.55 per MMBTU and the term of the agreement from nine to ten years.

- vi. On July 19, 2003, MEPI entered into a Sale and Supply of Gas Agreement with PT Perusahaan Listrik Negara (Persero) (PLN), whereby MEPI agreed to supply gas of 25,280 BBTU from Kaji Semoga field to PLTG Kaji.

The gas price is agreed at US\$1.15/MMBTU for 365 days from commencement of delivery. After 365 days, the gas price will be calculated based on formula provided in the contract.

- vii. On April 23, 1997, PT Medco E&P Kalimantan (MEPK) entered into a Sale and Supply of Gas Agreement with PERTAMINA, whereby MEPK agreed to supply up to 30 MMscf/d of natural gas from Tarakan PSC, East Kalimantan to Pertamina's Bunyu Methanol plant for 10 years until April 23, 2007, which is currently operated by PT Medco Methanol Bunyu under a Methanol Bunyu Refinery Operations Agreement. The gas price is agreed at US\$1.42 per MMBTU.

- viii. On December 31, 2002, PT Medco Methanol Bunyu (MMB) has entered into a Sale and Purchase of Natural Gas for Methanol Bunyu's Refinery with PERTAMINA, whereby PERTAMINA agreed to supply natural gas from Bunyu field and Tarakan field with total quantity of 105.60 BSCF. The gas price is agreed in a range from US\$1.42/MMBTU to US\$2.00/MMBTU for ten years from the effective date on April 1, 2002.



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**37. COMMITMENTS (continued)**

f. Methanol Agreements

i. Methanol Bunyu Refinery Operations Agreement

On April 29, 1997, the Company through its subsidiary, PT Medco Methanol Bunyu (MMB), entered into a Methanol Bunyu Refinery Operations Agreement with PERTAMINA. Under the agreement, PERTAMINA agreed to hand over the responsibilities for the management of the methanol bunyu refinery to MMB, including the operations and maintenance of the refinery related facilities and infrastructure, authority to determine supply and necessary chemical materials, catalyst and spareparts, authority for the betterment and expansion of the refinery facilities, and training and retention of PERTAMINA's employees who are assigned to MMB. As compensation, MMB agreed to pay a fixed rental fee and a non-fixed rental in US Dollar equivalent of the sales of methanol produced, with the price determined in accordance with the agreement. The agreement is valid for 20 years effective on April 1, 1997.

ii. Off Take Agreement

On August 9, 2004, MMB entered into an off take agreement with Nitracom International Pte. Ltd. (Nitracom) and PT Unitrada Komutama (Trada), canceling the original agreement dated February 7, 2000, as amended on June 9, 2000 and October 3, 2001. Under the agreement, MMB shall supply a minimum methanol quantity of 150,000 metric tons to Nitracom and 120,000 metric tons to Trada per year.

The agreement shall be valid for two years and shall be automatically renewed for another two year term unless notice of termination is given by either party based on the requirements as stated in the agreement.

g. Crude Oil Transaction

The Company entered into a Crude Oil Sale and Purchase Agreement with PTT Public Company Ltd., which was renewed several times, the latest on June 1, 2004. Under the revised agreement, the crude oil quantity to be supplied by the Company shall be about 50% of its available quantity for export, (ranging from 7 to 10 MBPD). The agreement is valid for another seven (7) months period.

On February 3, 2005, the Company entered into a crude oil sale and purchase agreement with Itochu Petroleum Co(s) Pte. Ltd. Under the agreement, the Company among others, has agreed to supply crude oil of about 320 – 400 MBbls per month effective from January 1, 2005 to December 31, 2005 at a price based on the Indonesian Crude Price (ICP) of Minas Crude Oil (SLC) plus a fixed premium per barrel as stated in the agreement. On June 1, 2005, the Company entered into a prepayment agreement with Itochu for US\$50 million which is effective on July 1, 2005. Also, on June 1, 2005, the crude oil and sales purchase agreement was amended, among others, as follows:

- The agreement shall be effective from January 1, 2005 to December 31, 2006;

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**37. COMMITMENTS (continued)**

g. Crude Oil Transaction (continued)

- The price of all crude oil to be supplied by the Company from January 1, 2005 to December 31, 2005 and 50% of the volume to be supplied from January 1, 2006 to December 31, 2006, shall be based on ICP for Minas crude oil plus a fixed premium, while the price of the remaining 50% of the volume to be supplied from January 1, 2006 to December 31, 2006 shall be discussed on or about October 15, 2005 and agreed by November 8, 2005 based on a certain price range; and
- A minimum volume of crude oil of at least 320,000 barrels per months shall be supplied by the Company from June 1, 2005 to June 30, 2006.

h. Development of geothermal potential

On July 12, 2005, PT Medco Geothermal Indonesia ("Medco Geothermal"), a subsidiary, signed a Memorandum of Understanding (MOU) with PD Wahana Rahardja, a company owned by the Local Government of Lampung Province, for the purpose of initiating a joint development of geothermal potential in Lampung Province, particularly at Suoh and Sekincau and the development of geothermal power plant in Lampung Province. On July 29, 2005, the parties signed a joint venture agreement to establish PT Medco Wahana Geothermal Company to support the project.

i. Operation and Maintenance Agreement

On June 9, 2005, the Company, through the Consortium of Fortum Service Oy - PT Medco Energi Internasional Tbk (Medco-Fortum), a Consortium established by virtue of an agreement dated October 9, 2004 (the Operator), entered into an Operation and Maintenance Agreement (O&M Agreement) with PT Perusahaan Listrik Negara (Persero) (the Lessee).

Medco-Fortum Consortium was appointed as the Operator for the 2x660 MW coal fired power station at Tanjung Jati, East Java for twenty four (24) years.

As required under the Agreement, a Special Purpose Company (SPC) shall be established to be the Operator of the plant in providing O&M Services to PLN Pembangkit Tanjung Jati B.

**38. CONTINGENT LIABILITIES**

- a. Exspan Cumi-Cumi Inc. and Medco Lematang Ltd., subsidiaries, received tax assessment letters amounting to Rp4,785,020,637 or equivalent to US\$535,237 and Rp15,051,413,009 or equivalent to US\$1,683,608 in 2002 regarding the payment of Value Added Tax (VAT) for years prior to acquisition of working interests under the respective PSC. The respective SPAs of such working interests provide that liabilities incurred prior to acquisition of those working interests by the subsidiaries remain the responsibility of the former contractors. The Subsidiaries have already requested reviews of the tax assessment letters to the Tax Authority.
- b. On November 22, 2005, Medco International Ventures Limited ("MIV"), a subsidiary, and Camar Resources Company Inc ("CRC") (holder of a 70% interest of Bawean PSC and the operator of such PSC), received a legal claim from Indo-Pacific Resources (Java) Limited ("IPR"), a wholly-owned subsidiary of Fortune Oil and Gas Inc ("Fortune"), a Canadian oil and gas contractor company which hold 30% interest in the Bawean Block. MIV is named as a co-defendant in the case.

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**38. CONTINGENT LIABILITIES (continued)**

The lawsuit was filed in relation to IPR's objection on the dilution of its 22.88% working interest in the Bawean PSC, exercised by CRC. As per existing agreement between CRC and IPR, CRC is entitled to dilute IPR's share as compensation for non-payment of IPR's obligation to refund an amount of money spent by CRC as settlement of IPR's debts in relation to the Bawean PSC. CRC has spent US\$3,431,898.91 to settle IPR's debts in Bawean PSC.

MIV was named as co-defendant because MIV has supported CRC financially and technically as operator for the Bawean PSC. Such financial and technical supports was provided by MIV on the basis that MIV is interested and intends to directly participate in Bawean PSC in the future.

The first trial was conducted on December 5, 2005 at the court of Queen's Bench, Calgary, Alberta Province, Canada, wherein the Judge has ordered the dismissal of IPR's claim in relation to its objection of the dilution of its working interest by CRC.

The Company expects that the settlement in favor of MIV in such court case will be obtained during the second quarter of 2006.

- c. The Company and Subsidiaries operations are subject to Indonesian laws and regulations governing the discharge of materials into the environment or otherwise relating to environment 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 resulting from the Company's and Subsidiaries operations. 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.

Management believes that the Company and Subsidiaries are in compliance with current applicable environmental laws and regulations.

- d. From time to time, the Company and Subsidiaries may be a party to various legal proceedings. The Company and Subsidiaries are not currently a party to any material pending legal proceedings.

**39. OPERATING HAZARDS AND UNINSURED RISKS**

The Company and Subsidiaries' 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, persons injury claims and other damage to properties of the Company and Subsidiaries. Additionally, certain of the Company and Subsidiaries oil and natural gas operations are located in areas that are subject to tropical weather disturbances, some of which can be severe enough to cause substantial damage to facilities and possibly interrupt production. As protection against operating hazards, the Company and Subsidiaries maintain insurance coverage against some, but not all, potential losses. The Company and Subsidiaries' insurance coverage for their oil and gas exploration and production activities include, but is not limited to, loss of wells, blowouts and certain costs of pollution control, physical damage to certain assets, employer's liability, comprehensive general liability, automobile and worker's compensation insurance.

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**39. OPERATING HAZARDS AND UNINSURED RISKS (continued)**

The Company and Subsidiaries maintain coverage for their drilling rigs, equipment and machinery for their replacement value and insure these against third party liability and workers' compensation claims. They do not, however, insure these assets against business interruption or loss of revenues following damage to or loss of a drilling rig, except in respect of an offshore rig where it is a term of the refinancing for such rig that such coverage be in place for the benefit of the lender.

**40. ABANDONMENT AND SITE RESTORATION OBLIGATIONS**

Under the Renewal and Extension Production Sharing Contracts signed by Expan Airsenda Inc. and Expan Airlimau Inc. and PT Medco E&P Tarakan with BP Migas, the joint ventures of these entities are required to provide for abandonment of all exploration wells and the restoration of their drill sites, together with all estimates of monies required for the funding of any abandonment and site restoration program established in conjunction with an approved plan of development for a commercial discovery. Expenditures incurred in the abandonment of exploratory wells and the restoration of their drill sites shall be charged as operating costs of the joint ventures in accordance with the PSC, calculated based on the total estimated cost of abandonment and site restoration for each discovery divided by the total estimated number economic years of each discovery. The estimates shall be reviewed on an annual basis.

**41. SUBSEQUENT EVENTS**

a. Company

1. On February 3, 2006, Mr. Ir. John S. Karamoy has proposed his resignation as the Company's President Commissioner and Independent Commissioner. The resignation will be proposed in the next Company Stockholders' Meeting scheduled on May 5, 2006.
2. The Company's swap contracts with Merrill Lynch Capita Services Inc. have been unwound on February 8, 2006 and March 21, 2006 (Note 19).

b. Subsidiaries

1. Medco Straits

On January 4, 2006, Medco Straits Service Pte., Ltd., (Medco Straits), a wholly - owned subsidiary, entered into a Jeruk Project Agreement with SPC and Cue. Under the agreement, Medco Straits acquired the aggregate of 25% (twenty five percent) of economic interests of Cue and SPC in Jeruk Oilfield, Sampang PSC, Madura, East Java, Indonesia for US\$21.18 million effective December 1, 2005.

PT Medco E&P Sampang ("Medco Sampang"), another wholly-owned subsidiary which previously participated on the drilling of Jeruk – 1 well, agreed to waive its rights stipulated in the Jeruk Participation and Operating Agreement and Jeruk Equalisation Agreement ("Jeruk Agreement"), to receive an in-kind premium from Santos for the 90.9% of the amount due to Santos in relation to the reinstatement of SPC and Cue's interests in Jeruk Field (Notes 11 and 16).

On January 24, 2006, the Jeruk field has commenced drilling activities.

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**41. SUBSEQUENT EVENTS (continued)**

b. Subsidiaries (continued)

2. Medco LLC

On March 20, 2006, Medco LLC, 68%-owned subsidiary through Medco International Enterprise Ltd., has entered into a Karim Fields Service Contract ("Service Contract") with Petroleum Development of Oman (PDO) to develop a cluster of 18 fields in the Nimr-Karim area of south of Oman which currently produces 18,000 barrels of oil per day (BOPD) for period of 10 years, effective February 18, 2006, which can be extended and will commence when all resources are mobilized, currently planned on June 1, 2006.

Pursuant to the Service Contract, the Company and its partners except OOC, shall pay a signature bonus of US\$30 million to PDO of which 50% is due on the first year, 25% due on the second year and the remaining 25% is due on the third year.

3. MEPI and MEDCO Lematang

On January 20, 2006, PT Medco E&P Indonesia (MEPI) and PT Medco E&P Lematang (Medco Lematang) signed 2 Gas Sales Agreements (GSA) and Heads of Agreement for Gas Sales (HOA) with PT Meta Epsi Pejebe Power Generation (MEPPO-GEN) and PT PLN and PT PGN, respectively. Total expected gas supply under these agreements amounted to 30.07 BCF for 6 (six) years with MEPPO-GEN, 62.51 BCF for 7 (seven) years with PLN and 139 BCF for 9 (nine) years with PGN.

4. On March 14, 2006, PT Medco E&P Bangkanai (Medco Bangkanai, formerly PT Exspan Madura) entered into a Sale and Purchase Agreement (SPA) with Mitra Energia Bangkanai Ltd. Under the agreement, Medco Bangkanai will purchase all shares of Bangkanai Petroleum (L) Berhad ("Bangkanai Petroleum"), a company which own a 15% interest in the Bangkanai PSC, for US\$3.75 million, subject to conditions as specified in the SPA. As of April 28, 2006, the transfer is still pending from BP Migas.

5. Apexindo

a. On March 9, 2006, Apexindo signed a contract onshore drilling services with Chevron Geothermal Salak, Ltd., whereby the rig 4 will be leased by the latter for a period of two years at a contract price of US\$21,645,035.

b. On March 20, 2006, Apexindo and Santos (Sampang) Pty., Ltd., have signed an Offshore Services Agreement whereby Santos will rent the drilling rig Raniworo for 3 years at a contract price of US\$166,651,600.

c. On January 18, 2006, February 9, 2006, March 20, 2006 and March 21, 2006, the Tax Office has approved Apexindo's claims for tax refund for income tax Articles 22 and 23 for fiscal year 2003, 2004 corporate income tax, value added tax for fiscal year 2000 and the 2000 corporate income tax, totalling to US\$788,886 (Rp62,672,332 thousand), net of tax deficiencies and penalties.

d. On February 1, 2006, the Company renewed its drilling services contract with Total E&P Indonesia over rig Yani for a period of 36 months starting on April 15, 2006 for a total contract value of US\$53,056,345.

e. On March 29, 2006, AJT received an assessment from the Tax Office for deficiency income taxes (including penalties) for Articles 21, 23 and 4(2) for fiscal year 2004 totaling US\$3,937 (Rp35,729 thousand).

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**41. SUBSEQUENT EVENTS (continued)**

b. Subsidiaries (continued)

6. Medco Far East Limited (Medco Far East)

On April 26, 2006, the Consortium of Medco Far East, a wholly-owned subsidiary, Japan Petroleum Exploration Co., Ltd. (Japex) and Premier Oil E B.V. (Premier), (together referred to as "Buyer") has entered into a Share Sale Agreement (Agreement) with ExxonMobil Block A Investment Limited (Seller). Under the Agreement, the Buyer will purchase all shares of Mobil Block A Limited ("MBAL"), a company which own a 50% interest in the North Sumatera Contract Area "A" PSC (Block A PSC), for US\$51 million (with each of the consortium partners to contribute US\$17 million). The Buyer also agreed to procure that provided the Block A PSC is in production, the Seller shall receive from MBAL a production revenues equal to 2% of the gross revenues of Block A PSC.

7. PT Dalle Energy Batam (DEB)

- (a) On December 28, 2005, DEB has obtained a Payment Credit Facility from PT Bank Niaga Tbk with maximum limit of Rp120 billion. The loan bears interest based on 1 month SBI plus 4% per annum, to be adjusted on a progressive basis in accordance with the loan agreement. The loan shall be payable in 90 monthly installments, payable 6 months after the effective date of the loan agreement, and shall be terminated on December 28, 2013. The loan shall be used to finance the development of Gas Power Plant (PLTG) Panaran II with a capacity of 2 x 27.5 MW in Panaran, Batam. On January 30, 2006, DEB has withdrawn Rp120 billion from the facility.
- (b) On January 27, 2006, DEB obtained another Project Credit Facility with maximum limit of Rp120 billion. The loan bears interest at 3 month SBI plus 4% per annum, payable in 3 months. On April 26, 2006, the agreement was amended to extend the loan maturity to May 1, 2006. On February 26, 2006, DEB has withdrawn Rp120 billion from the facility.
- (c) On March 28, 2006, DEB obtained a loan from Bank Internasional Indonesia (BII) amounting to Rp120 billion to be used to refinance its loan from Bank Niaga relating to the development of Gas Power Plant (PLTG) Panaran II as discussed in above. The loan has maximum period of 8 years after the first drawdown date with a grace period of a maximum of 6 months after the first drawdown date or until the maturity of grace period of the Niaga loan, whichever is earlier. The loan is collateralized with the same securities on *pari passu* with Bank Niaga. The loan bears interest at 1 month SBI plus 5% per annum. Under the agreement BII requires DEB to maintain several accounts in connection with "Cash Waterfall" conditions with BII with specific minimum and maximum balances as specified in the agreement.
- (d) On April 13, 2006, PT TJB Power Services was established in compliance with the Operation and Maintenance Agreement for Tanjung Jati B Coal Fired Power Plant dated June 9, 2005.

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**41. SUBSEQUENT EVENTS (continued)**

c. Others

In 2006, the following companies were established/incorporated or acquired:

<u>Company</u>	<u>Place of Incorporation</u>	<u>Date of Incorporation/ Acquisition</u>	<u>Nature of Business</u>
Medco International Petroleum Limited	Labuan, Malaysia	February 10, 2006	To engage in any business activities and carry out other business activities relating to the main objectives and purposes of the Company
Medco Bawean (Holding) Pte., Ltd.	Singapore	March 2, 2006	Operation of exploration and production of oil and gas
PT Medco E&P Natuna	Indonesia	March 10, 2006	Operation of exploration and production of oil and gas
PT Medco E&P Malaka	Indonesia	March 10, 2006	Operation of exploration and production of oil and gas
PT Medco E&P Bangkanai	Indonesia	March 10, 2006	Operation of exploration and production of oil and gas
Medco LLC	Oman	March 20, 2006	Contractor of Nirm Karim Area Oman.
PT Medco Niaga Internasional	Indonesia	March 24, 2006	Provision of services to companies involved in oil and natural gas exploration and production.
Medco CB Finance BV	The Netherlands	April 28, 2006	Raise funds through issuance of debt securities
Medco Kakap Holding Pte., Ltd.	Singapore	April 24, 2006	Operation of exploration and production of oil and gas
PT Medco Ethanol Lampung	Indonesia	January 4, 2006	Provision for the operation of ethanol plant

**42. RESTATEMENT AND RECLASSIFICATION OF THE 2004 CONSOLIDATED FINANCIAL STATEMENTS**

PSAK No. 24 and 38 (Revised 2004)

As discussed in Note 2r, effective on January 1, 2005, the Company and Subsidiaries adopted PSAK No. 24 (Revised 2004), "Employee Benefits". As a result, the consolidated financial statements for the year ended December 31, 2004 have been restated to reflect the retroactive effect of the change in accounting principle.

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**42. RESTATEMENT AND RECLASSIFICATION OF THE 2004 CONSOLIDATED FINANCIAL STATEMENTS (continued)**

PSAK No. 24 and 38 (Revised 2004) (continued)

Based on the actuarial valuations calculated in accordance with PSAK No. 24 (Revised 2004), the balance of the employee benefits obligation as of December 31, 2004 and January 1, 2004 amounted to US\$3,633,777 and US\$3,605,651, respectively. As a result, the net income in 2004 increased by US\$127,134.

As discussed in Note 2y, effective on January 1, 2005, the Company and Subsidiaries adopted PSAK No. 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control". As a result, the consolidated financial statements for the year ended December 31, 2004 have been restated to reflect the retroactive effect of the change in accounting principle.

Based on PSAK No. 38 (Revised 2004), the Company and Subsidiaries have recognized retroactively the realization of the difference in value from restructuring transactions between entities under common control amounting to US\$2,873,376 and the deferred gain on exchange of non-monetary assets amounting to US\$1,059,565. As a result, the net income in 2004 decreased by US\$821,470.

At the same time, certain accounts in the 2004 consolidated financial statements have been reclassified to conform with the presentation of accounts in the 2005 consolidated financial statements.

The summary of the retroactive effects of the changes in the accounting principles and the reclassification of accounts discussed above on the consolidated financial statements as of December 31, 2004 and for the year then ended and the effect of the reclassification are as follows:

	<b>As previously Reported</b>	<b>As Restated</b>
Non-current assets		
Investments in shares of stock	8,014,286	3,014,286
Investments in projects	-	5,000,000
Current liabilities		
Other payables	29,958,565	25,422,348
Total current liabilities	301,640,164	297,103,947
Non-Current Liabilities		
Deferred tax liabilities - net	106,367,170	106,714,067
Employee benefits obligation	4,790,101	3,633,777
Other payables	34,962	4,571,179
Total non-current liabilities	633,616,453	637,343,243



**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

**42. RESTATEMENT AND RECLASSIFICATION OF THE 2004 CONSOLIDATED FINANCIAL STATEMENTS (continued)**

PSAK No. 24 and 38 (Revised 2004) (continued)

	<b>As previously Reported</b>	<b>As Restated</b>
Minority interest in net assets of subsidiaries	36,390,200	35,925,791
Unappropriated retained earnings - December 31, 2004	245,093,629	246,367,465
Equity - net	498,801,473	500,075,309
Net oil and gas sales	362,333,746	367,367,607
Total sales and other operating		
Revenues	545,081,563	550,115,424
Drilling operations costs	72,803,378	72,625,338
Cost of crude oil purchase	-	5,033,861
Gross profit	253,294,199	253,472,239
Operating expenses	74,264,350	74,208,127
Income from operations	179,029,849	179,264,112
Interest expense-net	(35,821,757)	(37,684,194)
Gain from swap transactions	-	1,862,437
Gain on exchange of non - monetary assets	1,059,566	-
Other charges - net	(48,088,691)	(49,148,257)
Income before tax expense	130,941,158	130,115,855
Tax benefit-deferred tax	11,080,177	11,009,898
Income before minority interest in net earnings of consolidated subsidiaries	75,872,654	74,977,072
Minority interests in net earnings of consolidated subsidiaries	(1,328,186)	(1,126,940)
Net income	74,544,468	73,850,132

The cumulative effect of the adjustments to restate the 2004 consolidated financial statements amounted to US\$1,273,836, which increased the previously reported December 31, 2004 retained earnings balance.

**43. ECONOMIC CONDITION**

The operations of the Company and Subsidiaries may be affected by future economic conditions in Indonesia that may contribute to volatility in currency values and negatively impact economic growth. Economic improvements and sustained recovery are dependent upon several factors such as fiscal and monetary actions being undertaken by the Government and others, actions that are beyond the control of the Company and Subsidiaries.

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Years Ended December 31, 2005 and 2004**  
**(Expressed in United States Dollars, unless otherwise stated)**

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**44. REISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The Company has issued the consolidated financial statements of the Company and Subsidiaries for the years ended December 31, 2005 and 2004 that were audited by Prasetio, Sarwoko & Sandjaja with audit report No. RPC-5240 dated March 27, 2006. In connection with the planned issuance of Zero Coupon Guaranteed Convertible Bonds by Medco CB Finance, a wholly - owned subsidiary (Note 41b), to be listed on the Singapore Exchange Securities Trading Limited, the Company reissued its consolidated financial statements for the years ended December 31, 2005 and 2004 with additional disclosures in the notes to the consolidated financial statements.

**45. COMPLETION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Management is responsible for the preparation of the consolidated financial statements that were completed on April 28, 2006.

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION**  
**December 31, 2005 And 2004**  
**(Unaudited)**

**RESERVE ESTIMATION**

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

The following information on Subsidiaries' reserve quantities are estimated by the Subsidiaries' engineers. The estimated oil and gas reserves in 2005 and 2004 in the table below in respect of Sumatera, Kalimantan, Tarakan and Sulawesi (except Senoro Toili gas field) are certified by Gaffney, Cline & Associates (GCA), independent petroleum engineering consultants. In preparing their report, GCA utilized generally accepted petroleum engineering principles and definitions applicable to proved reserve categories and subclassification promulgated by the United States Securities and Exchange Commission and by the Society of Petroleum Engineers for probable reserve Category and subclassifications.

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

Estimated oil and gas reserves in Sumatera, Kalimantan, Tarakan and Sulawesi are as follows:

	Crude oil	Gas
	In thousands of barrels	In millions of cubic feet
<u>Proved Developed, Undeveloped and Probable Reserves</u>		
Balance as of January 1, 2004	237,587	1,806,500
Revision to previous estimates	(58,522)	(1,253,774)
Production in 2004	(19,259)	(47,976)
Balance as of December 31, 2004	159,806	504,750
Revision to previous estimates	(4,757)	(41,296)
Acquisition of working interest	5,629	-
Production in 2005	(17,863)	(45,149)
<b>Balance as of December 31, 2005</b>	<b>142,815</b>	<b>418,305</b>
<u>Proved Developed and Undeveloped Reserves</u>		
Balance as of January 1, 2004	113,872	150,065
Revision to previous estimates	(9,330)	120,258
Production in 2004	(19,259)	(47,976)
Balance as of December 31, 2004	85,283	222,347
Revision to previous estimates	36,400	50,921
Acquisition of working interest	5,108	-
Production in 2005	(17,863)	(45,149)
<b>Balance as of December 31, 2005</b>	<b>108,928</b>	<b>228,119</b>

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION**  
**December 31, 2005 and 2004**  
**(Unaudited)**

**RESERVE ESTIMATION (continued)**

Estimated oil reserves in Tuban, Senoro Toili (gas field) and Brantas are as follows:

	Crude oil	Gas
	In thousands of barrels	In millions of cubic feet
<u>Proved Developed, Undeveloped and Probable Reserves</u>		
Balance as of January 1, 2004	6,607	-
Revision to previous estimates	1,937	-
Production in 2004	(619)	-
Balance as of December 31, 2004	7,925	-
Addition in 2005	2,500	1,161,829
Production in 2005	(2,168)	(2,620)
<b>Balance as of December 31, 2005</b>	<b>8,257</b>	<b>1,159,209</b>

Proved Developed and Undeveloped Reserve

Balance as of January 1, 2004	4,071	-
Transfer of working interest	4,473	-
Production in 2004	(619)	-
Balance as of December 31, 2004	7,925	-
Addition in 2005	2,180	1,148,519
Production in 2005	(2,168)	(2,620)
<b>Balance as of December 31, 2005</b>	<b>7,937</b>	<b>1,145,899</b>

The gross proved reserves as of December 31, 2005 for the Tuban, Senoro Toili (gas field) and Brantas block as of December 31, 2004 were estimated by the Subsidiaries.

Estimated Novus oil and gas reserves in the United States of America, Australia, Middle East and Indonesia are as follows:

	Crude oil	Gas
	In thousands of barrels	In millions of cubic feet
<u>Proved Developed, Undeveloped and Probable Reserves</u>		
Balance as of July 1, 2004	34,655	514,783
Sale of working interests	(12,704)	(201,658)
Production from July 1 - December 31	(970)	(17,347)
Balance as of December 31, 2004	20,981	295,778

**PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION**  
**December 31, 2005 and 2004**  
**(Unaudited)**

**RESERVE ESTIMATION (continued)**

	Crude oil	Gas
	In thousands of barrels	In millions of cubic feet
<u>Proved Developed, Undeveloped and Probable Reserves (continued)</u>		
Revision to previous estimates	650	(28,714)
Transfer and sale of working interest	(14,470)	(148,960)
Production in 2005	(716)	(13,244)
<b>Balance as of December 31, 2005</b>	<b>6,445</b>	<b>104,860</b>
<u>Proved Developed and Undeveloped Reserves</u>		
Balance as of July 1, 2004	15,455	380,683
Sale of working interests	(8,599)	(139,845)
Production from July 1 - December 31	(970)	(17,347)
Balance as of December 31, 2004	5,886	223,491
Revision to previous estimates	660	(28,716)
Transfer and sale of working interest	(3,240)	(111,061)
Production in 2005	(716)	(13,244)
<b>Balance as of December 31, 2005</b>	<b>2,590</b>	<b>70,470</b>

The above gross proved reserves for Novus were estimated by the Subsidiaries.

Estimated crude oil reserves in Langsa block (Sumatera) for Proved Developed, Undeveloped and Probable reserves amounted to 1,824 thousand of barrels and for Proved Developed and Undeveloped reserves amounted to 1,129 thousand of barrels. The reserves quantities are estimated by the Associate Company's engineers and certified by Gaffney, Cline & Associates, independent petroleum engineering consultants.

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(CONSULTANTS) PTE LTD**

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**Gaffney, Cline & Associates (Consultants) Pte Ltd**

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3<sup>rd</sup> May, 2006

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Indonesia.

**CERTIFICATE NO. 4**

**CRUDE OIL AND NATURAL GAS SEC PROVED RESERVE CERTIFICATION**

**PT Medco Energi E&P Indonesian Properties**

**As of January 1, 2004-2006**

Dear Pak Ronny,

Gaffney, Cline & Associates (GCA) was retained by PT Medco Energi E&P Indonesia (Medco) to perform independent audits of hydrocarbon reserve volumes attributable to Medco's Indonesian oil and gas assets located in Sumatra, Kalimantan and Sulawesi as of January 1, 2006. Medco's assets in Sumatra include the Rimau Production-Sharing Contract (PSC), South Sumatra Extension PSC, Kampar/Central Sumatra PSC, Lematang PSC, and Langsa Technical Assistance Contract (TAC) areas. In Kalimantan, Medco's assets include the East Kalimantan/Sanga Sanga TAC area, the Tarakan PSC and Tarakan TAC areas, and the Sembakung TAC. Solely the oil interests of the Tiaka Field within the Senoro-Toili PSC/JOB assets, located offshore of the island of Sulawesi, were certified as of January 1, 2006 (excludes the Senoro gas field).

It is GCA's considered opinion that the estimates of remaining recoverable oil, condensate and natural gas reserve volumes as of January 1, 2004-2006, presented in **Tables 1-3** are, in aggregate, reasonable and were prepared in accordance with Rule 4-10 of the United States Securities and Exchange Commission (SEC) using generally accepted petroleum engineering principles. The definitions applicable to the Proved reserve categories and sub-classifications recognized in the conduct of these examinations correspond to Rule 4-10 of the Securities and Exchange Commission Regulation S-X, which can be found as **Attachment I** to this document.

**Tables 1, 2, and 3** summarize the remaining Proved reserves of the Company's Indonesian oil and gas assets as of January 1, 2006, January 1, 2005, and January 1, 2004, net to the revenue interests of the Company. The Company's net revenue interest volumes reported in **Tables 1 through 3** represent those amounts that are determined to be attributable to the Company's net economic interest, after the deduction of amounts attributable to third parties (Indonesian government, BPMIGAS and other working interest partners), which is consistent with international reserve reporting practices, and is in accordance with the oil and gas reserve disclosure provisions of the Financial Accounting Standards Board -FAS No. 69 Statement of Standards as of June 1, 1998, Vol. 1, Paragraphs 10 and 14(a). In these tables, oil and condensate volumes are reported in thousands of stock tank barrels (Mstb). Natural gas volumes represent expected sales, after deductions for plant fuel and shrinkage, and are reported in millions of standard cubic feet (MMscf). All volumes exclude the Indonesian government share of production that is applicable under the terms of the PSC, TAC or JOB contracts with BPMIGAS, the Indonesian state regulatory body.



In **Table 1**, the Rimau Small Fields include Kalabau, Tabuan, Langkap, Kerang and West Iliran; the Kampar Small Fields include Parum, Binio, Gemuruh, Kayuara, Merbau, Mutiara, North Merbau, Panduk, Pekan, and Kerumutan; the South Sumatra Small Fields include Pian, Rambutan Shallow, Teras, Koneng, Rambutan Deep, Kembar, Serdang, Hijau, and Temelat; the Sanga Sanga TAC Small Fields include Muara, Tanjung Una, Anggana, Juata, Nonny, Samboja, and South Kutai Lama; the Tarakan PSC Small Fields include Pamusian Deep, Hakebabo, and Sesanip Deep; whereas the Tarakan TAC Small Fields include Mengatal, Pamusian, Juata and Sesanip Shallow. Note that the South Kutai Lama, Pamusian Deep and Mengatal fields have not been assigned reserves for the January 1, 2006 audit as they have ceased production.

The reserves presented in Table 1 must be considered only in conjunction with the comments contained in this report, of which this table forms an integral part.

### Medco's Working Interest and Licences

With effect from July 1, 2003, the Company's working interest in the Rimau PSC has been reduced to 95% (from 100%). Effective October 1, 2003, the Company's working interest in the East Kalimantan/Sanga Sanga TAC and Tarakan PSC and TAC has been increased to 99.99% (from 95.93%). In the Senoro-Toili PSC/JOB, the Company's working interest is 50% and in the Kampar and South Sumatra Extension Block PSCs the Company's working interest is 99.9998%. Medco Energi holds a 74.1176% interest in the Lematang PSC. During 2005, Medco requested that their interests in the Langsa and Sembakung TACs were also to be included in this certification. Medco holds a 35% working interest in Langsa and a 100% working interest in the Sembakung TAC.

In the case of the Rimau Block, terms are governed by the original PSC signed April 23, 1973, as amended October 11, 1980, and further amended January 23, 1998. The Rimau contract has been extended for a 20-year period effective April 23, 2003. The Kampar and South Sumatra Extension Block PSC was signed in November 1983 and expires in November 2013. The East Kalimantan/Sanga Sanga TAC was signed October 1988 and expires in October 2008. The Tarakan PSC was signed in January 1982 for a 20-year period expiring in January 2002. The PSC has now been extended for a 20-year period expiring January 2022. The Tarakan TAC was awarded on March 13, 1989, for a duration of 20 years. In April 6, 1987, Lematang PSC was signed and will expire 30 years from the date of approval of this contract. The Senoro-Toili JOB has been effective since December 4, 1997, for a contract term of 30 years. The Langsa TAC was signed in May 1993 and will expire in May 2017. The Sembakung TAC will expire in December 2013.

### Gas Sales Agreements

As of January 1, 2006, all Proved SEC reserves were allocated up to the end of the TAC/PSC/JOB contract periods only. It should be noted that the Proved SEC reserves as of January 1, 2006 were certified taking into consideration the existing Gas Sales Agreements (GSAs) which include:

- Rimau PSC- PLTG Kaji Bayuasin,
- South Sumatra Extension PSC- PUSRI, PUSRI Extension, PLTG Simpang Tiga Indralaya, PLTG Simpang Tiga Indralaya Amendment, and PLTG Borang contracts. In addition, Medco signed two GSAs on the 20th January 2005, relating to the PLN Gunung Megang and PLTG Keramasan contracts.
- Sanga Sanga and Tarakan TACs- PLTGU Tanjung Batu, Methanol Plant in Pulau Bunyu
- Tarakan PSC- PLTD Gunung Belah

As of January 1, 2006 the Proved (1P) remaining recoverable reserves estimated for the Kaji-Semoga field meet the quota of contracted gas to be supplied from the Rimau PSC (19.5 Bscf in the single GSA). Similarly, the North Kutai Lama field and the Mamburungan field have sufficient volumes to meet the contracted volumes from the Sanga Sanga and Tarakan TACs (14.5 Bscf in the 2 GSAs) and Tarakan PSC (17.0 Bscf in the single GSA), respectively. GCA's volumetric analyses have estimated that there are no additional volumes ("technically recoverable") for these blocks that exceed those reported/contracted in the 1P category. GCA's volumetric analyses for the South Sumatra Extension PSC fields estimate that not all of the contracted volumes are met with the 1P estimation. With the addition of new contracts, amendments and extensions, the required contract volume from the SSE is approximately 220 Bscf (from 7 GSAs). GCA's technical estimation of remaining, recoverable volumes for the 12 fields in the SSE POD totals approximately 190 Bscf, giving a short fall of approximately

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30 Bscf. However, if the Proved plus Probable (2P) volumes are considered, there are sufficient volumes of gas to cover forecasted contracted amounts.

GCA notes that Medco holds a number of non-contracted gas volumes within its operated portfolio. These have not been assigned to any Gas Sales Agreement or are lacking a BPMIGAS sanctioned Plan of Development, and are therefore deemed Contingent Resources. They comprise gas volumes from the Jata, Petar, Fariz, Rengas, Buka, Kungku, Reno and Panglero fields (South Sumatra Extension PSC), the Singa gas field (Lematang PSC), and the Tiaka and Senoro Fields (Senoro-Toili JOB).

### **Economics**

Economic models were constructed based on terms of the applicable PSC, TAC or JOB in order to calculate Medco's net revenue interest Proved reserves. The economic tests for the January 1, 2004 through January 1, 2006 remaining Total Proved recoverable reserve volumes incorporated oil and gas sales pricing levels based on those prevailing as at December 31, within each year respectively. Oil and gas sales prices were supplied by the Company. Future capital costs were derived from development program forecasts prepared by the Company for each production unit and corresponding recent historical unit cost data. The recent and historical cost data for each relevant production unit were utilized to determine current operating cost conditions at the end of each year, respectively. Oil and gas prices were not escalated throughout the evaluations. Company's net reserve volumes were derived by converting calculated net revenues accruing to the Company under the terms of the relevant PSC, TAC or JOB into equivalent barrels of oil or cubic feet of natural gas utilizing the corresponding yearend oil or gas pricing. Proved reserves are limited to the economic life of the block and are truncated at the point where a negative cashflow occurs.

### **Reserves Reconciliation**

Reconciliation of the movement of volumes between the dates January 1, 2004 to January 1, 2006 is shown in **Table 4** in a format compatible with the requirements of FASB-69.

### **Summary**

This audit examination was based on reserve estimates and other information provided by Medco to GCA through **March 3rd, 2006**, and included such tests, procedures and adjustments as were considered necessary. All questions that arose during the course of the certification process were resolved to our satisfaction. The reported hydrocarbon reserve volumes are estimates based on professional engineering judgement and are subject to future revisions, upward or downward, as a result of future operations or as additional information becomes available.

GCA acted as independent reserve auditors. The firm's senior partners, officers, and employees have no direct or indirect interest holding in either Medco or its affiliated companies. GCA's remuneration was not in any way contingent upon reported reserve estimates. No representations are made herein in respect of property title or encumbrances thereon. This report has been prepared for Medco and should not be used for purposes other than those for which it is intended.

**With Best Regards,  
GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD**



David Ahye  
Regional Manager, Asia Pacific

**Enclosure:**

Attachment I — SEC Definitions for Oil and Gas Reserves

**Table 1**  
**Net Proved Hydrocarbon Reserve Volumes**  
**As of January 1, 2006**  
**Medco's Net Revenue Interest**

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
		Proved	Proved	Total	Proved	Proved	Total
		Developed	Undeveloped	Proved	Developed	Undeveloped	Proved
<b>Rimau PSC</b>		<b>16,776</b>	<b>11,488</b>	<b>28,265</b>	<b>10,140</b>	<b>7,027</b>	<b>17,166</b>
Kaji	Baturaja	4,957	3,033	7,990	3,775	2,309	6,085
	Talang Akar	3,304	—	3,304	2,103	—	2,103
	Telisa	3,118	4,085	7,203	2,425	3,176	5,601
Semoga	Baturaja	4,872	4,234	9,106	1,774	1,541	3,316
	Talang Akar	48	—	48	47	—	47
	Telisa	30	—	30	15	—	15
"Small" Fields	Tabuan <i>et al.</i> , (n=5)	446	137	583	—	—	—
<b>Central Sumatra Kampar PSC</b>		<b>1,173</b>	<b>—</b>	<b>1,173</b>	<b>—</b>	<b>—</b>	<b>—</b>
East Kayuara		538	—	538	—	—	—
"Small" Fields	Parum <i>et al.</i> , (n=10)	635	—	635	—	—	—
<b>South Sumatra Extension PSC</b>		<b>4,283</b>	<b>567</b>	<b>4,849</b>	<b>108,901</b>	<b>21,831</b>	<b>130,733</b>
Jene		1,050	—	1,050	—	—	—
Soka (Baturaja)		902	—	902	13,424	—	13,424
Matra		968	—	968	—	—	—
Gunung Kembang		293	—	293	39,793	—	39,793
Lagan (North)		545	—	545	21,704	—	21,704
Lagan (Central)		330	176	506	—	—	—
Lagan (South)		109	71	179	3,002	1,942	4,944
"Small" Fields	Pian <i>et al.</i> , (n=9)	85	320	405	30,979	19,889	50,868
<b>Sanga Sanga TAC</b>		<b>1,721</b>	<b>159</b>	<b>1,881</b>	<b>8,613</b>	<b>3,691</b>	<b>12,304</b>
Louise		399	—	399	—	—	—
North Kutai Lama		962	159	1,121	8,613	3,691	12,304
"Small" Fields	Muara <i>et al.</i> , (n=6)	361	—	361	—	—	—
<b>Tarakan PSC</b>		<b>686</b>	<b>292</b>	<b>978</b>	<b>12,623</b>	<b>—</b>	<b>12,623</b>
Mamburungan		686	292	978	12,295	—	12,295
"Small" Fields	Hakebabo <i>et al.</i> , (n=3)	—	—	—	329	—	329
<b>Tarakan TAC</b>		<b>142</b>	<b>—</b>	<b>142</b>	<b>—</b>	<b>—</b>	<b>—</b>
"Small" Fields	Juata <i>et al.</i> , (n=4)	142	—	142	—	—	—
<b>Sembakung TAC</b>		<b>2,419</b>	<b>232</b>	<b>2,651</b>	<b>—</b>	<b>—</b>	<b>—</b>
Sembakung		2,419	232	2,651	—	—	—

Continued over page

**Table 1 continued**

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
		Proved	Proved	Total	Proved	Proved	Total
		Developed	Undeveloped	Proved	Developed	Undeveloped	Proved
<b>Lematang PSC</b>		<b>4</b>	—	<b>4</b>	<b>187</b>	—	<b>187</b>
Harimau		4	—	4	187	—	187
Singa		—	—	—	—	—	—
<b>Langsa TAC</b>		<b>309</b>	<b>424</b>	<b>732</b>	—	—	—
H		278	117	396	—	—	—
L		30	307	337	—	—	—
<b>Senoro-Toili PSC/JOB</b>		<b>1,749</b>	—	<b>1,749</b>	—	—	—
Senoro		—	—	—	—	—	—
Tiaka		1,749	—	1,749	—	—	—
<b>TOTAL</b>		<b>29,261</b>	<b>13,162</b>	<b>42,423</b>	<b>140,465</b>	<b>32,549</b>	<b>173,014</b>

**Notes:**

1. Excludes Senoro Gas field.
2. The January 1, 2006 audit includes the Sembakung and Langsa TAC areas, which were not previously reported by GCA.

**Table 2**  
**Remaining Net Proved Hydrocarbon Reserve Volumes**  
**As of January 1, 2005**  
**Medco's Net Revenue Interest**

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
		Proved	Proved	Total	Proved	Proved	Total
		Developed	Undeveloped	Proved	Developed	Undeveloped	Proved
<b>Rimau PSC</b>		<b>21,387</b>	<b>49</b>	<b>21,436</b>	<b>16,135</b>	—	<b>16,135</b>
Kaji	Baturaja & Talang Akar	9,570	—	9,570	9,461	—	9,461
	Telisa	1,922	—	1,922	1,899	—	1,899
Semoga	Baturaja & Talang Akar	9,330	—	9,330	4,612	—	4,612
	Telisa	286	—	286	141	—	141
Kalabau		28	—	28	21	—	21
"Small" Fields	Tabuan <i>et al.</i> , (n=4)	251	49	300	—	—	—
<b>Central Sumatra Kampar PSC</b>		<b>1,425</b>	—	<b>1,425</b>	—	—	-
East Kayuara		552	—	552	—	—	—
Parum		80	—	80	—	—	—
"Small" Fields	Kerumutan <i>et al.</i> , (n=9)	794	—	794	—	—	—
<b>South Sumatra Extension PSC</b>		<b>5,241</b>	—	<b>5,241</b>	<b>88,980</b>	<b>12,051</b>	<b>101,030</b>
Fariz		—	—	—	—	—	—
Jene		1,384	—	1,384	—	—	—
Soka (Baturaja)	Baturaja	1,464	—	1,464	4,073	12,051	16,124
Matra		994	—	994	—	—	—
Hijau		—	—	—	—	—	—
Gunung Kembang		292	—	292	41,554	—	41,554
"Small" Fields	Lagan <i>et al.</i> , (n=10)	1,107	—	1,107	43,352	—	43,352
<b>Sanga Sanga TAC</b>		<b>2,928</b>	—	<b>2,928</b>	<b>10,651</b>	<b>4,563</b>	<b>15,215</b>
Louise		517	—	517	—	—	—
Muara		110	—	110	—	—	—
North Kutai Lama		1,700	—	1,700	10,651	4,563	15,215
Tanjung Una		133	—	133	—	—	—
"Small" Fields	Anggana <i>et al.</i> , (n=4)	468	—	468	—	—	—
<b>Tarakan PSC</b>		<b>427</b>	<b>332</b>	<b>759</b>	<b>18,840</b>	<b>2,385</b>	<b>21,225</b>
Mamburungan		427	225	651	16,455	—	16,455
"Small" Fields	Pamusian Deep <i>et al.</i> , (n=3)	—	108	108	2,385	2,385	4,770

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**Table 2 continued**

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
		Proved	Proved	Total	Proved	Proved	Total
		Developed	Undeveloped	Proved	Developed	Undeveloped	Proved
<b>Tarakan TAC</b>		<b>257</b>	—	<b>257</b>	—	—	—
“Small” Fields	Juata <i>et al.</i> , (n=3)	257	—	257	—	—	—
<b>Lematang PSC</b>		<b>12</b>	—	<b>12</b>	<b>412</b>	—	<b>412</b>
Harimau		12	—	12	412	—	412
Singa		—	—	—	—	—	—
<b>Senoro-Toili PSC/JOB</b>		—	<b>2,363</b>	<b>2,363</b>	—	—	—
Senoro		—	—	—	—	—	—
Tiaka		—	2,363	2,363	—	—	—
<b>TOTAL</b>		<b>31,677</b>	<b>2,745</b>	<b>34,422</b>	<b>135,018</b>	<b>18,999</b>	<b>154,017</b>

**Notes:**

1. Excludes Senoro Gas field.
2. Four fields were removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

**Table 3**  
**Remaining Net Proved Hydrocarbon Reserve Volumes**  
**As of January 1, 2004**  
**Medco's Net Revenue Interest**

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
		Proved	Proved	Total	Proved	Proved	Total
		Developed	Undeveloped	Proved	Developed	Undeveloped	Proved
<b>Rimau PSC</b>		<b>31,790</b>	<b>545</b>	<b>32,335</b>	<b>18,321</b>	—	<b>18,321</b>
Kaji	Baturaja & Talang Akar	11,900	—	11,900	7,081	—	7,081
	Telisa	1,280	—	1,280	1,016	—	1,016
Semoga	Baturaja & Talang Akar	17,255	—	17,255	9,242	—	9,242
	Telisa	1,238	—	1,238	982	—	982
Kalabau		—	545	545	—	—	—
"Small" Fields	Tabuan <i>et al.</i> , (n=4)	117	—	117	—	—	—
<b>Central Sumatra Kampar PSC</b>		<b>1,782</b>	—	<b>1,782</b>	—	—	—
East Kayuara		780	—	780	—	—	—
Parum		111	—	111	—	—	—
"Small" Fields	Kerumutan <i>et al.</i> , (n=9)	891	—	891	—	—	—
<b>South Sumatra Extension PSC</b>		<b>5,451</b>	<b>883</b>	<b>6,334</b>	<b>49,314</b>	—	<b>49,314</b>
Fariz		—	—	—	—	—	—
Jene		1,205	—	1,205	—	—	—
Soka (Baturaja)	Baturaja	2,197	—	2,197	—	—	—
Matra		1,542	—	1,542	—	—	—
Hijau		—	7	7	—	—	—
Gunung Kembang		449	876	1,325	29,690	—	29,690
"Small" Fields	Lagan <i>et al.</i> , (n=4)	58	—	58	19,624	—	19,624
<b>Sanga Sanga TAC</b>		<b>4,177</b>	—	<b>4,177</b>	<b>14,248</b>	—	<b>14,248</b>
Louise		634	—	634	—	—	—
Muara		128	—	128	—	—	—
North Kutai Lama		1,817	—	1,817	14,248	—	14,248
Tanjung Una		157	—	157	—	—	—
Pamusian		552	—	552	—	—	—
"Small" Fields	Anggana <i>et al.</i> , (n=7)	889	—	889	—	—	—
<b>Tarakan PSC</b>		<b>274</b>	—	<b>274</b>	<b>12,424</b>	<b>11,993</b>	<b>24,417</b>
Mamburungan		274	—	274	12,424	—	12,424
"Small" Fields	Pamusian Deep/Hakebabo	—	—	—	—	11,993	11,993
<b>TOTAL</b>		<b>43,474</b>	<b>1,428</b>	<b>44,902</b>	<b>94,307</b>	<b>11,993</b>	<b>106,300</b>

**Note:**

- Four fields were removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.



**Table 4**  
**Reconciliation of Movements of Proved Reserves Net to Medco on January 1,**  
**For the years 2004, 2005, and 2006**

Block	Net Revenue Interest Oil & Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
	2004	2005	2006	2004	2005	2006
<b>Rimau PSC (95%)</b>						
Beginning of Year	30,479	32,335	21,436	—	18,321	16,135
Discoveries, Extensions & Revisions	9,013	(5,956)	11,070	18,321	7,383	7,422
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(7,157)	(4,943)	(4,242)	—	(9,569)	(6,390)
End of the Year	<b>32,335</b>	<b>21,436</b>	<b>28,265</b>	<b>18,321</b>	<b>16,135</b>	<b>17,166</b>
<b>Central Sumatra Kampar PSC (99.9998%)</b>						
Beginning of Year	1,580	1,782	1,425	—	—	—
Discoveries, Extensions & Revisions	610	(29)	(11)	—	25	184
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(408)	(327)	(241)	—	(25)	(184)
End of the Year	<b>1,782</b>	<b>1,425</b>	<b>1,173</b>	—	—	—
<b>South Sumatra Extension PSC (99.9998%)</b>						
Beginning of Year	9,186	6,334	5,241	41,108	49,314	101,030
Discoveries, Extensions & Revisions	(1,885)	116	506	19,586	65,833	47,145
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(967)	(1,208)	(897)	(11,380)	(14,117)	(17,443)
End of the Year	<b>6,334</b>	<b>5,241</b>	<b>4,849</b>	<b>49,314</b>	<b>101,030</b>	<b>130,733</b>
<b>Sanga Sanga TAC (99.99%)</b>						
Beginning of Year	5,735	4,177	2,928	15,848	14,248	15,215
Discoveries, Extensions & Revisions	(457)	(274)	(159)	1,832	4,850	373
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(1,101)	(976)	(888)	(3,432)	(3,884)	(3,283)
End of the Year	<b>4,177</b>	<b>2,928</b>	<b>1,881</b>	<b>14,248</b>	<b>15,215</b>	<b>12,304</b>
<b>Tarakan PSC (99.99%)</b>						
Beginning of Year	403	274	759	25,252	24,417	21,225
Discoveries, Extensions & Revisions	(26)	633	479	4,573	3,227	(2,910)
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(103)	(148)	(261)	(5,408)	(6,419)	(5,691)
End of the Year	<b>274</b>	<b>759</b>	<b>978</b>	<b>24,417</b>	<b>21,225</b>	<b>12,623</b>
<b>Tarakan TAC (99.99%)</b>						
Beginning of Year	—	—	257	—	—	—
Discoveries, Extensions & Revisions	—	384	(20)	—	183	222
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	—	(127)	(96)	—	(183)	(222)
End of the Year	—	<b>257</b>	<b>142</b>	—	—	—

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Table 4 continued

Block	Net Revenue Interest Oil & Condensate (Mstb)			Net Revenue Interest Natural Gas (MMscf)		
	2004	2005	2006	2004	2005	2006
<b>Sambakung TAC (100%)</b>						
Beginning of Year	—	—	—	—	—	—
Discoveries, Extensions & Revisions	—	—	—	—	—	—
Acquisitions & Sales	—	—	2,651	—	—	—
Production for the Year	—	—	—	—	—	—
End of the Year	—	—	<b>2,651</b>	—	—	—
<b>Lematang PSC (74.1176%)</b>						
Beginning of Year	—	—	12	—	—	412
Discoveries, Extensions & Revisions	—	29	(0)	—	412	56
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	—	(17)	(8)	—	—	(280)
End of the Year	—	<b>12</b>	<b>4</b>	—	<b>412</b>	<b>187</b>
<b>Langsa TAC (35%)</b>						
Beginning of Year	—	—	—	—	—	—
Discoveries, Extensions & Revisions	—	—	—	—	—	—
Acquisitions & Sales	—	—	732	—	—	—
Production for the Year	—	—	—	—	—	—
End of the Year	—	—	<b>732</b>	—	—	—
<b>Senoro-Toili JOB (50%)</b>						
Beginning of Year	—	—	2,363	—	—	—
Discoveries, Extensions & Revisions	—	2,363	(578)	—	—	—
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	—	—	(36)	—	—	—
End of the Year	—	<b>2,363</b>	<b>1,749</b>	—	—	—
<b>TOTAL</b>						
Beginning of Year	<b>47,383</b>	<b>44,902</b>	<b>34,422</b>	<b>82,208</b>	<b>106,300</b>	<b>154,017</b>
Discoveries, Extensions & Revisions	<b>7,255</b>	<b>(2,734)</b>	<b>11,286</b>	<b>44,312</b>	<b>81,914</b>	<b>52,490</b>
Acquisitions & Sales	—	—	<b>3,383</b>	—	—	—
Production for the Year	<b>(9,736)</b>	<b>(7,746)</b>	<b>(6,668)</b>	<b>(20,220)</b>	<b>(34,197)</b>	<b>(33,493)</b>
End of the Year	<b>44,902</b>	<b>34,422</b>	<b>42,423</b>	<b>106,300</b>	<b>154,017</b>	<b>173,014</b>

**Note:**

- Four fields have been removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

Attachment 1  
SEC Definitions for Oil and Gas Reserves

## SEC DEFINITIONS FOR OIL AND GAS RESERVES

### Proved Oil and Gas Reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

- (i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation tests. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
- (ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.
- (iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs, but is classified separately as “indicated additional reserves”; (B) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids that may occur in undrilled prospects; and (D) crude oil, natural gas and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other such sources.

### Proved Developed Oil and Gas Reserves

Proved developed oil and gas reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

### Proved Undeveloped Reserves

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.



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13<sup>th</sup> March, 2006

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**CERTIFICATE NO. 2**

**CRUDE OIL AND NATURAL GAS SPE PROVED AND PROBABLE  
RESERVES CERTIFICATION**

**PT Medco Energi E&P Indonesian Properties  
As of January 1, 2004-2006**

Dear Pak Ronny,

Gaffney, Cline & Associates (GCA) was retained by PT Medco Energi E&P Indonesia (Medco) to perform independent audits of hydrocarbon reserve volumes attributable to Medco's Indonesian oil and gas assets located in Sumatra, Kalimantan and Sulawesi as of January 1, 2006. Medco's assets in Sumatra include the Rimau Production-Sharing Contract (PSC), South Sumatra Extension PSC, Kampar/Central Sumatra PSC, Lematang PSC, and Langsa Technical Assistance Contract (TAC) areas. In Kalimantan, Medco's assets include the East Kalimantan/Sanga Sanga TAC area, the Tarakan PSC and Tarakan TAC areas, and the Sembakung TAC. Solely the oil interests of the Tiaka Field within the Senoro-Toili PSC/JOB assets, located offshore of the island of Sulawesi, were certified as of January 1, 2006 (excludes the Senoro gas field).

It is GCA's considered opinion that the estimates of remaining recoverable oil, natural gas and condensate reserve volumes as of January 1, 2004-2006, presented in **Tables 1 to 5** are, in aggregate, reasonable and were prepared using generally accepted petroleum engineering principles. These principles are presented in the document entitled "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" promulgated by the Society of Petroleum Engineers. The definitions applicable to the Proved and Probable reserve categories correspond to those of the Society of Petroleum Engineers/World Petroleum Congresses (SPE/WPC), which can be found as **Attachment I** to this document.

**Table 1** summarizes the remaining Proved and Probable reserves for Company's Indonesian oil and gas assets as of January 1, 2006 on a "Medco working interest" volume basis, **i.e. these volumes are attributable to the Company's working interest in each contract area, but include the Indonesian government's share of production.** As the Company has no gas contract for its Senoro-Toili PSC/JOB, there are no Proved gas reserves attributable to this asset. GCA did not certify the reserves in Senoro Gas field of the Senoro-Toili PSC/JOB as of January 1, 2006.

In **Table 1**, the Rimau Small Fields include Kalabau, Tabuan, Langkap, Kerang and West Iliran; the Kampar Small Fields include Parum, Binio, Gemuruh, Kayuara, Merbau, Mutiara, North Merbau, Panduk, Pekan, and Kerumutan; the South Sumatra Small Fields include Pian, Rambutan Shallow, Teras, Koneng, Rambutan Deep, Kembar, Serdang, Hijau, and Temelat; the Sanga Sanga TAC Small Fields include Muara, Tanjung Una, Anggana, Juata, Nonny, Samboja, and South Kutai Lama; the Tarakan PSC Small Fields include Pamusian Deep, Hakebabo, and Sesanip Deep; whereas the Tarakan TAC Small Fields include Mengatal, Pamusian, Juata and Sesanip Shallow. Note that the South Kutai Lama, Pamusian Deep and Mengatal fields have not been assigned reserves for the January 1, 2006 audit as they have ceased production.

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UNITED KINGDOM    UNITED STATES    SINGAPORE    AUSTRALIA    ARGENTINA    BRAZIL    VENEZUELA

The reserves presented in **Table 1** must be considered only in conjunction with the comments contained in this report, of which this table forms an integral part.

**Tables 2** through **3** summarize Medco's gross working interest Proved and Probable reserves as of January 1, 2005, and January 1, 2004, respectively. In these tables, oil and condensate volumes are reported in thousands of stock tank barrels (Mstb). Natural gas volumes represent expected sales, after deductions for plant fuel and shrinkage, and are reported in millions of standard cubic feet (MMscf). All volumes include the Indonesian government share of production that is applicable under the terms of PSC, TAC and JOB contracts with BPMIGAS, the Indonesian state regulatory body.

### Medco's Working Interest and Licences

With effect from July 1, 2003, the Company's working interest in the Rimau PSC has been reduced to 95% (from 100%). Effective October 1, 2003, the Company's working interest in the East Kalimantan/Sanga Sanga TAC and Tarakan PSC and TAC has been increased to 99.99% (from 95.93%). In the Senoro-Toili PSC/JOB, the Company's working interest is 50% and in the Kampar and South Sumatra Extension Block PSCs the Company's working interest is 99.9998%. Medco Energi holds a 74.1176% interest in the Lematang PSC. During 2005, Medco requested that their interests in the Langsa and Sembakung TACs were also to be included in this certification. Medco holds a 35% working interest in Langsa and a 100% working interest in the Sembakung TAC.

In the case of the Rimau Block, terms are governed by the original PSC signed April 23, 1973, as amended October 11, 1980, and further amended January 23, 1998. The Rimau contract has been extended for a 20-year period effective April 23, 2003. The Kampar and South Sumatra Extension Block PSC was signed in November 1983 and expires in November 2013. The East Kalimantan/Sanga Sanga TAC was signed October 1988 and expires in October 2008. The Tarakan PSC was signed in January 1982 for a 20-year period expiring in January 2002. The PSC has now been extended for a 20-year period expiring January 2022. The Tarakan TAC was awarded on March 13, 1989, for a duration of 20 years. In April 6, 1987, Lematang PSC was signed and will expire 30 years from the date of approval of this contract. The Senoro-Toili JOB has been effective since December 4, 1997, for a contract term of 30 years. The Langsa TAC was signed in May 1993 and will expire in May 2017. The Sembakung TAC will expire in December 2013 after an 18 year contract period.

### Gas Sales Agreements

As of January 1, 2006, all Proved SPE reserves were allocated up to the end of the TAC/PSC/JOB contract periods only. It should be noted that the Proved SPE reserves as of January 1, 2006 were certified taking into consideration the existing Gas Sales Agreements (GSAs) which include:

- Rimau PSC- PLTG Kaji Bayuasin,
- South Sumatra Extension PSC- PUSRI, PUSRI Extension, PLTG Simpang Tiga Indralaya, PLTG Simpang Tiga Indralaya Amendment, and PLTG Borang contracts. In addition, Medco signed two GSAs on the 20th January 2005, relating to the PLN Gunung Megang and PLTG Keramasan contracts.
- Sanga Sanga and Tarakan TACs- PLTGU Tanjung Batu, Methanol Plant in Pulau Bunyu
- Tarakan PSC- PLTD Gunung Belah

As of January 1, 2006 the Proved (1P) remaining recoverable reserves estimated for the Kaji-Semoga field meet the quota of contracted gas to be supplied from the Rimau PSC (19.5 Bscf in the single GSA). Similarly, the North Kutai Lama field and the Mamburungan field have sufficient volumes to meet the contracted volumes from the Sanga Sanga and Tarakan TACs (14.5 Bscf in the 2 GSAs) and Tarakan PSC (17.0 Bscf in the single GSA), respectively. GCA's volumetric analyses have estimated that there are no additional volumes ("technically recoverable") for these blocks that exceed those reported/contracted in the 1P category. GCA's volumetric analyses for the South Sumatra Extension PSC fields estimate that not all of the contracted volumes are met with the 1P estimation. With the addition of new contracts, amendments and extensions, the required contract volume from the SSE is approximately 220 Bscf (from 7 GSAs). GCA's technical estimation of remaining, recoverable volumes for the 12 fields in the SSE POD totals approximately 190 Bscf, giving a short fall of approximately 30 Bscf. However, if the Proved plus Probable (2P) volumes are considered, there are sufficient volumes of gas to cover forecasted contracted amounts.

GCA notes that Medco holds a number of non-contracted gas volumes within its operated portfolio. These have not been assigned to any Gas Sales Agreement or are lacking a BPMIGAS sanctioned Plan of Development, and are therefore deemed Contingent Resources. They comprise gas volumes from the Jata, Petar, Fariz, Rengas, Buka, Kungku, Reno and Panglero fields (South Sumatra Extension PSC), the Singa gas field (Lematang PSC), and the Tiaka and Senoro Fields (Senoro-Toili JOB).

### **Reserves Reconciliation**

GCA has reconciled the movement of Company's gross Proved (1P) reserves as estimated on January 1 of each year for the years 2004, 2005 and 2006. The results are presented in **Table 4**. GCA has also reconciled the movement of Company's gross Proved plus Probable (2P) reserves as estimated on January 1 of each year for the years 2004, 2005 and 2006. The results are presented in **Table 5**. In these tables, oil and condensate volumes are reported in thousands of stock tank barrels (Mstb). Natural gas volumes represent expected sales, after deductions for plant fuel and shrinkage, and are reported in millions of standard cubic feet (MMscf). **All volumes include the Indonesian government share of production that is applicable under the terms of each PSC, JOB and TAC contracts with BPMIGAS, the Indonesian state regulatory body.**

### **Summary**

This audit examination was based on reserve estimates and other information provided by Medco to GCA through March 3rd, 2006, and included such tests, procedures and adjustments as were considered necessary. All questions that arose during the course of the certification process were resolved to our satisfaction. The reported hydrocarbon reserve volumes are estimates based on professional engineering judgement and are subject to future revisions, upward or downward, as a result of future operations or as additional information becomes available.

GCA acted as independent reserve auditors. The firm's senior partners, officers, and employees have no direct or indirect interest holding in either Medco or its affiliated companies. GCA's remuneration was not in any way contingent upon reported reserve estimates. No representations are made herein in respect of property title or encumbrances thereon. This report has been prepared for Medco and should not be used for purposes other than those for which it is intended.

**With Best Regards,  
GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD**



David Ahye  
Regional Manager, Asia Pacific

### **Enclosure:**

Attachment I — Society of Petroleum Engineers/World Petroleum Congresses Reserve Definitions

**Table 1**  
**Remaining Proved and Probable Hydrocarbon Reserve Volumes**  
**As of January 1, 2006**  
**Company's Gross Working Interest**

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mstb)	(Mstb)	(MMscf)	(MMscf)
<b>Rimau PSC (95%)</b>		<b>74,860</b>	<b>18,555</b>	<b>18,557</b>	<b>5,381</b>
Kaji	Baturaja	21,162	4,269	6,578	1,707
	Talang Akar	8,750	846	2,273	338
	Telisa	19,078	4,327	6,054	1,731
Semoga	Baturaja	24,118	5,076	3,584	1,016
	Talang Akar	128	638	51	127
	Telisa	80	2,309	16	462
"Small" Fields	Kalabau <i>et al.</i> , (n=5)	1,544	1,091	—	—
<b>Central Sumatra Kampar PSC (99.9998%)</b>		<b>3,405</b>	<b>104</b>	—	—
East Kayuara		1,563	63	—	—
"Small" Fields	Parum, <i>et al.</i> , (n=10)	1,842	41	—	—
<b>South Sumatra Extension PSC (99.9998%)</b>		<b>13,361</b>	<b>9,030</b>	<b>190,739</b>	<b>184,522</b>
Jene		3,049	313	—	—
Soka (Baturaja)	Baturaja	2,619	1,275	19,585	41,071
Matra		2,810	2,400	—	—
Gunung Kembang		850	—	58,058	31,997
Lagan (North)		1,583	688	31,666	13,762
Lagan (Central)		1,470	1,784	—	—
Lagan (South)		521	1,633	7,214	22,631
"Small" Fields	Lagan <i>et al.</i> , (n=11)	459	937	74,216	75,061
<b>Sanga Sanga TAC (99.99%)</b>		<b>3,483</b>	<b>1,740</b>	<b>14,456</b>	—
Louise		738	—	—	—
North Kutai Lama		2,077	1,740	14,456	—
"Small" Fields	Muara <i>et al.</i> , (n=6)	668	—	—	—
<b>Tarakan PSC (99.99%)</b>		<b>2,183</b>	—	<b>17,006</b>	—
Mamburungan		2,183	—	16,563	—
"Small" Fields	Pamusian Deep <i>et al.</i> , (n=3)	—	—	443	—

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Table 1 continued

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mstb)	(Mstb)	(MMscf)	(MMscf)
<b>Tarakan TAC (99.99%)</b>		<b>263</b>	—	—	—
“Small” Fields	Juata <i>et al.</i> , (n=3)	263	—	—	—
<b>Sembakung TAC (100%)</b>		<b>4,830</b>	<b>521</b>	—	—
Sembakung		4,830	521	—	—
<b>Lematang PSC (74.1176%)</b>		<b>4</b>	—	<b>188</b>	—
Harimau		4	—	188	—
Singa		—	—	—	—
<b>Langsa TAC (35%)</b>		<b>1,129</b>	<b>694</b>	—	—
H		610	222	—	—
L		519	473	—	—
<b>Senoro-Toili JOB (50%)</b>		<b>1,886</b>	<b>2,962</b>	—	—
Senoro		—	—	—	—
Tiaka		1,886	2,962	—	—
<b>TOTAL</b>		<b>105,403</b>	<b>33,606</b>	<b>240,945</b>	<b>189,902</b>

**Note:**

1. The January 1, 2006 audit includes the Sembakung and Langsa TAC areas, which were not previously reported by GCA.
2. Senoro-Toili JOB excludes the Senoro Gas field.

**Table 2**  
**Remaining Proved and Probable Hydrocarbon Reserve Volumes**  
**As of January 1, 2005**  
**Company's Gross Working Interest**

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mstb)	(Mstb)	(MMscf)	(MMscf)
<b>Rimau PSC (95%)</b>		<b>60,158</b>	<b>44,075</b>	<b>18,320</b>	<b>12,949</b>
Kaji	Baturaja & Talang Akar	26,857	14,605	10,743	5,843
	Telisa	5,395	6,313	2,157	2,525
Semoga	Baturaja & Talang Akar	26,182	13,842	5,236	2,768
	Telisa	804	9,070	161	1,814
Kalabau		80	—	24	—
"Small" Fields	Tabuan <i>et al.</i> , (n=4)	841	246	—	—
<b>Central Sumatra Kampar PSC (99.9998%)</b>		<b>3,328</b>	<b>270</b>	<b>—</b>	<b>—</b>
East Kayuara		1,288	219	—	—
Parum		187	51	—	—
"Small" Fields	Kerumutan <i>et al.</i> , (n=9)	1,853	—	—	—
<b>South Sumatra Extension PSC (99.9998%)</b>		<b>12,237</b>	<b>18,909</b>	<b>153,705</b>	<b>260,176</b>
Fariz		—	—	—	34,620
Jene		3,231	1,134	—	—
Soka	Baturaja	3,419	10,005	24,360	55,950
Matra		2,321	5,309	1,068	1,019
Hijau		—	52	—	2,415
Gunung Kembang		682	—	62,780	32,217
"Small" Fields	Lagan <i>et al.</i> , (n=10)	2,584	2,409	65,497	133,956
<b>Sanga Sanga TAC (99.99%)</b>		<b>5,020</b>	<b>2,356</b>	<b>20,860</b>	<b>—</b>
Louise		887	—	—	—
Muara		189	—	—	—
North Kutai Lama		2,915	2,356	20,860	—
Tanjung Una		228	—	—	—
"Small" Fields	Anggana <i>et al.</i> , (n=4)	802	—	—	—
<b>Tarakan PSC (99.99%)</b>		<b>1,268</b>	<b>796</b>	<b>27,229</b>	<b>8,596</b>
Mamburungan		1,088	746	21,110	2,477
"Small" Fields	Pamusian Deep <i>et al.</i> , (n=3)	180	50	6,119	6,119

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**Table 2 continued**

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mstb)	(Mstb)	(MMscf)	(MMscf)
<b>Tarakan TAC (99.99%)</b>		<b>441</b>	<b>63</b>	—	—
“Small” Fields	Juata <i>et al.</i> , (n=4)	441	63	—	—
<b>Lematang PSC (74.1176%)</b>		<b>13</b>	—	<b>412</b>	—
Harimau		13	—	412	—
<b>Senoro-Toili JOB (50%)</b>		<b>2,585</b>	<b>2,866</b>	—	—
Tiaka		2,585	2,866	—	—
<b>TOTAL</b>		<b>85,050</b>	<b>69,335</b>	<b>220,526</b>	<b>281,722</b>

**Note:**

1. Excludes Senoro Gas field.
2. Four fields were removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

**Table 3**  
**Remaining Proved and Probable Hydrocarbon Reserve Volumes**  
**As of January 1, 2004**  
**Company's Gross Working Interest**

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mstb)	(Mstb)	(MMscf)	(MMscf)
<b>Rimau PSC (95%)</b>		<b>85,363</b>	<b>70,113</b>	<b>24,382</b>	<b>23,311</b>
Kaji	Baturaja & Talang Akar	31,415	12,174	9,424	3,653
	Telisa	3,379	12,154	1,352	4,862
Semoga	Baturaja & Talang Akar	45,553	22,808	12,299	6,158
	Telisa	3,268	21,596	1,307	8,638
Kalabau		1,439	1,380	—	—
"Small" Fields	Tabuan <i>et al.</i> , (n=4)	309	—	—	—
<b>Central Sumatra Kampar PSC (99.9998%)</b>		<b>3,559</b>	<b>423</b>	<b>—</b>	<b>—</b>
East Kayuara		1,558	336	—	—
Parum		221	87	—	—
"Small" Fields	Kerumutan <i>et al.</i> , (n=9)	1,780	—	—	—
<b>South Sumatra Extension PSC (99.9998%)</b>		<b>12,714</b>	<b>16,488</b>	<b>191,990</b>	<b>204,594</b>
Jene		2,407	—	—	—
Soka	Baturaja	4,387	9,179	34,836	59,407
Matra		3,080	5,309	1,254	1,240
Gunung Kembang		2,646	1,750	65,718	27,619
"Small" Fields	Lagan <i>et al.</i> , (n=10)	194	250	90,182	116,328
<b>Sanga Sanga TAC (99.99%)</b>		<b>6,178</b>	<b>1,747</b>	<b>19,087</b>	<b>13,953</b>
Louise		1,081	—	—	3,561
Muara		219	—	—	2,215
North Kutai Lama		3,097	1,747	19,087	8,177
Tanjung Una		267	—	—	—
"Small" Fields	Anggana <i>et al.</i> , (n=4)	1,515	—	—	—
<b>Tarakan PSC (99.99%)</b>		<b>687</b>	<b>—</b>	<b>35,526</b>	<b>—</b>
Mamburungan		687	—	18,077	—
"Small" Fields	Pamusian Deep <i>et al.</i> , (n=3)	—	—	17,449	—

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**Table 3 continued**

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mstb)	(Mstb)	(MMscf)	(MMscf)
<b>Tarakan TAC (99.99%)</b>		<b>941</b>	—	—	—
“Small” Fields	Juata <i>et al.</i> , (n=4)	941	—	—	—
<b>Senoro-Toili JOB (50%)</b>		—	<b>3,250</b>	—	—
Tiaka		—	3,250	—	—
<b>TOTAL</b>		<b>109,442</b>	<b>92,021</b>	<b>270,985</b>	<b>241,857</b>

**Note:**

1. Excludes Senoro Gas field.
2. Four fields were removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit (reconciled herein).

**Table 4**  
**Reconciliation of Movements of Proved (1P) Reserves**  
**As of January 1st for the years 2004, 2005 and 2006**  
**Company's Gross Working Interest**

Block	Gross Working Interest Oil and Condensate			Gross Working Interest Natural Gas		
	1/1/2004	1/1/2005	1/1/2006	1/1/2004	1/1/2005	1/1/2006
	(Mstb)	(Mstb)	(Mstb)	(MMscf)	(MMscf)	(MMscf)
<b>Rimau PSC (95%)</b>						
Beginning of Year	106,160	85,363	60,158	0	24,382	18,320
Discoveries, Extensions and Revisions	(1,904)	(12,367)	26,528	24,383	5,375	7,509
Acquisitions and Sales	0	0	0	0	0	0
Production for the Year	(18,893)	(12,838)	(11,826)	0	(11,437)	(7,272)
End of the Year	<b>85,363</b>	<b>60,158</b>	<b>74,860</b>	<b>24,382</b>	<b>18,320</b>	<b>18,557</b>
<b>Central Sumatra Kampar PSC (99.9998%)</b>						
Beginning of Year	3,779	3,559	3,328	0	0	0
Discoveries, Extensions and Revisions	595	533	778	0	38	268
Acquisitions and Sales	0	0	0	0	0	0
Production for the Year	(815)	(764)	(701)	0	(38)	(268)
End of the Year	<b>3,559</b>	<b>3,328</b>	<b>3,405</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>South Sumatra Extension PSC (99.9998%)</b>						
Beginning of Year	21,971	12,714	12,237	60,955	191,990	153,705
Discoveries, Extensions & Revisions	(7,326)	2,345	3,729	147,138	(16,957)	62,482
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(1,931)	(2,822)	(2,605)	(16,103)	(21,328)	(25,449)
End of the Year	<b>12,714</b>	<b>12,237</b>	<b>13,361</b>	<b>191,990</b>	<b>153,705</b>	<b>190,739</b>
<b>Sanga Sanga TAC (99.99%)</b>						
Beginning of Year	12,786	6,178	5,020	20,426	19,087	20,860
Discoveries, Extensions & Revisions	(4,731)	515	106	3,259	7,098	(2,547)
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(1,877)	(1,673)	(1,644)	(4,598)	(5,325)	(3,857)
End of the Year	<b>6,178</b>	<b>5,020</b>	<b>3,483</b>	<b>19,087</b>	<b>20,860</b>	<b>14,456</b>
<b>Tarakan PSC (99.99%)</b>						
Beginning of Year	1,079	687	1,268	42,576	35,526	27,229
Discoveries, Extensions & Revisions	(135)	824	1,497	818	(61)	(2,555)
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(257)	(243)	(583)	(7,869)	(8,236)	(7,668)
End of the Year	<b>687</b>	<b>1,268</b>	<b>2,183</b>	<b>35,526</b>	<b>27,229</b>	<b>17,006</b>
<b>Tarakan TAC (99.99%)</b>						
Beginning of Year	1,039	941	441	0	0	0
Discoveries, Extensions & Revisions	186	(282)	(1)	0	235	261
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(284)	(218)	(177)	0	(235)	(261)
End of the Year	<b>941</b>	<b>441</b>	<b>263</b>	<b>0</b>	<b>0</b>	<b>0</b>

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Table 4 continued

Block	Gross Working Interest Oil and Condensate			Gross Working Interest Natural Gas		
	1/1/2004	1/1/2005	1/1/2006	1/1/2004	1/1/2005	1/1/2006
	(Mstb)	(Mstb)	(Mstb)	(MMscf)	(MMscf)	(MMscf)
<b>Sembakung TAC (100%)</b>						
Beginning of Year	0	0	0	0	0	0
Discoveries, Extensions & Revisions	0	0	0	0	0	0
Acquisitions & Sales	0	0	4,830	0	0	0
Production for the Year	0	0	0	0	0	0
End of the Year	<b>0</b>	<b>0</b>	<b>4,830</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Lematang PSC (74.1176%)</b>						
Beginning of Year	0	0	13	0	0	412
Discoveries, Extensions & Revisions	0	39	3	0	1,186	153
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	0	(25)	(12)	0	(774)	(378)
End of the Year	<b>0</b>	<b>13</b>	<b>4</b>	<b>0</b>	<b>412</b>	<b>188</b>
<b>Langsa TAC (70%)</b>						
Beginning of Year	0	0	0	0	0	0
Discoveries, Extensions & Revisions	0	0	0	0	0	0
Acquisitions & Sales	0	0	1,129	0	0	0
Production for the Year	0	0	0	0	0	0
End of the Year	<b>0</b>	<b>0</b>	<b>1,129</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Senoro Toili JOB (50%)</b>						
Beginning of Year	0	0	2,585	0	0	0
Discoveries, Extensions & Revisions	0	2,585	(622)	0	0	0
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	0	0	(78)	0	0	0
End of the Year	<b>0</b>	<b>2,585</b>	<b>1,886</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>						
Beginning of year	<b>146,814</b>	<b>109,442</b>	<b>85,050</b>	<b>123,957</b>	<b>270,985</b>	<b>220,526</b>
Discoveries, Extensions & Revisions	<b>(13,315)</b>	<b>(5,809)</b>	<b>32,018</b>	<b>175,598</b>	<b>(3,086)</b>	<b>65,572</b>
Acquisitions & Sales	<b>0</b>	<b>0</b>	<b>5,959</b>	<b>0</b>	<b>0</b>	<b>0</b>
Production for the Year	<b>(24,057)</b>	<b>(18,584)</b>	<b>(17,624)</b>	<b>(28,570)</b>	<b>(47,373)</b>	<b>(45,153)</b>
End of the Year	<b>109,442</b>	<b>85,050</b>	<b>105,403</b>	<b>270,985</b>	<b>220,526</b>	<b>240,945</b>

**Notes:**

1. Excludes Senoro Gas field.
2. The January 1, 2006 audit includes the Sembakung and Langsa TAC areas, which were not previously reported by GCA.

**Table 5**  
**Reconciliation of Movements of Proved plus Probable (2P) Reserves**  
**As of January 1st for the years 2004, 2005 and 2006**  
**Company's Gross Working Interest**

Block	Gross Working Interest Oil & Condensate			Gross Working Interest Natural Gas		
	1/1/2004	1/1/2005	1/1/2006	1/1/2004	1/1/2005	1/1/2006
	(Mstb)	(Mstb)	(Mstb)	(MMscf)	(MMscf)	(MMscf)
<b>Rimau PSC (95%)</b>						
Beginning of Year	138,273	155,476	104,233	18,853	47,693	31,269
Discoveries, Extensions & Revisions	36,095	(38,405)	1,008	28,842	(4,986)	(60)
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(18,893)	(12,838)	(11,826)	0	(11,437)	(7,272)
End of the Year	<b>155,476</b>	<b>104,233</b>	<b>93,415</b>	<b>47,693</b>	<b>31,269</b>	<b>23,938</b>
<b>Central Sumatra Kampar PSC (99.9998%)</b>						
Beginning of Year	4,263	3,982	3,598	0	0	0
Discoveries, Extensions & Revisions	534	380	612	0	38	268
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(815)	(764)	(701)	0	(38)	(268)
End of the Year	<b>3,982</b>	<b>3,598</b>	<b>3,509</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>South Sumatra Extension PSC (99.9998%)</b>						
Beginning of Year	43,665	29,202	31,146	249,099	396,583	413,881
Discoveries, Extensions & Revisions	(12,532)	4,765	(6,150)	163,588	38,626	(13,172)
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(1,931)	(2,822)	(2,605)	(16,103)	(21,328)	(25,449)
End of the Year	<b>29,202</b>	<b>31,146</b>	<b>22,391</b>	<b>396,583</b>	<b>413,881</b>	<b>375,260</b>
<b>Sanga Sanga TAC (99.99%)</b>						
Beginning of Year	12,908	7,925	7,376	43,456	33,040	20,860
Discoveries, Extensions & Revisions	(3,106)	1,124	(510)	(5,818)	(6,855)	(2,547)
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(1,877)	(1,673)	(1,644)	(4,598)	(5,325)	(3,857)
End of the Year	<b>7,925</b>	<b>7,376</b>	<b>5,223</b>	<b>33,040</b>	<b>20,860</b>	<b>14,456</b>
<b>Tarakan PSC (99.99%)</b>						
Beginning of Year	1,079	687	2,064	42,576	35,526	35,825
Discoveries, Extensions & Revisions	(135)	1,620	702	818	8,535	(11,151)
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(257)	(243)	(583)	(7,869)	(8,236)	(7,668)
End of the Year	<b>687</b>	<b>2,064</b>	<b>2,183</b>	<b>35,526</b>	<b>35,825</b>	<b>17,006</b>
<b>Tarakan TAC (99.99%)</b>						
Beginning of Year	1,039	941	504	0	0	0
Discoveries, Extensions & Revisions	186	(219)	(64)	0	235	261
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	(284)	(218)	(177)	0	(235)	(261)
End of the Year	<b>941</b>	<b>504</b>	<b>263</b>	<b>0</b>	<b>0</b>	<b>0</b>

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Table 5 continued

Block	Gross Working Interest Oil & Condensate			Gross Working Interest Natural Gas		
	2003	2004	2005	2003	2004	2005
	(Mstb)	(Mstb)	(Mstb)	(MMscf)	(MMscf)	(MMscf)
<b>Sembakung TAC (100%)</b>						
Beginning of Year	0	0	0	0	0	0
Discoveries, Extensions & Revisions	0	0	0	0	0	0
Acquisitions & Sales	0	0	5,351	0	0	0
Production for the Year	0	0	0	0	0	0
End of the Year	<b>0</b>	<b>0</b>	<b>5,351</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Lematang PSC (74.1176%)</b>						
Beginning of Year	0	0	13	0	0	412
Discoveries, Extensions & Revisions	0	39	3	0	1,186	153
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	0	(25)	(12)	0	(774)	(378)
End of the Year	<b>0</b>	<b>13</b>	<b>4</b>	<b>0</b>	<b>412</b>	<b>188</b>
<b>Langsa TAC (35%)</b>						
Beginning of Year	0	0	0	0	0	0
Discoveries, Extensions & Revisions	0	0	0	0	0	0
Acquisitions & Sales	0	0	1,823	0	0	0
Production for the Year	0	0	0	0	0	0
End of the Year	<b>0</b>	<b>0</b>	<b>1,823</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Senoro Toili JOB (50%)</b>						
Beginning of Year	31,190	31,190	5,451	1,291,500	1,291,500	0
Discoveries, Extensions & Revisions	0	(25,739)	(527)	0	(1,291,500)	0
Acquisitions & Sales	0	0	0	0	0	0
Production for the Year	0	0	(78)	0	0	0
End of the Year	<b>31,190</b>	<b>5,451</b>	<b>4,847</b>	<b>1,291,500</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>						
Beginning of Year	<b>232,416</b>	<b>229,403</b>	<b>154,385</b>	<b>1,645,484</b>	<b>1,804,342</b>	<b>502,248</b>
Discoveries, Extensions & Revisions	<b>21,042</b>	<b>(56,434)</b>	<b>(4,926)</b>	<b>187,430</b>	<b>(1,254,721)</b>	<b>(26,247)</b>
Acquisitions & Sales	<b>0</b>	<b>0</b>	<b>7,174</b>	<b>0</b>	<b>0</b>	<b>0</b>
Production for the Year	<b>(24,057)</b>	<b>(18,584)</b>	<b>(17,624)</b>	<b>(28,570)</b>	<b>(47,373)</b>	<b>(45,153)</b>
End of the Year	<b>229,403</b>	<b>154,385</b>	<b>139,009</b>	<b>1,804,342</b>	<b>502,248</b>	<b>430,848</b>

**Notes:**

1. Excludes Senoro Gas field.
2. The January 1, 2006 audit includes the Sembakung and Langsa TAC areas, which were not previously reported by GCA.

Attachment 1

Society of Petroleum Engineers/  
World Petroleum Congresses  
Reserve Definitions

**PETROLEUM RESERVES DEFINITIONS**

**SOCIETY OF PETROLEUM ENGINEERS (SPE)  
AND  
WORLD PETROLEUM CONGRESSES (WPC)**

**DEFINITIONS**

Reserves are those quantities of petroleum<sup>1</sup> which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either Proved or unproved. Unproved reserves are less certain to be recovered than Proved reserves and may be further sub-classified as Probable and Possible reserves to denote progressively increasing uncertainty in their recoverability.

The intent of the SPE and WPC in approving additional classifications beyond proved reserves is to facilitate consistency among professionals using such terms. In presenting these definitions, neither organization is recommending public disclosure of reserves classified as unproved. Public disclosure of the quantities classified as unproved reserves is left to the discretion of the countries or companies involved.

Estimation of reserves is done under conditions of uncertainty. The method of estimation is called deterministic if a single best estimate of reserves is made based on known geological, engineering, and economic data. The method of estimation is called probabilistic when the known geological, engineering, and economic data are used to generate a range of estimates and their associated probabilities. Identifying reserves as Proved, Probable, and Possible has been the most frequent classification method and gives an indication of the probability of recovery. Because of potential differences in uncertainty, caution should be exercised when aggregating reserves of different classifications.

Reserves estimates will generally be revised as additional geologic or engineering data becomes available or as economic conditions change. Reserves do not include quantities of petroleum being held in inventory, and may be reduced for usage or processing losses if required for financial reporting.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

**Proved Reserves**

Proved 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. Proved reserves can be categorized as developed or undeveloped.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Establishment of current economic conditions should include relevant historical petroleum prices and associated costs and may involve an averaging period that is consistent with the purpose of the reserve estimate, appropriate contract obligations, corporate procedures, and government regulations involved in reporting these reserves.

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<sup>1</sup> **PETROLEUM:** For the purpose of these definitions, the term petroleum refers to naturally occurring liquids and gases which are predominately comprised of hydrocarbon compounds. Petroleum may also contain non-hydrocarbon compounds in which sulfur, oxygen, and/or nitrogen atoms are combined with carbon and hydrogen. Common examples of non-hydrocarbons found in petroleum are nitrogen, carbon dioxide and hydrogen sulfide.

In general, reserves are considered Proved if the commercial producibility of the reservoir is supported by actual production or formation tests. In this context, the term Proved refers to the actual quantities of petroleum reserves and not just the productivity of the well or reservoir. In certain cases, Proved reserves may be assigned on the basis of well logs and/or core analysis that indicate the subject reservoir is hydrocarbon bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) the undrilled portions of the reservoir that can reasonably be judged as commercially productive on the basis of available geological and engineering data. In the absence of data on fluid contacts, the lowest known occurrence of hydrocarbons controls the Proved limit unless otherwise indicated by definitive geological, engineering or performance data.

Reserves may be classified as Proved if facilities to process and transport those reserves to market are operational at the time of the estimate or there is a reasonable expectation that such facilities will be installed. Reserves in undeveloped locations may be classified as Proved undeveloped provided (1) the locations are direct offsets to wells that have indicated commercial production in the objective formation, (2) it is reasonably certain such locations are within the known Proved productive limits of the objective formation, (3) the locations conform to existing well spacing regulations where applicable, and (4) it is reasonably certain the locations will be developed. Reserves from other locations are categorized as Proved undeveloped only where interpretations of geological and engineering data from wells indicate with reasonable certainty that the objective formation is laterally continuous and contains commercially recoverable petroleum at locations beyond direct offsets.

Reserves which are to be produced through the application of established improved recovery methods are included in the Proved classification when (1) successful testing by a pilot project or favorable response of an installed program in the same or an analogous reservoir with similar rock and fluid properties provides support for the analysis on which the project was based, and, (2) it is reasonably certain that the project will proceed. Reserves to be recovered by improved recovery methods that have yet to be established through commercially successful applications are included in the Proved classification only (1) after a favorable production response from the subject reservoir from either (a) a representative pilot or (b) an installed program where the response provides support for the analysis on which the project is based and (2) it is reasonably certain the project will proceed.

### **Unproved Reserves**

Unproved reserves are based on geologic and/or engineering data similar to that used in estimates of Proved reserves; but technical, contractual, economic, or regulatory uncertainties preclude such reserves being classified as Proved. Unproved reserves may be further classified as Probable reserves and Possible reserves.

Unproved reserves may be estimated assuming future economic conditions different from those prevailing at the time of the estimate. The effect of possible future improvements in economic conditions and technological developments can be expressed by allocating appropriate quantities of reserves to the Probable and Possible classifications.

### **Probable Reserves**

Probable reserves 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.

In general, Probable reserves may include (1) reserves anticipated to be Proved by normal step-out drilling where sub-surface control is inadequate to classify these reserves as Proved, (2) reserves in formations that appear to be productive based on well log characteristics but lack core data or definitive tests and which are not analogous to producing or Proved reservoirs in the area, (3) incremental reserves attributable to infill drilling that could have been classified as Proved if closer statutory spacing had been approved at the time of the estimate, (4) reserves attributable to improved recovery methods that have been established by repeated commercially successful applications when (a) a project or pilot is planned but not in operation and (b) rock, fluid, and reservoir characteristics appear favorable for commercial application, (5) reserves in an area of the formation that appears

to be separated from the Proved area by faulting and the geologic interpretation indicates the subject area is structurally higher than the Proved area, (6) reserves attributable to a future workover, treatment, re-treatment, change of equipment, or other mechanical procedures, where such procedure has not been Proved successful in wells which exhibit similar behavior in analogous reservoirs, and (7) incremental reserves in Proved reservoirs where an alternative interpretation of performance or volumetric data indicates more reserves than can be classified as Proved.

### **Possible Reserves**

Possible reserves are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than Probable reserves. In this context, when probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the sum of estimated Proved plus Probable plus Possible reserves.

In general, Possible reserves may include (1) reserves which, based on geological interpretations, could possibly exist beyond areas classified as Probable, (2) reserves in formations that appear to be petroleum bearing based on log and core analysis but may not be productive at commercial rates, (3) incremental reserves attributed to infill drilling that are subject to technical uncertainty, (4) reserves attributed to improved recovery methods when (a) a project or pilot is planned but not in operation and (b) rock, fluid and reservoir characteristics are such that a reasonable doubt exists that the project will be commercial, and (5) reserves in an area of the formation that appears to be separated from the Proved area by faulting and geological interpretation indicates the subject area is structurally lower than the Proved area.

## **RESERVE STATUS CATEGORIES**

Reserve status categories define the development and producing status of wells and reservoirs.

**Developed:** Developed reserves are expected to be recovered from existing wells including reserves behind pipe. Improved recovery reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Developed reserves may be sub-categorized as producing or non-producing.

**Producing:** Reserves subcategorized as producing are expected to be recovered from completion intervals which are open and producing at the time of the estimate. Improved recovery reserves are considered producing only after the improved recovery project is in operation.

**Non-producing:** Reserves subcategorized as non-producing include shut-in and behind-pipe reserves. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future recompletion prior to the start of production.

**Undeveloped Reserves:** Undeveloped reserves are expected to be recovered: (1) from new wells on undrilled acreage, (2) from deepening existing wells to a different reservoir, or (3) where a relatively large expenditure is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

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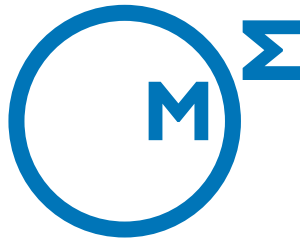
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