MEDCOENERGI

PT MEDCO ENERGI INTERNASIONAL TBK

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

899,313,500 Common Shares
directly or in the form of Global Depositary Shares
at an offer price of
Rp.2,850 per Common Share or US$14.50 per GDS

(subject to an increase of up to 134,897,500 additional common shares, directly or in the form of GDSs, pursuant to an option)

This offering circular (the ''Offering Circular'') relates to an offering of 899,313,500 common shares (''Common Shares'') of par value Rp.100.00 per share (each an ''Offered Share'' and collectively, the ''Offered Shares''), of PT Medco Energi Internasional Tbk (the ''Company''), directly or in the form of Global Depositary Shares (each a ''GDS'' and collectively the ''GDSs'', which term includes the Rule 144A GDSs, the Regulation S GDSs and Option GDSs, each as defined below) by certain of the Company's shareholders referred to in this Offering Circular as selling shareholders (the ''Selling Shareholders''). Each GDS will represent 50 Common Shares. The Offered Shares will be offered in Indonesian Rupiah and the GDSs will be offered in U.S. dollars. The Company will not receive any proceeds from the sale of the Offered Shares or the GDSs by the Selling Shareholders.

The Offered Shares and the GDSs are being offered severally by the initial purchasers specified herein (the ''Initial Purchasers'') (i) in the United States to persons reasonably believed by them to be qualified institutional buyers (''QIBs'') as defined in, and in reliance on, Rule 144A under the United States Securities Act of 1933, as amended (the ''Securities Act'') (the ''Rule 144A GDSs'') and (ii) outside the United States to persons other than U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act (the ''Regulation S GDSs''). See ''Description of Global Depositary Shares — Settlement and Safe-keeping'', ''Transfer Restrictions'' and ''Plan of Distribution''.

The Rule 144A GDSs will be issued pursuant to the Rule 144A deposit agreement and the Regulation S GDSs will be issued pursuant to the Regulation S deposit agreement (together with the Rule 144A deposit agreement, the ''Deposit Agreements''), each to be dated as of the Closing Date (as defined below), by and among the Company, Citibank, N.A., as depositary (the ''Depositary'') and holders and beneficial owners from time to time of the Rule 144A GDSs and Regulation S GDSs, respectively, issued thereunder. The GDSs will be issued in global form and evidenced by a master Rule 144A Global Depositary Receipt (the ''Master Rule 144A GDR'') and a master Regulation S Global Depositary Receipt (the ''Master Regulation S GDR'' and together with the Master Rule 144A GDR, the ''Master GDRs''), each of which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (''DTC''). Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants. See ''Description of Global Depositary Shares''.

The Common Shares are listed on the Jakarta Stock Exchange (the ''JSX''). This Offering Circular comprises a Prospectus as referred to in Directive 2003/71/EC of the European Parliament and of the Council (the ''Prospectus Directive''). Application has been made to the Luxembourg Stock Exchange for the Regulation S GDSs to be admitted to listing on the Official List and to be admitted to trading on the EU regulated market. No application has been made to list the Offered Shares or the Rule 144A GDSs on the Luxembourg Stock Exchange. The Rule 144A GDSs are expected to be eligible for trading by QIBs in the PORTAL Market of The Nasdaq Stock Market, Inc. (the ''PORTAL Market''). The Regulation S GDSs are expected to be included for trading on the International Order Book (the ''IOB'') system of the London Stock Exchange. On July 28, 2005, the closing price of the outstanding Common Shares on the JSX was Rp.3,775 equivalent to US$0.384 (the Rupiah/U.S. dollar exchange rate of Rp.9,825 = US$1.00 on such date). See ''Market Price Information''.

Investing in the Offered Shares and the GDSs involves risks. See ''Risk Factors'' beginning on page 12.

NEITHER THE OFFERED SHARES NOR THE GDSs AND THE COMMON SHARES REPRESENTED THEREBY HAVE BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT AND THEY 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) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE OFFERED SHARES AND THE GDSs ARE BEING OFFERED AND SOLD (A) DIRECTLY OR IN THE FORM OF RULE 144A GDSs IN THE UNITED STATES ONLY TO PERSONS REASONABLY BELIEVED TO BE QIBs (AS DEFINED IN RULE 144A) IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT AND (B) DIRECTLY OR IN THE FORM OF REGULATION S GDSs OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT. PROSPECTIVE PURCHASERS IN THE UNITED STATES ARE HEREBY NOTIFIED THAT THE INITIAL PURCHASERS OF THE OFFERED SHARES AND THE GDSs MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. SEE ''TRANSFER RESTRICTIONS''.

The Selling Shareholders have granted the Initial Purchasers a 30-day option to purchase up to 134,897,500 additional Common Shares (''Option Shares''), either directly or in the form of GDSs (the ''Option GDSs''), at the offer price referred to above.

The Offered Shares and the GDSs are being offered by the Initial Purchasers severally as specified herein, subject to receipt and acceptance by them of, and subject to their right to reject, any order in whole or in part and to certain other conditions. It is expected that delivery of Offered Shares will be made on or about August 3, 2005 (the ''Closing Date'') through the facilities of the Indonesian Central Securities Depositary, PT Kustodian Sentral Efek Indonesia (''KSEI''), and delivery of the GDSs will be made on or about the Closing Date through the facilities of DTC, in either case against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Merrill Lynch International **Credit Suisse First Boston**

Joint Lead Managers

UOB Kay Hian Private Limited

Co-Lead Managers

Macquarie Securities **Bahana Securities**

The date of this Offering Circular is July 29, 2005.

The Company accepts responsibility for the information contained in this document. Having made all reasonable inquiries, the Company confirms that, to the best of its knowledge, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of this information. The statements contained in this Offering Circular relating to the Company and the Selling Shareholders are in all material respects true and accurate and not misleading, and the opinions and intentions expressed in this Offering Circular with regard to the Company and the Selling Shareholders are honestly held, have been reached after considering all relevant circumstances, are based on information presently available to the Company and are based on reasonable assumptions. The Company is not aware of any other facts in relation to the Company, the Selling Shareholders, the Offered Shares or the GDSs, the omission of which may, in the context of the offering of the Offered Shares and the GDSs, in their reasonable opinion, make this document as a whole or any of such information or the expression of any such opinions or intentions materially misleading, and all reasonable inquiries have been made by the Company to ascertain such facts and to verify the accuracy of such information and statements. Where information contained in this Offering Circular includes extracts from summaries of information and data from various published and private sources, the Company accepts responsibility for accurately reproducing such summaries and data but accept no further or other responsibility in respect of such information.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Shareholders or any Initial Purchaser. No representation or warranty, express or implied, is made by any Initial Purchaser as to the accuracy or completeness of such information, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by any Initial Purchaser as to the past, present or future. Neither the delivery of this Offering Circular nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or the Selling Shareholders since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

In connection with the offering, Merrill Lynch International and/or its affiliates (the "Stabilizing Manager") or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the GDSs or the shares at a level higher than that which might otherwise prevail for a limited period of time after the issue date. However, there shall be no obligation on the stabilizing manager or its agents to do this. Such stabilization, if commenced, may be discontinued at any time and must be brought to an end after a limited period. For a description of these activities, see "Plan of Distribution".

Neither the Offered Shares nor the GDSs have been 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. Any representation to the contrary is a criminal offense.

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.

This Offering Circular does not constitute, and may not be used for purposes of, an offer, invitation or solicitation by anyone in any jurisdiction or in any circumstances in which such offer, invitation or solicitation is not authorized or to any person to whom it is unlawful to make such offer, invitation or solicitation. The distribution of this Offering Circular and the offering of the Offered Shares and the GDSs in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company, the Selling Shareholders and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Offered Shares and the GDSs and the distribution of this Offering Circular, see ''Plan of Distribution'' and ''Transfer Restrictions''.

The Common Shares represented by the GDSs will be registered in the name of the Depositary, and the Depositary will issue the GDSs pursuant to the terms of the Deposit Agreements. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected through, records maintained by DTC, Euroclear Bank S.A./N.V. as operator of the Euroclear System (''Euroclear'') and

Clearstream Banking, société anonyme (“Clearstream”) and their direct and indirect participants. Beneficial interests in the Rule 144A GDSs may only be held through DTC. Delivery of the Master GDSs will be made on the Closing Date.

Each of the Initial Purchasers (i) has not offered or sold and will not offer or sell any Offered Shares or GDSs in Indonesia or to Indonesian citizens, corporations or residents, including by way of invitation, offering or advertisement, and (ii) has not distributed and will not distribute this Offering Circular or any other offering material relating to the Offered Shares or GDSs in Indonesia or to Indonesian citizens, corporations or residents except that the Initial Purchasers may offer and sell to Indonesian citizens, corporations or residents pursuant to certain limitations in accordance with Indonesian laws and regulations as set forth in the Purchase Agreement (as defined herein).

NEITHER THE SHARES NOR THE GDSs 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.

FOR NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA 421-B”) WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN TERMS AND CONVENTIONS

Unless indicated otherwise in this Offering Circular, all references to (i) “Medco Energi” are to PT Medco Energi Internasional Tbk, (ii) the “Company” are to Medco Energi and its consolidated subsidiaries, (iii) “Novus” are to Novus Petroleum Limited, a wholly-owned subsidiary of the Company and (iv) the “Novus Group” are to Novus and its controlled entities.

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. dollars” are to the currency of the United States of America and references to “Rupiah” or “Rp.” are to Indonesian Rupiah. 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 March 31, 2005, which was Rp.9,480 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 United States and countries in the European Union. The material differences between Indonesian GAAP and generally accepted accounting principles in the United States (''U.S. GAAP'') as applicable to the Company are discussed under the caption ''Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and in the United States of America''. 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 Generally 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 March 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 ''Industry — Production Sharing Arrangements''.

All references herein to the ''New Oil and Gas Law'' are references to the oil and gas law enacted 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.

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 and income and revenue taxes, 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, Langsa and Tuban blocks, Senoro-Toili block (Senoro field) and the Lematang block (Singa field) as well as the Company's U.S. and Middle East 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, 2003 and 2004 GCA Reports on behalf of PT Exspan Nusantara and the January 1, 2005 GCA Report on behalf of Medco Energi. The January 1, 2005 GCA Report, which supercedes any prior GCA Reports to the extent pertaining to the fields covered in the January 1, 2005 GCA Report, is contained elsewhere in this Offering Circular.

Certain other reserves information contained in this Offering Circular, which amounts to approximately 23.1% of the Company's gross proved oil and gas reserves and 58.1% of the Company's gross proved and probable oil and gas reserves, 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. 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 production, revenue and expenditure with respect to its reserves may differ from such estimates''.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act, in connection with resales of the GDSs or Offered Shares, the Company will furnish upon request of a holder or beneficial owner of GDSs or Offered Shares to such person and any prospective investor designated by such person the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the GDSs or Offered Shares are ''restricted securities'' within the meaning of Rule 144 under the Securities Act and the Company is neither a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the ''Exchange Act''), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. In accordance with the Deposit Agreements, the Depositary will also make available for inspection by holders of GDSs or, in certain cases, arrange for the mailing to such holders of certain reports or communications received from the Company. In addition, such documents will be available for inspection by holders of GDSs at the principal office of The Bank of New York (Luxembourg) S.A. located at Aerogolf Center, 1A, Hoehenhof, L-1736, Senningerberg, Luxembourg, during normal business hours on any weekday for so long as the Regulation S GDSs are listed on the Luxembourg Stock Exchange and the rules of the stock exchange so require.

ENFORCEABILITY OF CIVIL LIABILITIES

The Company is a limited liability company incorporated under the laws of Indonesia. All of the Company's commissioners, directors and executive officers reside outside the United States, and all or a substantial portion of the assets of the Company and such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Company or such persons or to enforce against the Company or such persons in the United States judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

The Company has been advised by its Indonesian counsel, Ery Yunasri & Partners, that under the laws of Indonesia, the parties may enter into an agreement governed by and interpreted in accordance with the laws of a jurisdiction other than Indonesia. The Indonesian counsel has also advised the Company that judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States, are not enforceable in Indonesian courts. There is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesia courts predicated solely upon the civil liability provisions of the federal securities laws of the United States. New proceedings would have to be initiated in the Indonesian court. In any such Indonesian proceedings, a judgment of a non-Indonesian court will not be enforceable by the court of Indonesia, although such a judgment could be admissible as evidence as to matter of law of the jurisdiction of that non-Indonesian court and may be given such evidentiary weight as the Indonesian court deems appropriate in the circumstances. Re-examination of the underlying claim de novo would be required before the Indonesian court. See ‘‘Risk Factor — Risks Relating to the GDSs and the Common Shares — Investors may have difficulty pursuing claims under the GDSs or the Common Shares and against the Company’’.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes ‘‘forward-looking statements’’, as defined in Section 27A of the Securities Act, and Section 21E of 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’’, ‘‘Management’s Discussion and Analysis of 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 of certain facilities;
- 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 economic 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, 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. 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 Offered Shares or the GDSs.

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, 2005, the Company's estimated gross proved reserves of 159.7 MMBOE consisted of 94.3 MMBbls of oil and condensate and 382.3 Bcf of natural gas. As of January 1, 2005, the Company's estimated gross proved plus probable reserves of 574.0 MMBOE consisted of 201.2 MMBbls of oil and condensate and 2,180.7 Bcf of natural gas. The Company produced approximately 31.7, 24.7, and 20.3 MMBbls of oil and condensate and approximately 24.3, 30.2 and 73.4 Bcf of natural gas in the years 2002, 2003 and 2004, respectively. The Company was a top four crude oil producer by volume in Indonesia in 2002, 2003 and 2004. The reserve and production data set forth above and in this Offering Circular excludes the Company's interests in Australian blocks which were divested in December 2004.

For the years ended December 31, 2002, 2003 and 2004, the Company had total sales and other operating revenues of US$408.6 million, US$463.6 million and US$545.1 million, respectively, and EBITDA of US$213.3 million, US$219.1 million and US$254.5 million, respectively. Net oil and gas sales accounted for 78.1%, 66.9% and 66.5% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. For a reconciliation of EBITDA to income from operations, see "Management's Discussion and Analysis of 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 44,401 square kilometers of property in Indonesia under 17 different production sharing arrangements with BPMigas, Indonesia's national upstream oil and gas regulator, and in some cases, with Pertamina, the state-owned national oil 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 "Industry — Production Sharing Arrangements". The Company currently produces crude oil and natural gas from 696 wells in nine contract areas located in Sumatra, Java and Kalimantan in Indonesia. It also holds an interest in the large Senoro-Toili block, currently under development, and seven exploration contract areas in Indonesia, four of which it has already targeted as future development blocks. The Company has also acquired stakes in four U.S. blocks as well as one exploration block in Libya.

Drilling operations and related services accounted for 10.9%, 17.1% and 17.3% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. The Company owns a fleet of 11 onshore drilling rigs and five offshore drilling rigs, including four submersible swamp barge rigs and one jack-up rig, and offers onshore and offshore contract drilling services through its 77.5%-owned subsidiary, PT Apexindo Pratama Duta Tbk ("Apexindo"). All of the contract drilling operations of the Company are conducted by Apexindo. Apexindo's shares were listed on the 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 7.5%, 11.9% and 10.2% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. To position itself for gas sales to the power sector, the Company also acquired in 2003 two small stakes in gas-fired power plants, which accounted for less than 0.3% of its total sales and other operating revenues in 2004.

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 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 422.3 MMBOE of oil and gas, which is equivalent to approximately 73.6% of its gross proved plus probable reserves as of January 1, 2005. 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, 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 acquisition and exploration. Of its existing reserve portfolio as of January 1, 2005, the Company believes that over 40% 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 17 Indonesian blocks, five 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 1994 to 89.8 MBOE/d in 2004. Over the past five years, the Company has been awarded several management awards from international organizations as well as the Government.
- ***Competitive cost structure.*** The Company believes that it has a competitive cost structure exemplified by having one of the lowest lifting costs among oil and gas operators in Indonesia and the Asia-Pacific region. For the year ended December 31, 2004, the Company's lifting cost was US$2.93 per BOE for all of its assets (other than the Langsa block and the divested Australian blocks). The Company's average lifting cost for the three-year period ended December 31, 2004 was US$2.22 per BOE (other than the Langsa block and the divested Australian blocks).
- ***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.

Business Strategy

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

- Replace and add reserves through acquisitions and exploration.
- 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.
- 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

Issuer	PT Medco Energi Internasional Tbk.
Selling Shareholders	Densico Energy Resources Pte Limited and Aman Energy Resources Pte Limited, wholly-owned subsidiaries of Encore Int'l Limited ("Encore").
The Offering	A total of 899,313,500 Offered Shares, either directly or in the form of GDSs, are being offered by the Selling Shareholders through the Initial Purchasers to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act and to non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.
Offering Price	Rp.2,850 per Common Share or US$14.50 per GDS.
The GDSs	Each GDS will represent 50 Common Shares. The GDSs will be issued pursuant to the Rule 144A deposit agreement and the Regulation S deposit agreement (as applicable), and the Selling Shareholders will deposit the Common Shares to be represented by GDSs with the Custodian (as defined in "Description of Global Depositary Shares"), as agent for the Depositary, which in turn will deliver the GDSs. The GDSs sold in reliance on Rule 144A and Regulation S under the Securities Act will be evidenced by a single restricted Master Rule 144A GDR and a single restricted Master Regulation S GDR, respectively.
Closing Date	On or about August 3, 2005.
Share Capital	The Company has an authorized share capital of Rp.400,000,000,000, consisting of 4,000,000,000 Common Shares of par value Rp.100.00 each, of which 3,332,451,450 Common Shares (including treasury stock) were issued and outstanding immediately prior to and after this offering.
The Option	The Selling Shareholders have granted to the Initial Purchasers an option, exercisable within 30 days from the date of this Offering Circular, to purchase up to 134,897,500 additional Option Shares, either directly or in the form of GDSs.
Deposit and Withdrawal of Offered Shares	Pursuant to the applicable Deposit Agreement, holders of Offered Shares may deposit Offered Shares with the Custodian as agent for the Depositary in Jakarta and obtain GDSs, and may surrender GDSs to the Depositary and receive Common Shares, subject in each case to the satisfaction of certain conditions. See "Description of Global Depositary Shares — Withdrawal of Common Shares Upon Cancellation of GDSs".
Market for Offered Shares and GDSs and Listing	The only trading market for Common Shares is the JSX. See "Market Price Information". Prior to this offering, there has been no trading market for the GDSs. Application has been made to the Luxembourg Stock Exchange for the Regulation S GDSs to be admitted to listing on the Official List and to be admitted to trading

	on the EU regulated market. No application has been made to list the Offered Shares or the Rule 144A GDSs on the Luxembourg Stock Exchange. Application has been made to have the Rule 144A GDSs designated as eligible for trading on the PORTAL Market and the Regulation S GDSs designated as eligible for trading on the IOB system of the London Stock Exchange. The European Union Transparency Obligations Directive may be implemented in a manner that is unduly burdensome for the Company. In such circumstances, the Company may decide to seek an alternative listing for the Regulation S GDSs on a stock exchange outside the European Union.
Dividends	The Offered Shares sold in this offering, including the Common Shares represented by GDSs, will rank *pari passu* with other outstanding Common Shares in all respects, including dividends, and the holders of the Offered Shares and GDSs will be entitled to the full amount of any dividends that may be declared after the offering. Cash dividends in respect of Offered Shares underlying the GDSs will be paid to the Depositary in Rupiah. Each of the Deposit Agreements provides that, except in certain circumstances, cash dividends received by the Depositary will be converted by the Depositary into U.S. dollars and distributed to the holders of the GDSs, less Indonesian withholding tax, other Governmental charges and the Depositary's fees and expenses. See "Dividend Policy" and "Description of Global Depositary Shares — Dividends and Distributions".
Voting Rights of GDS holders	Subject to the provisions of the Deposit Agreements, a holder of GDSs will not be entitled to instruct the Depositary as to the exercise of any voting rights attaching to any Common Shares represented by such holder's GDSs under any circumstances. Upon receipt of a written notice from the Company, the Depositary will (subject to receipt of an opinion of the Company's Indonesian counsel that such action is in conformity with all applicable Indonesian laws and regulations and the Company's Articles of Association) grant the proxy or power of attorney to Encore to vote the Common Shares underlying the then-outstanding GDSs at such time. The Depositary has no obligation to deliver any notice of meeting or solicitation of proxy to holders of GDSs. By holding or continuing to hold a GDS, holders of the GDSs will be deemed to have authorized and directed the Depositary to grant the proxy or power of attorney to Encore as set forth above and as set forth in the Deposit Agreements. Registered holders of Common Shares timely withdrawn from the depositary arrangements will be entitled to vote and exercise other direct shareholder rights in accordance with applicable Indonesian law. See "Risk Factors — Risks Relating to the GDSs and the Common Shares — Holders of GDSs will not be able to exercise voting rights and Encore, the Company's controlling shareholder, will have the right to control voting of the Common Shares represented by the GDSs" and "Description of Global Depositary Shares — Voting Rights".
Taxation	Dividend or any increment generated from the Common Shares or GDSs in Indonesia of non-resident tax payer shall be subject to tax

	withholding at the rate of 20%; except under the U.S.-Indonesia double taxation treaty where the withholding tax on dividends is generally reduced to 15%. U.S. holders of Common Shares or GDSs generally will be subject to U.S. federal income tax on any dividends received, and generally will recognize capital gain or loss upon a sale or other disposition of Common Shares or GDSs. U.S. holders generally may claim a credit against their U.S. federal income tax liability for (or, if elected, may deduct from their income) Indonesian taxes withheld from dividends, subject to certain requirements and limitations. Non-U.S. holders of Common Shares or GDSs generally will be exempt from U.S. federal income tax, including withholding tax, on any dividends received and gains realized on sales or other dispositions of Common Shares or GDSs. See ''Taxation — United States Federal Income Taxation''.
Indonesian Reporting Requirements for Holders of Substantial Interests	Pursuant 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. See ''Indonesian Securities Market — Offering, Listing and Reporting Regulations — Reporting Requirements''.
Settlement of the Offered Shares	Offered Shares will be settled through KSEI. Only shares held through KSEI may be traded on the JSX. See ''Indonesian Securities Market — Offering, Listing and Reporting Regulations — Scripless Trading''.
Settlement of the GDSs	Application has been made to DTC for acceptance of the GDSs in its book-entry settlement system. So long as the GDSs are eligible for such system, all GDSs offered hereby will be evidenced by either a Master Rule 144A GDR or a Master Regulation S GDR (as applicable) each of which will be registered in the name of Cede & Co., as nominee of DTC. Investors' interests in such book-entry GDSs will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. DTC settlement practices are applicable to the GDSs held in DTC. The Regulation S GDSs have been accepted for clearance through DTC on behalf of its participants, Euroclear and Clearstream, in each case on a book-entry basis. Initial settlement of the Regulation S GDSs sold to non-U.S. persons outside Indonesia and the United States in reliance on Regulation S will take place through DTC and will be transferred to DTC's participants, Euroclear and Clearstream in accordance with the settlement procedures applicable to equity securities in the Euromarket. Euroclear and Clearstream will initially hold Regulation S GDSs on behalf of their participants through their respective depositaries which are participants in DTC. Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Regulation S GDSs through DTC and investors who hold or who will hold Regulation S GDSs through Euroclear and/or Clearstream will

	be effected in DTC through the respective depositaries of Euroclear and Clearstream.
Use of Proceeds	The aggregate net proceeds from this offering, after payment of the underwriting discounts, selling concessions and other offering expenses, are expected to be approximately US$247,065,650 (assuming no exercise of the Initial Purchasers' option), all of which will be paid to the Selling Shareholders. The Company will not receive any of the proceeds from the sale of Offered Shares directly or in the form of GDSs by the Selling Shareholders.
Restrictions on Disposal of Securities	Neither the Offered Shares nor the GDSs and the Common Shares represented thereby have been or will be registered under the Securities Act. Offers and sales of the Offered Shares and the GDSs and the Common Shares represented thereby will be subject to certain restrictions described in "Transfer Restrictions" and "Plan of Distribution".
Lock-up Agreement	Subject to certain exceptions, the Company and the Selling Shareholders have agreed with the Initial Purchasers that for a period of 90 days after the Closing Date the Company and the Selling Shareholders will not, without the written consent of the representatives of the Initial Purchasers, offer, sell or otherwise dispose of any securities convertible into or exchangeable for securities of the same class as the Offered Shares and GDSs offered hereby. See also "Plan of Distribution".
Depositary for the GDSs	Citibank, N.A.
Governing Law	The Deposit Agreements and the Purchase Agreement (as defined herein) will be governed by the laws of the State of New York.
Risk Factors	Investing in the Offered Shares and the GDSs involves risks. See "Risk Factors" beginning on page 12.

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, 2002 and 2003 are derived from the Company's audited consolidated financial statements as of and for the years ended December 31, 2002 and 2003 audited by Osman, Ramli, Satrio & Rekan (formerly KAP Hans Tuanakotta Mustofa & Halim), independent auditors, a member of Deloitte Touche Tohmatsu in Indonesia (''Deloitte''). The summary historical consolidated financial data as of and for the year ended December 31, 2004 are derived from the Company's audited consolidated financial statements as of and for the year ended December 31, 2004 audited by Prasetio, Sarwoko & Sandjaja, independent auditors, a member of Ernst & Young Global (''E&Y''). The summary historical consolidated financial data as of and for the three months ended March 31, 2004 and 2005 are derived from the Company's unaudited consolidated financial statements as of and for the three months ended March 31, 2004 and 2005. The unaudited consolidated financial statements of the Company include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2005. The Company's consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differ in certain respects from U.S. GAAP and IFRS. See ''Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and in the United States of America'', ''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''. 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,			For the Three Months Ended March 31,	
	2002 (restated)[1]	2003 (restated)[1]	2004	2004 (unaudited)	2005 (unaudited)
	(US$ in thousands, except where otherwise indicated)				
Consolidated Statements of Income Data					
Sales and Other Operating Revenues:					
Net oil and gas sales	318,981.3	309,968.4	362,333.7	72,485.0	85,412.0
Drilling operations and related services	44,599.1	79,482.7	94,438.6	23,747.6	20,453.0
Net methanol sales	30,775.6	55,113.6	55,490.3	11,194.4	12,723.6
Share of profit of joint ventures	5,911.7	9,317.5	19,733.5	(59.2)	5,270.3
Electric power sales	—	—	1,534.5	—	2,251.8
Other contracts	8,296.8	9,676.4	11,551.0	3,238.5	4,425.5
Total Sales and Other Operating Revenues	408,564.5	463,558.6	545,081.6	110,606.3	130,536.2
Production and Lifting Costs	40,260.8	66,133.9	77,774.2	14,662.7	14,678.6
Depreciation and Amortization	51,115.9	69,233.3	74,623.6	11,219.7	21,201.3
Drilling Operations Costs	39,849.2	63,100.1	72,803.4	17,338.8	14,475.4
Cost of Methanol Sales	25,126.6	32,689.3	42,666.1	8,983.1	8,855.8
Exploration Expenses	29,392.5	21,307.8	23,847.1	4,406.9	1,434.3
Cost of Power Sales	—	—	72.9	—	122.8
Gross Profit	222,819.4	211,094.3	253,294.2	53,995.1	69,768.0
Operating Expenses	61,664.7	62,187.5	74,264.4	15,782.8	17,927.0
Income from Operations	161,154.7	148,906.8	179,029.8	38,212.3	51,841.0
Other Charges — Net	(260.7)	(26,152.2)	(48,088.7)	(1,638.2)	(12,021.5)
Tax Expense — net	(88,876.1)	(42,938.9)	(55,068.5)	(15,992.9)	(19,242.1)

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002	**2003**	**2004**	**2004**	**2005**
	(restated)[(1)]	**(restated)[(1)]**		**(unaudited)**	**(unaudited)**
	(US$ in thousands, except where otherwise indicated)				
Income Before Minority Interest in Net Loss (Income) of Consolidated Subsidiaries	72,017.9	79,815.7	75,872.7	20,581.3	20,577.5
Minority Interest in Net Loss (Income) of Consolidated Subsidiaries	220.4	(816.7)	(1,328.2)	(474.3)	(594.6)
Net Income	72,238.3	78,999.0	74,544.5	20,106.9	19,982.9
Basic Earnings per Share	0.0231	0.0254	0.0240	0.0065	0.0064
Other Financial Data					
EBITDA[(2)(4)]	213,252.3	219,109.9	254,544.4	49,575.4	73,380.2
Adjusted EBITDA[(3)(4)]	217,114.8	223,212.8	280,326.7	50,344.9	79,367.9
EBITDAX[(2)(4)]	242,644.8	240,417.7	278,391.4	53,982.3	74,814.5
Adjusted EBITDAX[(3)(4)]	246,967.0	244,813.8	306,798.0	55,263.7	80,909.2

	As of December 31,			As of March 31,	
	2002	**2003**	**2004**	**2004**	**2005**
	(restated)[(1)]	**(restated)[(1)]**		**(unaudited)**	**(unaudited)**
	(US$ in thousands, except where otherwise indicated)				
Consolidated Balance Sheets Data					
Assets:					
Cash and cash equivalents	73,609.6	134,369.7	215,302.0	160,670.6	90,172.8
Other current assets	170,715.5	246,963.1	416,788.1	235,154.4	431,750.0
Total Current Assets	244,325.1	381,332.8	632,090.2	395,825.0	521,922.8
Total Non-Current Assets	508,688.6	627,050.1	840,156.9	639,237.1	854,654.6
Total Assets	753,013.8	1,008,382.9	1,472,247.1	1,035,062.1	1,376,577.4
Liabilities and Equity:					
Short-term debt (including current maturities of long-term bank loans)	2,499.9	24,975.7	180,863.1	28,983.3	61,619.0
Other current liabilities	126,612.1	101,765.7	120,777.0	96,198.0	122,370.3
Total Current Liabilities	129,112.0	126,741.4	301,640.2	125,181.3	183,989.3
Long-term debt (excluding current maturities of long-term debt)	96,227.6	308,141.8	518,435.1	322,096.5	520,218.1
Other non-current liabilities	81,619.5	90,708.6	115,181.3	89,090.8	114,865.7
Total Non-Current Liabilities	177,847.1	398,850.4	633,616.5	411,187.3	635,083.8
Negative Goodwill — Net	6,415.7	7,007.2	1,798.8	2,091.2	1,766.9
Minority Interest in Net Assets of Subsidiaries	34,499.0	30,908.5	36,390.2	31,612.5	37,363.0
Equity — Net	405,140.0	444,875.4	498,801.5	464,989.7	518,374.4
Total Liabilities and Equity	753,013.8	1,008,382.9	1,472,247.1	1,035,062.1	1,376,577.4

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002	**2003**	**2004**	**2004**	**2005**
	(restated)[(1)]	**(restated)[(1)]**		**(unaudited)**	**(unaudited)**
	(US$ in thousands, except where otherwise indicated)				
Consolidated Statement of Cash Flows Data					
Net Cash Provided by Operating Activities	182,935.8	108,350.6	136,273.9	11,722.7	17,850.1
Net Cash Provided by (Used in) Investing Activities	(208,227.9)	(236,288.9)	(322,484.0)	7,487.9	(23,259.5)
Net Cash Provided by (Used in) Financing Activities	43,577.7	188,698.4	267,142.5	7,090.2	(119,719.8)

Notes:

(1) The Company has determined that it was necessary to make adjustments to correct several transactions in its consolidated financial statements as of and for the years ended December 31, 2002 and 2003. The adjustments made by the Company in its consolidated financial statements as of and for the years ended December 31, 2002 and 2003 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$10,317,496 in 2002 and increasing net income by US$25,561,863 in 2003, and decreasing shareholders' equity by US$67,850,302 in 2002 and US$42,288,439 in 2003.

(2) EBITDA means earnings before interest, taxes, depletion, depreciation, amortization, gain or loss on foreign exchange and other 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, depletion, depreciation, amortization, gain or loss on foreign exchange and other 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — 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 fail to account for 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 "Management's Discussion and Analysis of 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, 2002, 2003 and 2004 and for the three months ended March 31, 2005.

	For the Year Ended December 31,			For the Three Months Ended
	2002	2003	2004	March 31, 2005
Gross production:[1]				
Oil and condensate (MBbls/d)	86.7	67.6	55.5	55.1
Natural gas (Mcf/d)	66.5	82.8	200.6	169.4
Total (MBOE/d)	98.1	81.7	89.8	84.0
Total (excluding Langsa block) (MMBOE)[2]	35.8	29.8	32.8	7.4
Net entitlement:[3]				
Oil and condensate (MBbls/d)	33.5	26.5	21.2	14.6
Natural gas (Mcf/d)	48.7	58.2	93.6	67.4
Total (MBOE/d)	41.9	36.4	37.2	26.1
Lifting cost:[4]				
Oil, condensate and natural gas (US$ per BOE)	1.32	2.52	2.93	2.31
Three-year average finding and development cost:[5]				
Oil, condensate and natural gas (US$ per BOE)	2.75	4.43	7.54	N.A.
Three-year average finding, development and acquisition cost:[6]				
Oil, condensate and natural gas (US$ per BOE)	3.04	4.49	5.38	N.A.
Average realized sales price:[7]				
Oil and condensate (US$ per Bbls)	25.30	29.33	36.93	47.00
Natural gas (US$ per Mcf)	1.53	1.61	2.26	2.32
Liquefied petroleum gas (LPG) (US$ per MT)	—	—	360	349

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 does not include production from the divested Australian blocks.

(2) The Company's total gross production (excluding the Langsa block and the divested Australian blocks) for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005 was 35,807,009 BOE, 29,829,470 BOE, 32,784,402 BOE and 7,414,641 BOE, respectively.

(3) 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 "Industry — Production Sharing Arrangements". The

Company's net entitlement includes only field production from the GCA's Report. Approximately 23.1% of the Company's gross proved reserves for the year ended December 31, 2004 have not been certified by GCA as of January 1, 2005 and, as a result, these fields are also excluded from the net entitled volume estimates.

(4) 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.

(5) 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.

(6) 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.

(7) 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, 2003, 2004 and 2005 included in the 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,		
	2003	2004	2005
Gross proved reserves:			
Oil and condensate (MMBbls)	152.0	113.9	94.3
Natural gas (Bcf)	124.0	271.0	382.3
Total (MMBOE)(1)	173.2	160.3	159.7
Net proved reserves:			
Oil and condensate (MMBbls)	47.4	44.9	34.4
Natural gas (Bcf)	82.2	106.3	154.0
Total (MMBOE)(2)	61.4	63.1	60.7
Gross proved plus probable reserves:			
Oil and condensate (MMBbls)	237.6	236.5	201.2
Natural gas (Bcf)	1,793.3	1,986.9	2,180.7
Total (MMBOE)(3)	544.1	576.1	574.0
Net Proved reserves developed (%):(4)			
Oil and condensate	86%	97%	92%
Natural gas	70%	89%	88%
Proved reserve life index (in years)(5)	5.8	6.4	5.9
Proved plus probable reserve life index (in years)(6)	16.2	20.3	18.7

Notes:

(1) Approximately 36.9 MMBOE, or 23.1%, of the Company's gross proved reserves, have not been certified by GCA as of January 1, 2005.

(2) Approximately 36.9 MMBOE, or 23.1%, of the Company's gross proved reserves have not been reviewed by GCA as of January 1, 2005 and are excluded from net proved reserves because the Company does not produce in-house estimates for net proved reserves.

(3) Approximately 333.8 MMBOE, or 58.1%, of the Company's gross proved plus probable reserves have not been certified by GCA as of January 1, 2005.

(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".

RISK FACTORS

An investment in the Offered Shares and the GDSs involves risks. Prospective purchasers of the Offered Shares and the GDSs should carefully consider all of the information in this Offering Circular and, in particular, the risks described below, prior to making an investment decision with respect to the Offered Shares and the GDSs. The risks described below are not the only ones that may affect the Company or the Offered Shares and the GDSs. In general, investing in securities of issuers in emerging market countries such as Indonesia involves risks not typically associated with investing in the securities of companies in countries with more developed economies and regulatory regimes. To the extent the description below relates to the Government or Indonesian macroeconomic data, such information has been extracted from official Government publications or other third party sources and has not been independently verified by the Company or the Selling Shareholders.

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 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.

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 Common Shares and the GDSs. 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 market price of the Common Shares and the GDSs

In the last five years, there have been various bombing incidents directed towards the Government, public and commercial buildings frequented by foreigners, including the Jakarta Stock Exchange Building and the departure lounge of Jakarta's Soekarno-Hatta International Airport. There have also been three more sophisticated and significant bombing incidents in recent years. 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. Most recently, 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.

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 considers responses to such instability and unrest and adversely affect investors' confidence in Indonesia and Indonesian stock prices. Violent acts arising from and leading to instability and unrest have in the past had, and could continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy, and in turn the Company's business and the market price of the Common Shares and the GDSs. In addition, although such 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 and Indonesian stock prices.

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. To date, there have been large street demonstrations by those opposed to the increases in domestic price of fuel. According to the media, there is currently a political debate in Indonesia over 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. In May 2003, peace talks between Government officials and supporters of the separatist movement in Aceh collapsed and the Government imposed martial law in Aceh. The Government revoked martial law and imposed a state of civil emergency in May 2004 and further changed the status from a state of civil emergency to the state of civil order in May 2005. Peace talks between Government officials and supporters of the separatist movement in Aceh resumed in January 2005, shortly after the earthquake and tsunami disaster of December 26, 2004.

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 63% of the Company's total oil production and 31% of the Company's total sales and operating revenues for the year ended December 31, 2004. 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. These labor laws and regulations may make it more difficult for businesses, including the Company's business, 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 and the market price of the Common Shares and the GDSs.

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 March 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$137 billion as of December 31, 2004, which was approximately 53.5% 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. Lending from the Paris Club members to the Government accounts for approximately one-third of the Government's total debt as of the end of 2004. Together, CGI and IGGI members were owed approximately US$49.5 billion as of December 31, 2004. 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.

A slowdown in economic growth or negative growth in Indonesia could adversely affect the Company and its business and the market price of the Common Shares and the GDSs

The Company's performance is partly dependent on the health of the overall Indonesian economy. While the Company can partially offset the adverse impact on its revenues by selling oil outside of Indonesia, the Company could be adversely affected by an adverse economic development in Indonesia because it sells natural gas domestically and has significant domestic sales obligations for oil. In addition, an adverse economic condition in Indonesia could cause instability in Indonesia and adversely affect investment and confidence in, and the performance of, the Indonesian economy, and in turn the market price of the Common Shares and the GDSs. A severe economic crisis in 1997 resulted in a significant decline in real GDP and significant depreciations in currency values against the U.S. dollar, reduced economic growth rates, high interest rates, low financial liquidity, increased bankruptcies and liquidations, cancellations or postponements of infrastructure projects (including energy projects), and declines in the market values of shares listed on stock exchanges. Indonesia has since been in a recessionary phase with relatively low, but increasing, levels of growth with 0.2%, 4.9%, 3.5%, 3.6%, 4.1% and 5.1% growth in 1999, 2000, 2001, 2002, 2003 and 2004, respectively. Indonesia's economy remains significantly affected by the 1997 Asian economic crisis and substantially reliant on the support of international agencies to prevent sovereign debt defaults. Indonesia continues to have a significant budget deficit, limited foreign currencies reserves, a volatile currency and a weak banking sector. High inflation in the future may hinder economic recovery. During 2004, the inflation rate was approximately 6.4%. Any continuation or worsening of economic conditions, including significant depreciation of the Rupiah or increase in interest rates or inflation, could materially adversely affect the Company and its business. There can be no assurance that the recent improvement in economic condition will continue or the previous adverse economic condition in Indonesia and the rest of the Asia-Pacific region will not occur in the future. These developments could have a material adverse effect on the Company and the market price of the Common Shares and the GDSs.

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, most recently on Nias island as well as nearby Simeleve 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.

Risks Relating to the Oil and Gas 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 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

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$54.17 in March 2005. 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 Iraq);
- 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 New 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 New Oil and Gas Law is uncertain and may adversely affect the Company's business

Indonesia's New Oil and Gas Law came into force on November 23, 2001. See ''Industry — New Oil and Gas Law''. The new 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. The provisions of the new law are broad, and few sources of interpretive guidance are available. To date, certain implementing regulations to the New Oil and Gas Law have been enacted, relating to the formation of BPMigas and BPHMigas, 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). Additional implementing regulations are expected to be 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. Accordingly, the impact of the New 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, are only partially known.

Under the New Oil and Gas Law, existing production sharing arrangements were transferred from Pertamina to BPMigas, which has taken over the role of contracts administrator from Pertamina. Based on the provisions of the New Oil and Gas Law, management believes that the New Oil and Gas Law will not materially alter the terms of existing production sharing arrangements. Under the Upstream Regulation, the existing production sharing arrangements (created under the predecessor regulatory framework to the New Oil and Gas Law) will remain in force until the expiration of their respective terms. 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 to which it has become a party or will not conduct their performance under such production sharing arrangements to the Company's detriment. In addition, the New Oil and Gas Law is unclear as to the impact of the law on Pertamina's Technical Assistance Contracts and Enhanced Oil Recovery Contracts. See ''Industry — Production Sharing Arrangements — TACs'' and ''Industry — Production Sharing Arrangements — JOBs''.

The uncertainty surrounding the New Oil and Gas Law has increased the risks, and may increase the costs, of conducting oil and gas business in Indonesia. For example, under the old law, DMO did not apply to natural gas production. Under the New Oil and Gas law, DMO may apply to natural gas production as well as oil and gas. This could materially and adversely affect the Company as the development economics for gas is different from oil. Under the newly issued Government Regulation No. 35 of 2004 on October 14, 2004 with respect to Upstream Oil and Gas Business Activities (the ''Upstream Regulation''), upon presentation of a report on the economics of a 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% will be applicable for DMO, instead of a maximum threshold 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 that the participation 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.

Under the New 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 will be handled primarily by the Ministry of Energy and Natural Resources after an award of the relevant work area either by competitive tender or direct award, and the Indonesian Parliament must be notified of the production sharing arrangements. The Ministry and Parliament may implement policies regarding oil and gas exploration and production that differ from the policies historically implemented by Pertamina.

The Company may not be able to renew production sharing arrangements or 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 DMO for oil and similar DMO for gas will be implemented in the future. There can be no assurance that the Company will be able to renew production sharing arrangements or tender for new production sharing arrangements that incorporate customary terms with respect to, among other things, production bonuses, taxes end cost recovery. Moreover, the production sharing arrangement form may be replaced by an entirely different type of cooperation contract.

Pre-existing contractors have been relying on the terms of their production sharing arrangements and certain tax regulations for relief from certain indirect taxes. With the recent enactment of amendments to tax laws, issues have arisen with the tax authorities concerning the continuing availability of the relief afforded by the regulations pre-dating the tax law amendments. There exist cost recovery and reimbursement provisions under the production sharing arrangements, but their implementation with BPMigas is as yet untested.

In addition, the New Oil and Gas Law calls for prior consultation by the central Government with the relevant regional government with respect to the opening of new areas for prospecting and as regards the initial development plan for new areas. It is still 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 new 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 could be charged under the cost recovery provisions of the Company's production sharing arrangements. Under the New 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 New 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 New Oil and Gas Law and the 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 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 evolving role of Pertamina, BPMigas and the Ministry of Mines and Energy coupled with political changes in Indonesia have allowed other government agencies to increase their role in administering and regulating the oil and gas industry in Indonesia. 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. 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, two of the Company's fields have recently been given a ''red'' environmental rating, which indicates that such fields have outstanding environmental issues that may require remedial action in the future. 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 expenditure or incur additional operating expenses in order to maintain its current production, development, exploration and other operations 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 17.3% of the Company's total sales and other operating revenues in 2004, which was an increase from 17.1% in 2003. 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's current proved reserves are insufficient to sustain 2004 production levels. 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 approximately 31% and 29% of the Company's total sales and other operating revenues for the year ended December 31, 2004 and for the three months ended March 31, 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 New Oil and Gas Law, BPMigas manages 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 fields in the applicable production sharing area. Pursuant to the Upstream Regulation, however, Pertamina will continue to be the Government contract counterparty under technical assistance contracts, or TACs and joint operating bodies, or JOBs.

All the Company's reserves in Indonesia are attributable to such production sharing arrangements. Production sharing arrangements contain requirements regarding quality of service, capital expenditures, legal status of the contractors, restrictions on transfer and encumbrance of assets and other restrictions. In addition, BPMigas or Pertamina, as the case may be, may fail to comply with the terms of production sharing arrangements. Any failure by the Company to comply with the terms of the Company's production sharing arrangements could result, under certain circumstances, in the revocation of a production sharing arrangement. Such an action by BPMigas or Pertamina, as the case may be, on the Company could have a material adverse effect on the Company. In addition, the Company must obtain approval from BPMigas or Pertamina, as the case may be, for substantially all material activities undertaken with respect to the production sharing arrangements, including exploration, development, production, drilling and other operations, sale of oil or natural gas and the hiring or termination of personnel. As part of these production sharing arrangements, the Company finances such activities and facilities and equipment and recovers its 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 is substantially dependant on its relationship with BPMigas and Pertamina and any adverse change to the relationship may have a material adverse effect on 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

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 23.1% of the Company's gross proved oil and gas reserves and 58.1% of the Company's gross proved and probable oil and gas reserves, is not certified by GCA as of January 1, 2005, 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 exists 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 current 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, 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 reserves may vary significantly from such estimates. To the extent actual 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 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, including the maintenance of financial ratios with respect to the Company which may also effectively restrict the Company's ability to incur additional indebtedness. 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. As of December 31, 2004, the Company has paid all of the purchase price for a 5% interest in the operator of Sengkang Electricity Power Plant located in Sengkang, South Sulawesi. The Company currently has certain operational control pending transfer of legal ownership of the shares due to two outstanding obligations of the seller. In addition, in August 2004, the Company acquired Novus which currently has assets and operations in the United States and the Middle East, where the Company has limited investment or operational experience. Although the Company has no current intention to expand into additional projects outside Indonesia, it may decide to do so in the future. 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, 2005, approximately 63.8% of the Company's total gross proved crude oil reserves were located in the Rimau PSC contract area. In 2004, approximately 63% 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 17.7% of gross crude oil production and 30.6% of gross natural gas production for 2004 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, 2002, 2003 and 2004, Total E&P Indonesie accounted for 23.6%, 51.7% and 54.8%, respectively, of Apexindo's revenues. The loss of Total E&P Indonesie or any other significant customer could have a material adverse effect on the Company's results of operations. See ''Management's Discussion and Analysis of 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 ''Management's Discussion and Analysis of Financial Condition and Results of Operation — Overview — 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 ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources''.

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

Encore currently owns 81.73% of the Common 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 the Company. 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. 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. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness — Encore Facilities'' and ''Principal and Selling Shareholders''.

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, assimilate and retain new qualified technical personnel, it may be on uneconomic terms. If the Company is unable to retain its current workforce or hire comparable personnel in the future, it could have a material adverse effect on 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

The consolidated financial statements of the Company are prepared in accordance with Indonesian GAAP, which differs from U.S. GAAP or IFRS. As a result, the Company's consolidated financial statements and reported earnings could be significantly different from those which would be reported under U.S. GAAP or IFRS. This Offering Circular does not contain a reconciliation of the Company's consolidated financial statements to U.S. GAAP or 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 in The United States of America" for a summary of significant accounting differences which may be applicable to the Company and "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and IFRS".

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 profit 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 in 2004 and reclassified its financial statements for 2002 and 2003 for comparability purposes 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 prior to the release of the December 31, 2004 audited accounts of the Company. 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, 2005. 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, 2002, 2003 and 2004 and the three months ended March 31, 2005 may not be comparable to the Company's future consolidated financial statements relating to similar periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Revenues from Company-Operated and Non-Company-Operated Fields".

Risks Relating to the GDSs and the Common Shares

An active market for the GDSs may not develop, which may cause the price of the GDSs to fall

There is no existing market for the GDSs. Application has been made to the Luxembourg Stock Exchange for the Regulation S GDSs to be admitted to listing on the Official List and to be admitted to trading on the EU regulated market and included for trading on the IOB system of the London Stock Exchange. However, no assurance can be given that the Company's application will be granted and that the GDSs will be listed on the Luxembourg Stock Exchange and included for trading on the IOB system of the London Stock Exchange. Moreover, the Company may be required to make further amendments, including material ones, to this Offering Circular in order to obtain such listing. If the Company is not able to obtain such listing, it may terminate the GDS offering and solely offer Offered Shares. The Rule 144A GDSs are expected to be eligible for trading by

QIBs on the PORTAL Market. However, the GDSs will be a new issue of securities with no established trading market. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the GDSs or the price at which GDS holders may be able to sell their GDSs. The GDSs could trade at prices that may be lower than the initial market value thereof depending on many factors, including prevailing market interest rates, the Company's operating results and the market for similar securities. Moreover, the aforementioned risks would likely increase in the event that a significant number of investors elect to purchase Offered Shares rather than GDSs in the offering. In addition, the GDSs are being offered pursuant to exemptions from the registration requirements of the Securities Act and will therefore be subject to restrictions on transfer. See "Transfer Restrictions".

In addition, the European Union Transparency Obligations Directive may be implemented in a manner that is unduly burdensome for the Company. In particular, the Company may be required to publish financial statements in the European Union prepared in accordance with, or reconciled to, IFRS. In such circumstances the Company may decide to seek an alternative listing for the Regulation S GDSs on a stock exchange outside the European Union or terminate its GDS facility.

GDS holders bear the risk of fluctuations in the price of the Common Shares

The only trading market for the Common Shares is the JSX. See "Indonesian Securities Market". The market price of the GDSs is expected to be affected by fluctuations in the market price of the Common Shares. It is impossible to predict whether the price of the Common Shares will rise or fall. Trading prices of the Common Shares will be influenced by, among other things, the Company's financial condition, results of operations and political, economic, financial and other factors. Any decline in the price of the Common Shares may have a material and adverse effect on the market price of the GDSs.

The market value of an investor's investment in the GDSs or the Common 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 Common 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 GDSs or the Common 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 GDSs or the Common Shares in U.S. dollar terms

Investors purchasing GDSs will be required to pay for them in U.S. dollars. The Common Shares underlying the GDSs are listed on the JSX. Any cash dividends on the underlying Common Shares will be paid to the Depositary in Rupiah and then converted into U.S. dollars by the Depositary prior to distributions to GDS holders, subject to certain conditions. Fluctuations in the exchange rate between the Rupiah and the U.S. dollar will affect, among other things, the amount a holder of GDSs will receive from the Depositary in respect of dividends paid by the Company, the U.S. dollar value of the proceeds which a holder receives upon a sale in Indonesia of Common Shares received upon surrender of GDSs and the secondary market price of the GDSs. See "Exchange Rates".

Holders of GDSs could be restricted in their ability to exercise pre-emptive rights under Indonesian law and could thereby suffer future dilution of their ownership position

Under BAPEPAM's Rule No.IX.D.1, a company or a public company incorporated in Indonesia must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares.

Owners of GDSs may not be able to exercise pre-emptive rights for equity shares underlying the GDSs unless a registration statement under the Securities Act is effective with respect to the rights or an exemption from the registration requirements of the Securities Act is available. Neither the Company nor the Depositary is obliged to prepare and file a registration statement and its decision to do so will depend on the costs and potential liabilities associated with any given registration statement as well as the perceived benefits of enabling the owners of the GDSs to exercise their pre-emptive rights and any other factors that the Company deems appropriate to consider at the time the decision must be made. The Company may elect not to file a registration statement related to pre-emptive rights otherwise available by law to its shareholders, and there may not be an available exemption from those registration requirements that would enable owners of GDSs to otherwise participate. If pre-emptive rights are not made available to holders of GDSs, the Depositary will try to sell those rights, for the benefit of the owners of the GDSs subject to certain conditions. The value, if any, the Depositary would receive upon the sale of those securities cannot be predicted. To the extent that owners of GDSs are unable to exercise pre-emptive rights granted in respect of the equity shares represented by their GDSs, their proportional interests in the Company would be reduced.

Holders of GDSs will not be able to exercise voting rights and Encore, the Company's controlling shareholder, will have the right to control voting of the Common Shares represented by the GDSs

Holders of GDSs will have no voting rights or other direct rights of a shareholder with respect to the Common Shares underlying the GDSs and, as such, cannot instruct the Depositary as to the voting of GDSs. The Depositary will (subject to receipt of an opinion from the Company's Indonesian counsel that such action is in conformity with all applicable Indonesian laws, regulations and the Company's Article of Association) grant the proxy or power of attorney to Encore to vote the Common Shares underlying the then-outstanding GDSs at such time. The Depositary has no obligation to deliver any notice of meeting or solicitation of proxy to holders of GDSs. By holding or continuing to hold a GDS, holders of the GDSs will be deemed to have authorized and directed the Depositary to grant the proxy or power of attorney to Encore as set forth above and as set forth in the Deposit Agreements. Registered holders of Common Shares timely withdrawn from the depositary arrangements will be entitled to vote and exercise other direct shareholder rights in accordance with applicable Indonesian law. Holders wishing to redeposit withdrawn Common Shares into the GDS facilities will need to satisfy certain procedural requirements, including the payment of any applicable registration fees, prior to being permitted to redeposit such Common Shares for the issuance of GDSs. Moreover, registration of transfers of Common Shares, including in the form of GDSs, may be refused in certain circumstances. See "Description of Capital Stock — Shareholders' Meetings and Voting Rights" and "Description of Global Depositary Shares — Voting Rights".

Future issuances or sales of the Common Shares could significantly affect the trading price of the Common Shares and the GDSs

The future issuance of Common Shares by the Company or the disposal of Common 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 Common Shares and the GDSs. Subject to certain exceptions, the Company and the Selling Shareholders have agreed with the Initial Purchasers that for a period of 90 days after the Closing Date the Company and the Selling Shareholders will not, without the written consent of the representatives of the Initial Purchasers, offer, sell or otherwise dispose of any securities convertible into or exchangeable for securities of the same class as the Offered Shares and GDSs offered hereby. See "Plan of Distribution". Except for such restrictions, there is no restriction on the Company's ability to issue Common Shares or the ability of any of the Company's shareholders to dispose of, encumber or pledge, its Common Shares, and there can be no assurance that the Company will not issue Common Shares or that such shareholders will not dispose of, encumber or pledge, its Common Shares.

Investors may have difficulty pursuing claims under the GDSs or the Common Shares and against the Company

The Company is a limited liability company incorporated in Indonesia. All of the Company's commissioners, directors and executive officers reside outside the United States, and all or a substantial portion of the assets of the Company and such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Company or such persons or to enforce against the Company or such persons in the United States judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

Judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States, are not enforceable in Indonesian courts. There is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesia courts predicated solely upon the civil liability provisions of the federal securities laws of the United States. As a result, holders of the GDSs or the Common Shares may be required to pursue claims against the Company in Indonesia under Indonesian law. The claims and remedies available under Indonesian law may not be as extensive as those available in other jurisdictions. No assurance can be given that the Indonesian courts will protect the interests of investors in the same manner or to the same extent as would U.S. courts or courts of other jurisdictions. See ''Enforceability of Civil Liabilities''.

Indonesia's legal system is a civil law system based on written statutes in which 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 pre-independence Netherlands law and have not been revised to reflect the complexities of modern financial transactions and instruments. Indonesian courts are often unfamiliar with sophisticated commercial or financial transactions, leading in practice to uncertainty in the interpretation and application of Indonesian legal principles. The application of many Indonesian laws depends, in large part, upon subjective criteria such as the good faith of the parties to the transaction and principles of public policy. 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. 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 Government agencies may be subject to considerable discretion and uncertainty.

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

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.

	At Period End	Average(1)	High(2)	Low(2)
	(Rp. per US$1.00)			
2000	9,595	8,534	9,595	7,425
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
First Quarter	8,908	8,896	8,908	8,876
Second Quarter	8,285	8,413	8,675	8,279
Third Quarter	8,389	8,476	8,535	8,389
Fourth Quarter	8,465	8,499	8,537	8,465
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				
January	9,165	9,204	9,305	9,133
February	9,260	9,245	9,300	9,166
March	9,480	9,371	9,520	9,250
April	9,570	9,539	9,755	9,475
May	9,495	9,480	9,545	9,435
June	9,713	9,616	9,713	9,528
July (through July 28, 2005)	9,825	9,798	9,860	9,740

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 the 2005 data 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 the 2005 data 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).

MARKET PRICE INFORMATION

The Common 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 Common Shares since January 1, 2000. On July 28, 2005, the closing price of the Common Shares on the JSX was Rp.3,775 per Share.

	Price per Share			Average Daily
	High	**Low**	**Closing**	**Trading Volume**
	(Rp. per share)			
2000	1,225	690	1,000	3,073,638
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
First Quarter	1,425	1,150	1,325	407,959
Second Quarter	1,425	1,125	1,200	1,107,217
Third Quarter	1,325	1,125	1,275	607,289
Fourth Quarter	1,475	1,275	1,350	666,763
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				
January	2,675	2,050	2,600	8,947,600
February	2,700	2,425	2,450	4,334,250
March	2,900	2,450	2,450	2,462,333
April	3,475	2,450	2,575	3,008,175
May	3,200	2,550	3,150	3,068,750
June	4,100	3,125	3,775	3,033,432
July (through July 28, 2005)	3,850	3,300	3,775	4,867,100

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 Common 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 2002, the Company has made cash dividend payments of US$95,850,060. These included a payment of an aggregate amount of US$36,427,600 (Rp.110 per Common Share) in 2002, US$39,544,992 (Rp.111 per Common Share) in 2003 and US$19,877,468 (US$0.0064 per Common Share) in 2004.

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 June 9, 2005 a final 2004 dividend payment of an aggregate amount of US$35,060,640, or US$0.0105 per Common Share, on July 19, 2005.

Dividends received by a Non-Indonesian Holder of the GDSs or the Common 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 March 31, 2005 as determined under Indonesian GAAP. 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.

	As of March 31, 2005
	(US$ in millions)
Cash and cash equivalents	90.2
Short-term debt:	
Short-term bank loans	30.0
Current maturities of long-term liabilities	31.6
Total short-term debt	61.6
Long-term debt — net of current maturities:	
Bank Loans	104.1
Notes payable	274.7
Rupiah Bonds	141.4
Total long-term debt	520.2
Total short-term debt and long-term debt	581.8
Shareholders' equity:	
Capital stock — par value Rp.100 per share	101.2
Authorized capital — 4,000,000,000 shares	
Issued and fully paid — 3,332,451,450 shares(1)	
Treasury stock — 226,597,000 shares	(3.2)
Additional paid-in capital	122.1
Revaluation increment in property and equipment	0.1
Effects of changes in the equity transactions of subsidiaries/associated company	27.8
Translation adjustment	(1.2)
Retained earnings	271.6
Total shareholders' equity	518.4
Total capitalization	1,100.2

Note:

(1) Including treasury stock.

There are not any issued but not fully paid shares. No capital has been paid with assets in 2004 and in the first quarter of 2005. The number of shares of treasury stock in 2002 was 228,198,500, and the number of shares of treasury stock in 2003 and 2004 was 226,597,000. Other than as set forth in this Offering Circular, there has been no material change in the Company's total capitalization since March 31, 2005.

USE OF PROCEEDS

The aggregate net proceeds from this offering, after payment of the underwriting discounts, selling concessions and other offering expenses, are expected to be approximately US$247,065,650 (assuming no exercise of the Initial Purchasers' option), all of which will be paid to the Selling Shareholders. The Company will not receive any of the proceeds from the sale of Offered Shares directly or in the form of GDSs by the Selling Shareholders.

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, 2002 and 2003 are derived from the Company's audited consolidated financial statements as of and for the years ended December 31, 2002 and 2003 audited by Deloitte. The summary historical consolidated financial data as of and for the year ended December 31, 2004 are derived from the Company's audited consolidated financial statements as of and for the year ended December 31, 2004 audited by E&Y. The summary historical consolidated financial data as of and for the three months ended March 31, 2004 and 2005 are derived from the Company's unaudited consolidated financial statements as of and for the three months ended March 31, 2004 and 2005. The unaudited consolidated financial statements of the Company include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2005. The Company's consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differ in certain respects from U.S. GAAP and IFRS. See "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and in the United States of America", "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and IFRS" 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". 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,			For the Three Months Ended March 31,	
	2002	2003	2004	2004	2005
	(restated)[1]	(restated)[1]		(unaudited)	(unaudited)
	(US$ in thousands, except where otherwise indicated)				
Consolidated Statements of Income Data					
Sales and Other Operating Revenues:					
Net oil and gas sales	318,981.3	309,968.4	362,333.7	72,485.0	85,412.0
Drilling operations and related services	44,599.1	79,482.7	94,438.6	23,747.6	20,453.0
Net methanol sales	30,775.6	55,113.6	55,490.3	11,194.4	12,723.6
Share of profit of joint ventures	5,911.7	9,317.5	19,733.5	(59.2)	5,270.3
Electric power sales	—	—	1,534.5	—	2,251.8
Other contracts	8,296.8	9,676.4	11,551.0	3,238.5	4,425.5
Total Sales and Other Operating Revenues	408,564.5	463,558.6	545,081.6	110,606.3	130,536.2
Production and Lifting Costs	40,260.8	66,133.9	77,774.2	14,662.7	14,678.6
Depreciation and Amortization	51,115.9	69,233.3	74,623.6	11,219.7	21,201.3
Drilling Operations Costs	39,849.2	63,100.1	72,803.4	17,338.8	14,475.4
Cost of Methanol Sales	25,126.6	32,689.3	42,666.1	8,983.1	8,855.8
Exploration Expenses	29,392.5	21,307.8	23,847.1	4,406.9	1,434.3
Cost of Power Sales	—	—	72.9	—	122.8
Gross Profit	222,819.4	211,094.3	253,294.2	53,995.1	69,768.0
Operating Expenses	61,664.7	62,187.5	74,264.4	15,782.8	17,927.0
Income from Operations	161,154.7	148,906.8	179,029.8	38,212.3	51,841.0
Other Charges — Net	(260.7)	(26,152.2)	(48,088.7)	(1,638.2)	(12,021.5)
Tax Expense — net	(88,876.1)	(42,938.9)	(55,068.5)	(15,992.9)	(19,242.1)

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002	2003	2004	2004	2005
	(restated)(1)	(restated)(1)		(unaudited)	(unaudited)
	(US$ in thousands, except where otherwise indicated)				
Income Before Minority Interest in Net Loss (Income) of Consolidated Subsidiaries	72,017.9	79,815.7	75,872.7	20,581.3	20,577.5
Minority Interest in Net Loss (Income) of Consolidated Subsidiaries	220.4	(816.7)	(1,328.2)	(474.3)	(594.6)
Net Income	72,238.3	78,999.0	74,544.5	20,106.9	19,982.9
Basic Earnings per Share	0.0231	0.0254	0.0240	0.0065	0.0064
Other Financial Data					
EBITDA(2)(4)	213,252.3	219,109.9	254,544.4	49,575.4	73,380.2
Adjusted EBITDA(3)(4)	217,114.8	223,212.8	280,326.7	50,344.9	79,367.9
EBITDAX(2)(4)	242,644.8	240,417.7	278,391.4	53,982.3	74,814.5
Adjusted EBITDAX(3)(4)	246,967.0	244,813.8	306,798.0	55,263.7	80,909.2

	As of December 31,			As of March 31,	
	2002	2003	2004	2004	2005
	(restated)(1)	(restated)(1)		(unaudited)	(unaudited)
	(US$ in thousands, except where otherwise indicated)				
Consolidated Balance Sheets Data					
Assets:					
Cash and cash equivalents	73,609.6	134,369.7	215,302.0	160,670.6	90,172.8
Other current assets	170,715.5	246,963.1	416,788.1	235,154.4	431,750.0
Total Current Assets	244,325.1	381,332.8	632,090.2	395,825.0	521,922.8
Total Non-Current Assets	508,688.6	627,050.1	840,156.9	639,237.1	854,654.6
Total Assets	753,013.8	1,008,382.9	1,472,247.1	1,035,062.1	1,376,577.4
Liabilities and Equity:					
Short-term debt (including current maturities of long-term bank loans)	2,499.9	24,975.7	180,863.1	28,983.3	61,619.0
Other current liabilities	126,612.1	101,765.7	120,777.0	96,198.0	122,370.3
Total Current Liabilities	129,112.0	126,741.4	301,640.2	125,181.3	183,989.3
Long-term debt (excluding current maturities of long-term debt)	96,227.6	308,141.8	518,435.1	322,096.5	520,218.1
Other non-current liabilities	81,619.5	90,708.6	115,181.3	89,090.8	114,865.7
Total Non-Current Liabilities	177,847.1	398,850.4	633,616.5	411,187.3	635,083.8
Negative Goodwill — Net	6,415.7	7,007.2	1,798.8	2,091.2	1,766.9
Minority Interest in Net Assets of Subsidiaries	34,499.0	30,908.5	36,390.2	31,612.5	37,363.0
Equity — Net	405,140.0	444,875.4	498,801.5	464,989.7	518,374.4
Total Liabilities and Equity	753,013.8	1,008,382.9	1,472,247.1	1,035,062.1	1,376,577.4

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002	2003	2004	2004	2005
	(restated)(1)	(restated)(1)		(unaudited)	(unaudited)
	(US$ in thousands, except where otherwise indicated)				
Consolidated Statement of Cash Flows Data					
Net Cash Provided by Operating Activities	182,935.8	108,350.6	136,273.9	11,722.7	17,850.1
Net Cash Provided by (Used in) Investing Activities	(208,227.9)	(236,288.9)	(322,484.0)	7,487.9	(23,259.5)
Net Cash Provided by (Used in) Financing Activities	43,577.7	188,698.4	267,142.5	7,090.2	(119,719.8)

Notes:

(1) The Company has determined that it was necessary to make adjustments to correct several transactions in its consolidated financial statements as of and for the years ended December 31, 2002 and 2003. The adjustments made by the Company in its consolidated financial statements as of and for the years ended December 31, 2002 and 2003 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$10,317,496 in 2002 and increasing net income by US$25,561,863 in 2003, and decreasing shareholders' equity by US$67,850,302 in 2002 and US$42,288,439 in 2003.

(2) EBITDA means earnings before interest, taxes, depletion, depreciation, amortization, gain or loss on foreign exchange and other 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, depletion, depreciation, amortization, gain or loss on foreign exchange and other 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — 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 fail to account for 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 "Management's Discussion and Analysis of 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, 2002, 2003 and 2004 and for the three months ended March 31, 2005.

	For the Year Ended December 31,			For the Three Months Ended
	2002	2003	2004	March 31, 2005
Gross production:[(1)]				
Oil and condensate (MBbls/d)	86.7	67.6	55.5	55.1
Natural gas (Mcf/d)	66.5	82.8	200.6	169.4
Total (MBOE/d)	98.1	81.7	89.8	84.0
Total (excluding Langsa block) (MMBOE)[(2)]	35.8	29.8	32.8	7.4
Net entitlement:[(3)]				
Oil and condensate (MBbls/d)	33.5	26.5	21.2	14.6
Natural gas (Mcf/d)	48.7	58.2	93.6	67.4
Total (MBOE/d)	41.9	36.4	37.2	26.1
Lifting cost:[(4)]				
Oil, condensate and natural gas (US$ per BOE)	1.32	2.52	2.93	2.31
Three-year average finding and development cost:[(5)]				
Oil, condensate and natural gas (US$ per BOE)	2.75	4.43	7.54	N.A.
Three-year average finding, development and acquisition cost:[(6)]				
Oil, condensate and natural gas (US$ per BOE)	3.04	4.49	5.38	N.A.
Average realized sales price:[(7)]				
Oil and condensate (US$ per Bbls)	25.30	29.33	36.93	47.00
Natural gas (US$ per Mcf)	1.53	1.61	2.26	2.32
Liquefied petroleum gas (LPG) (US$ per MT)	—	—	360	349

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 does not include production from the divested Australian blocks.

(2) The Company's total gross production (excluding the Langsa block and the divested Australian blocks) for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005 was 35,807,009 BOE, 29,829,470 BOE, 32,784,402 BOE and 7,414,641 BOE, respectively.

(3) 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 ''Industry — Production Sharing Arrangements''. The Company's net entitlement includes only field production from the GCA's Report. Approximately 23.1% of the Company's gross proved reserves for the year ended December 31, 2004 have not been certified by GCA as of January 1, 2005 and, as a result, these fields are also excluded from the net entitled volume estimates.

(4) 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.

(5) 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.

(6) 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.

(7) 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, 2003, 2004 and 2005 included in the 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,		
	2003	**2004**	**2005**
Gross proved reserves:			
Oil and condensate (MMBbls)	152.0	113.9	94.3
Natural gas (Bcf)	124.0	271.0	382.3
Total (MMBOE)(1)	173.2	160.3	159.7
Net proved reserves:			
Oil and condensate (MMBbls)	47.4	44.9	34.4
Natural gas (Bcf)	82.2	106.3	154.0
Total (MMBOE)(2)	61.4	63.1	60.7
Gross proved plus probable reserves:			
Oil and condensate (MMBbls)	237.6	236.5	201.2
Natural gas (Bcf)	1,793.3	1,986.9	2,180.7
Total (MMBOE)(3)	544.1	576.1	574.0
Net Proved reserves developed (%):(4)			
Oil and condensate	86%	97%	92%
Natural gas	70%	89%	88%
Proved reserve life index (in years)(5)	5.8	6.4	5.9
Proved plus probable reserve life index (in years)(6)	16.2	20.3	18.7

Notes:

(1) Approximately 36.9 MMBOE, or 23.1%, of the Company's gross proved reserves, have not been certified by GCA as of January 1, 2005.

(2) Approximately 36.9 MMBOE, or 23.1%, of the Company's gross proved reserves have not been reviewed by GCA as of January 1, 2005 and are excluded from net proved reserves because the Company does not produce in-house estimates for net proved reserves.

(3) Approximately 333.8 MMBOE, or 58.1%, of the Company's gross proved plus probable reserves have not been certified by GCA as of January 1, 2005.

(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''.

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

The discussion and analysis 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 U.S. GAAP and IFRS. See "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and in the United States of America", "Summary of Certain Differences between Accounting Principles Generally Accepted in Indonesia and IFRS" 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.

The Company has determined that it was necessary to make adjustments to correct several transactions in its consolidated financial statements as of and for the years ended December 31, 2002 and 2003. The adjustments made by the Company in its consolidated financial statements as of and for the years ended December 31, 2002 and 2003 are described in notes 42 and 44 to the Company's consolidated financial statements. The cumulative effect of such adjustments had a net effect of decreasing net income by US$10.3 million in 2002 and increasing net income by US$25.6 million in 2003, and decreasing shareholders' equity by US$67.9 million in 2002 and US$42.3 million in 2003. The Company's consolidated financial statements for 2002 and 2003 have been audited by Deloitte, with certain adjustments to reflect restatement and reclassifications. The Company's consolidated financial statements for 2004 have been audited by E&Y.

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, 2005, the Company's estimated gross proved reserves of 159.7 MMBOE consisted of 94.3 MMBbls of oil and condensate and 382.3 Bcf of natural gas. As of January 1, 2005, the Company's estimated gross proved plus probable reserves of 574.0 MMBOE consisted of 201.2 MMBbls of oil and condensate and 2,180.7 Bcf of natural gas. The Company produced approximately 31.7, 24.7, and 20.3 MMBbls of oil and condensate and approximately 24.3, 30.2 and 73.4 Bcf of natural gas in the years 2002, 2003 and 2004, respectively. The Company was a top four crude oil producer by volume in Indonesia in 2002, 2003 and 2004. The reserve and production data set forth above and in this Offering Circular excludes the Company's interests in Australian blocks which were divested in December 2004.

The Company derives substantially all of its total sales and other operating revenues from net oil and gas sales, drilling operations and related services, net methanol sales and electric power sales. Substantially all of such revenues are denominated in U.S. dollars. For the years ended December 31, 2002, 2003 and 2004, the Company had total sales and other operating revenues of US$408.6 million, US$463.6 million and US$545.1 million, respectively, and EBITDA of US$213.3 million, US$219.1 million and US$254.5 million, respectively. Net oil and gas sales accounted for 78.1%, 66.9% and 66.5% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. For a reconciliation of EBITDA to income from operations, see "— Non-GAAP Accounting Items".

For the years ended December 31, 2002, 2003 and 2004, 51.4%, 40.5% and 30.9%, respectively, of the Company's total sales and other operating revenues was generated from oil production from the Rimau PSC. Production levels at the Rimau PSC have begun to decline as the block enters a mature stage of production. However, several production enhancement programs were implemented in 2003 to reduce the declining rate in the block, including fracturing program and development drilling. See ''Risk Factors — Risk 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 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 1996, 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 17 blocks, nine 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 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 18 MBbls/d and 48 MMcf/d in 1996 to approximately 55.5 MBbls/d and 201 MMcf/d in 2004.

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. Such fields also include the Bukha field in the Middle East, which the Company plans to divest, and the Stratton field in the United States, which was recently divested. Revenues and expenses for the non-Company operated fields or blocks are presented under a single line item, ''share of profit of joint ventures''. This line item represents 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. This line item is 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 in 2004 and reclassified its financial statements for 2002 and 2003 for comparability purposes 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 prior to the release of the December 31, 2004 audited accounts of the Company. 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$18.1 million, US$23.7 million and US$75.3 million in net oil and gas sales, US$7.1 million, US$9.0 million and US$25.7 million in production and lifting costs, US$0.5 million, US$0.3 million and US$2.6 million in exploration expenses, US$3.4 million, US$3.8 million and US$13.4 million in depreciation and amortization, and US$0.8 million, US$1.0 million and US$1.4 million in operating expenses for the years ended December 31, 2002, 2003 and 2004, respectively. These revenues and expenses of the non-Company operated blocks were presented under a single line item, share of profit of joint ventures, which amounted to US$5.9 million, US$9.3 million and US$19.7 million for the years ended December 31, 2002, 2003 and 2004, 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, 2005. Accordingly, as a result of such expected change, the Company's consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004 and the three months ended March 31, 2005 may not be comparable to the Company's future consolidated financial statements relating to similar periods beginning with full year 2005.

The following tables break down the contributions from operated and non-operated fields in Indonesia for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
Oil (Indonesia Operated Only)					
Gross production (MBbls/d)	85.0	65.2	50.7	53.2	48.9
Net entitlement production (MBbls/d)	33.5	26.5	21.2	21.5	14.6
Average realized price (US$ per Bbl)	25.3	29.3	36.9	31.0	47.0
Revenues (US$ mm)	292.3	274.1	239.0	63.4	60.7
Gas (Indonesia Operated Only)					
Gross production (MMcf/d)	66.5	82.8	126.7	116.7	115.2
Net entitlement production (MMcf/d)	48.7	58.2	93.6	64.5	67.4
Average realized price (US$/Mcf)	1.53	1.61	2.26	1.55	2.32
Revenues (US$ mm)	26.7	35.9	123.3	9.1	24.7
Operated oil and gas revenue	319.0	310.0	362.3	72.5	85.4
Non-operated oil and gas revenue	18.1	23.7	75.3	3.3	14.7
Total Oil and Gas Revenues	337.1	333.7	437.6	75.8	100.1
Operated production and lifting costs	40.3	66.1	77.8	14.7	14.7
Non-operated production and lifting costs	7.1	9.0	25.7	2.0	2.5
Total Production and Lifting Costs	47.4	75.1	103.5	16.7	17.2
Operated exploration expenses	29.4	21.3	23.8	4.4	1.4
Non-operated exploration expenses	0.5	0.3	2.6	0.5	0.1
Total Exploration Expenses	29.9	21.6	26.4	4.9	1.5
Operated depreciation and amortization	51.1	69.2	74.6	11.2	21.2
Non-operated depreciation and amortization	3.4	3.8	13.4	0.8	3.3
Total Depreciation and Amortization	54.5	73.0	88.0	12.0	24.5

	Non-operated Fields Financial Contribution for Year Ended December 31, 2004						
	Novus Australia(1)	Novus Pakistan(1)	Kakap(1)(2)	Brantas(1)(3)	Tuban	Jeruk	Non-operated Total
			(in US$ millions)				
Total Sales and Operating Revenues	16.47	—	29.12	15.34	14.34	—	75.28
Production and Lifting Costs	7.40	—	7.27	4.25	6.81	—	25.73
Exploration Expenses	—	—	—	—	2.62	—	2.62
Operating Expenses	0.00	0.13	0.06	0.13	1.09	—	1.42
EBITDA(4)	9.07	(0.13)	21.79	10.96	3.82	—	45.51
Depreciation and Amortization	4.48	—	5.68	1.75	1.48	—	13.39
Income from Operations	4.58	(0.13)	16.11	9.21	2.34	—	32.12
Other Expenses (Income)	(1.32)	0.54	10.19	(1.06)	(0.25)	0.01	8.11
Tax Expense	1.33	—	2.20	—	0.75	—	4.28
Net Income (Loss)	4.57	(0.67)	3.73	10.27	1.84	(0.01)	19.73

Notes:

(1) Financial contribution for the period of July 1, 2004 to December 31, 2004.

(2) Consists of a 25% working interest in Kakap through December 31, 2004.

(3) Consists of a 50% working interest in Brantas through December 27, 2004.

(4) See ''— Non-GAAP Accounting Items''.

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 ''Industry — Production Sharing Arrangements''.

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 2004 was sold to Itochu Petroleum Co. (S) Pte Ltd (''Itochu''), PTT Public Company Limited (''PTT''), Mitsui Oil Exploration Co. Ltd. (''Mitsui''), BPMigas and Pertamina.

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, 2002, 2003 and 2004 were US$25.30 per Bbls, US$29.33 per Bbls and US$36.93 per Bbls, 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 for a term of one year effective from January 1 to December 31, 2005.

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, 2002, 2003 and 2004 were US$1.53, US$1.61 and US$2.26, 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$39.4 million per annum for the past three years. The DMO does not currently apply to natural gas production but the New 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 product sharing contract (''PSC'') is taxed individually and no cross deduction is allowed. No deferred taxes are recognized in connection with exploration and production activities. See ''Industry — Production Sharing Arrangements''.

See also ''— Revenues from Company-Operated and Non-Company-Operated Fields'' and note 42q to the Company's consolidated financial statements.

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, 2002, 2003 and 2004 was US$7,396, US$7,944 and US$8,314, respectively. In respect of offshore rigs, the average revenue per day for the years ended December 31, 2002, 2003 and 2004 was US$24,862, US$34,904 and US$44,376, 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, the Company intends to reduce its equity interest to 51% through a rights issue in 2005. For the year ended December 31, 2004, revenues from drilling operations and related services contributed 17.3% 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, 2002, 2003 and 2004, which track global prices, were US$135, US$212 and US$230, respectively.

Share of Profit of Joint Ventures

Revenues from the share of profit 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" and note 42q to the Company's consolidated financial statements.

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 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 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.

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 2l, 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. See Supplementary Information to the Company's consolidated financial statements. 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.

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 ''hotstacked'' mode, which lowers expenses and partially offsets the negative impact on operating income associated with loss of revenues. The stand-by cost of hotstacked mode is usually 50% of the normal operating cost which is around US$6,000/day. If the idle time is more than six months, the Company attempts to decrease expenses further by taking steps to maintain the rig in an idle ''coldstacked'' mode and reducing contract laborers and only maintains the stack cost around US$1,000/day for the permanent staff.

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.

Recent Developments

Anadarko Exploration Joint Venture

On July 26, 2005, the Company entered into an Exploration Joint Venture Agreement (‘‘EJVA’’) with a wholly-owned subsidiary of Anadarko Petroleum Corporation (‘‘Anadarko’’). Anadarko is one of the largest independent oil and gas exploration and production companies in the world with assets of over US$20 billion and production of over 190 MMBOE in 2004, 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 13 PSCs at a cost of US$80 million, subject to the satisfaction of certain conditions. Anadarko has the right to earn up to a 40 percent 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. See ‘‘Business — Exploration — Anadarko Exploration Joint Venture’’.

Middle East Assets Divested

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 purchase 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.

Relinquishment of Jeruk Well

The Company entered into a Jeruk Participation and Operating Agreement (‘‘Jeruk Agreement’’) with Santos (Sampang) Pty. Ltd. (‘‘Santos (Sampang)’’) on November 5, 2003, for the sole risk exploration on the Jeruk field on a 50:50 cost and recovery sharing basis, with Santos (Sampang) as the operator (the ‘‘Jeruk Well Operation’’). Under the Sampang PSC’s joint operating agreement (‘‘Sampang JOA’’), both Cue Sampang Pty. Ltd. (‘‘Cue’’) and Singapore Petroleum Company Limited (‘‘SPC’’) retained the right to back-in to any sole-risk discovery based on a contractually calculated penalty formula. On April 29, 2005, SPC and Cue notified the Company of their intention to reinstate their interest in the Jeruk Field under the terms of the Sampang JOA. As a result, the Company is required to return its 50% interest in the Jeruk Well Operation for compensation based on the penalty formula in the Sampang JOA. This will include immediate repayment of the Company’s expenditures of US$30.4 million, as well as US$190 million compensation payment based on 1,000% of expenditures related to the drilling and completion of the first well and 500% of expenditures related to the drilling and completion of the second well. The US$190 million is to be repaid out of all of SPC’s and Cue’s initial net oil entitlement from production of the field. The timing of this payment will therefore be subject to the start-up date, oil prices, and cost recoverable calculations under the Sampang PSC fiscal regime. The Company’s preliminary estimates indicate the Jeruk Field should be operational by 2008. On June 1, 2005, the Company received a payment of US$30.4 million from SPC and Cue. See ‘‘Business — Description of the Properties — Properties to Be Relinquished or Divested — Jeruk Well, Sampang Block, East Java’’.

Consolidated Results of Operations

The following table sets forth the principal components of the Company's net income for the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002 (restated)	2003 (restated)	2004	2004 (unaudited)	2005 (unaudited)
	(US$ in thousands)				
Sales and Other Operating Revenues:					
Net oil and gas sales	318,981.3	309,968.4	362,333.7	72,485.0	85,412.0
Revenues from drilling operations and related services	44,599.1	79,482.7	94,438.6	23,747.6	20,453.0
Net methanol sales	30,775.6	55,113.6	55,490.3	11,194.4	12,723.6
Share of profits of joint ventures	5,911.7	9,317.5	19,733.5	(59.2)	5,270.3
Electric power sales	—	—	1,534.5	—	2,251.8
Revenues from other contracts	8,296.8	9,676.4	11,551.0	3,238.5	4,425.5
Total Sales and Other Operating Revenues	408,564.5	463,558.6	545,081.6	110,606.3	130,536.2
Production and Lifting Costs	40,260.8	66,133.9	77,774.2	14,662.7	14,678.6
Depreciation and Amortization	51,115.9	69,233.3	74,623.6	11,219.7	21,201.3
Drilling Operations Costs	39,849.2	63,100.1	72,803.4	17,338.8	14,475.4
Cost of Methanol Sales	25,126.6	32,689.3	42,666.1	8,983.1	8,855.8
Exploration Expenses	29,392.5	21,307.8	23,847.1	4,406.9	1,434.3
Cost of Power Sales	—	—	72.9	—	122.8
Gross Profit	222,819.4	211,094.3	253,294.2	53,995.1	69,768.0
Operating Expenses	61,664.7	62,187.5	74,264.4	15,782.8	17,927.0
Income from Operations	161,154.7	148,906.8	179,029.8	38,212.3	51,841.0
Other Charges — Net	(260.7)	(26,152.2)	(48,088.7)	(1,638.2)	(12,021.5)
Income Before Tax Expense	160,894.0	122,754.6	130,941.2	36,574.1	39,819.5
Tax Expense — net	(88,876.1)	(42,938.9)	(55,068.5)	(15,992.9)	(19,242.1)
Income Before Minority Interest in Net Earnings of Consolidated Subsidiaries	72,017.9	79,815.7	75,872.7	20,581.3	20,577.5
Minority Interest in Net Earnings of Consolidated Subsidiaries	220.4	(816.7)	(1,328.2)	(474.3)	(594.6)
Net Income	72,238.3	78,999.0	74,544.5	20,106.9	19,982.9

The following table shows income and expense items as a percentage of revenue for the periods indicated.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002 (restated)	2003 (restated)	2004	2004 (unaudited)	2005 (unaudited)
	(in percentages(%))				
Sales and Other Operating Revenues:					
Net oil and gas sales	78.1	66.9	66.5	65.5	65.4
Drilling operations and related services	10.9	17.1	17.3	21.5	15.7
Net methanol sales	7.5	11.9	10.2	10.1	9.7
Share of profits of joint ventures	1.4	2.0	3.6	(0.1)	4.0
Electric power sales	—	—	0.3	—	1.7
Other contracts	2.0	2.1	2.1	2.9	3.4
Total Sales and Other Operating Revenues	100.0	100.0	100.0	100.0	100.0
Production and Lifting Costs	(9.9)	(14.3)	(14.3)	(13.3)	(11.2)
Depreciation and Amortization	(12.5)	(14.9)	(13.7)	(10.1)	(16.2)
Drilling Operations Costs	(9.8)	(13.6)	(13.4)	(15.7)	(11.1)
Cost of Methanol Sales	(6.1)	(7.1)	(7.8)	(8.1)	(6.8)
Exploration Expenses	(7.2)	(4.6)	(4.4)	(4.0)	(1.1)
Cost of Power Sales	—	—	(0.01)	—	(0.09)

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002	**2003**	**2004**	**2004**	**2005**
	(restated)	**(restated)**		**(unaudited)**	**(unaudited)**
	(in percentages(%))				
Gross Profit	54.5	45.5	46.5	48.8	53.4
Operating Expenses	(15.1)	(13.4)	(13.6)	(14.3)	(13.7)
Income from Operations	39.4	32.1	32.8	34.5	39.7
Other Charges — Net	(0.06)	(5.6)	(8.8)	(1.5)	(9.2)
Income Before Tax Expense	39.4	26.5	24.0	33.1	30.5
Tax Expense — net	(21.8)	(9.3)	(10.1)	(14.5)	(14.7)
Income Before Minority Interest in Net Earnings of Consolidated Subsidiaries	17.6	17.2	13.9	18.6	15.8
Minority Interest in Net Earnings of Consolidated Subsidiaries	0.05	(0.2)	(0.2)	(0.4)	(0.5)
Net Income	17.7	17.0	13.7	18.2	15.3

Comparison of Three Months Ended March 31, 2005 and 2004

Total Sales and Other Operating Revenues

The Company's total sales and other operating revenues increased by US$19.9 million, or 18.0%, from US$110.6 million for the three months ended March 31, 2004 to US$130.5 million for the three months ended March 31, 2005. The increase was primarily due to increased revenue from net oil and gas sales, share of profits of joint ventures, electric power sales and revenues from other contracts, which was partially offset by a decrease in revenues from drilling operations and related services.

- *Net oil and gas sales.* Revenues from net oil and gas sales increased by US$12.9 million, or 17.8%, from US$72.5 million for the three months ended March 31, 2004 to US$85.4 million for the three months ended March 31, 2005. The increase in revenue from net oil and gas sales was primarily due to the higher sales prices for both oil and gas for the first quarter of 2005 compared to the first quarter of 2004. The Company's average realized prices for oil increased from US$31.00/Bbls for the three months ended March 31, 2004 to US$47.00/Bbls for the three months ended March 31, 2005 and average realized prices for gas increased from US$1.55/MMBTU for the three months ended March 31, 2004 to US$2.32/MMBTU for the three months ended March 31, 2005. In addition, the Company's net oil and gas sales increased as a result of the new LPG sales for the first quarter of 2005 from the Company's newly built liquefied petroleum gas ("LPG") plant with LPG price of US$349/MT, as well as the acquisition of Novus in June 2004 which contributed US$4.4 million in sales for the first quarter of 2005. The increase in revenue from net oil and gas sales was partially offset by a decline in the Company's gross crude oil production, primarily from its Rimau block operations, from 38.5 MBOPD for the three months ended March 31, 2004 to 31.2 MBOPD for the three months ended March 31, 2005.

- *Drilling operations and related services.* Revenues from drilling operations and related services decreased by US$3.3 million, or 13.9%, from US$23.7 million for the three months ended March 31, 2004 to US$20.5 million for the three months ended March 31, 2005, primarily due to decreases in both the utilization rates from 55% for the three months ended March 31, 2004 to 44% for the three months ended March 31, 2005 and the average daily revenues of onshore rigs from US$8,179 for the three months ended March 31, 2004 to US$5,961 for the three months ended March 31, 2005.

- *Net methanol sales.* Revenues from net methanol sales increased by US$1.5 million, or 13.7%, from US$11.2 million for the three months ended March 31, 2004 to US$12.7 million for the three months ended March 31, 2005, primarily due to higher average sales price of methanol, from US$233/MT for the three months ended March 31, 2004 to US$248/MT for the three months ended March 31, 2005, and an increase in sales volume from 48,053 MT for the three months ended March 31, 2004 to 51,325 MT for the three months ended March 31, 2005. The higher sales volume was primarily due to the methanol plant's downtime from 20 days for the first quarter of 2004 caused by turbine and compressor problems.

- *Share of profits of joint ventures.* Revenues from share of profits of joint ventures was US$5.3 million for the three months ended March 31, 2005 compared to a loss of US$0.06 million for the three months ended March 31, 2004. The Company's share of profits of joint ventures for the first quarter of 2005 comprised revenue from Kakap and Brantas blocks (which are not operated by the Company) as a result of the Company's acquisition of Novus in June 2004, and revenue from Tuban block (which is not operated by the Company).
- *Electric power sales.* Revenues from electric power sales was US$2.3 million for the three months ended March 31, 2005 from commencement of commercial operations of the Batam power plant on October 29, 2004.
- *Other contracts.* Revenues from other contracts increased by US$1.2 million, or 36.7%, from US$3.2 million for the three months ended March 31, 2004 to US$4.4 million for the three months ended March 31, 2005, primarily due to the increase in back charges related to higher fuel prices.

Production and Lifting Costs

The Company's production and lifting costs increased slightly by US$0.02 million, or 0.1%, from US$14.7 million for the three months ended March 31, 2004 to US$14.7 million for the three months ended March 31, 2005.

Depreciation and Amortization

The Company's depreciation and amortization increased by US$10.0 million, or 89.0%, from US$11.2 million for the three months ended March 31, 2004 to US$21.2 million for the three months ended March 31, 2005, primarily attributable to the higher depreciation and amortization of oil and gas properties as a result of an increase in the oil and gas properties by 52% for the first quarter of 2005 compared to the first quarter of 2004 which was mainly contributed by the newly acquired Novus. The increase in the oil and gas properties drives an increase in the depletion rate applied to the Company's oil and gas properties, as well as the decrease in the oil and gas proved developed reserves for the three months ended March 31, 2005.

Drilling Operations Costs

The Company's drilling operations costs decreased by US$2.9 million, or 16.5%, from US$17.3 million for the three months ended March 31, 2004 to US$14.5 million for the three months ended March 31, 2005. The decrease in drilling operations costs were attributable to a decrease both in offshore and onshore average daily cost from US$19,835 for the three months ended March 31, 2004 to US$18,677 for the three months ended March 31, 2005 for offshore operations and from US$7,144 for the three months ended March 31, 2004 to US$5,146 for the three months ended March 31, 2005 for onshore operations. Such lower costs were primarily due to decreases in labor costs, repairs and maintenance, rental costs and insurance costs. The decrease in onshore average daily cost was primarily as a result of a lower utilization rate for the first quarter of 2005 compared to the first quarter of 2004.

Cost of Methanol Sales

The Company's cost of methanol sales slightly decreased by US$0.1 million, or 1.4%, from US$9.0 million for the three months ended March 31, 2004 to US$8.9 million for the three months ended March 31, 2005. The slight decrease in cost of methanol sales was primarily due to full operating days for the first quarter of 2005 compared to 20 days of downtime for the first quarter of 2004, which was partially offset by an increase in the rental fees of the plant.

Exploration Expenses

The Company's exploration expenses decreased by US$3.0 million, or 67.5%, from US$4.4 million for the three months ended March 31, 2004 to US$1.4 million for the three months ended March 31, 2005. The decrease in exploration expenses was mainly due to a decrease in the write-off of the capitalized costs associated with dry holes in the first quarter of 2005 compared to the first quarter of 2004, which was slightly offset by increased geological and geophysical activities in the Madura block in the first quarter of 2005 compared to the first quarter of 2004.

Cost of Power Sales

The Company's cost of power sales was US$0.1 million for the three months ended March 31, 2005. Cost of power sales represents maintenance costs and salaries related to the Batam power plant since the commencement of its commercial operations on October 29, 2004.

Operating Expenses

The Company's operating expenses increased by US$2.1 million, or 13.6%, from US$15.8 million for the three months ended March 31, 2004 to US$17.9 million for the three months ended March 31, 2005, primarily attributable to increases in salaries and wages, professional expenses and other general and administrative expenses, partially offset by lower export expenses. The increase in salaries and wages was mainly due to the Novus acquisition, operation of power plant in Batam and salary adjustments and bonuses realization in the first quarter of 2005, which is generally realized in the second quarter of the year.

Other Charges — Net

The Company's other charges — net increased by US$10.4 million from US$1.6 million for the three months ended March 31, 2004 to US$12.0 million for the three months ended March 31, 2005. The increase in other charges — net was primarily attributable to increases in interest expense and others — net, which was partially offset by the increase in equity in net income of associated entities.

- Interest expense increased by US$8.3 million, or 186.4%, from US$4.5 million for the three months ended March 31, 2004 to US$12.8 million for the three months ended March 31, 2005, which was mainly attributable to the interest expense relating to the issuance of new Indonesian Rupiah (''IDR'') Bond on July 12, 2004 with 13.125% coupon rate per annum, Senior Guaranteed Notes (SGN) and Guaranteed Notes (GN) which bear interest at 10% and 8.75% per annum, respectively, and long-term loan from United Overseas Bank Limited (''UOB'') and long-term loan from PT Bank Central Asia Tbk (''BCA'').

- Financing charges increased slightly by US$0.02 million, or 24.5%, from US$0.07 million for the three months ended March 31, 2004 to US$0.09 million for the three months ended March 31, 2005, due to arrangement fees and rollover fees for the syndicated loan from UOB.

- Gain on foreign exchange was US$0.57 million for the three months ended March 31, 2005 compared to US$0.58 million for the three months ended March 31, 2004.

- Others — net was US$(3.6) million for the three months ended March 31, 2005 compared to US$2.1 million for the first three months ended March 31, 2004, primarily due to a donation for Tsunami-Aceh and higher unallocated research and developments expense that are temporarily recorded under Others — net for the three months ended March 31, 2005. Others-net of US$2.1 million for the first three months ended March 31, 2004, was primarily attributed to reversal of overaccrual of taxes in previous years.

- Equity in net income of associated entities — net was US$3.5 million for the three months ended March 31, 2005 compared to a loss of US$0.1 million for the three months ended March 31, 2004, primarily due to the accumulated equity in net income of the Company's newly acquired associated entity, Medco Moeco Langsa Limited (''MedcoMoeco'').

- Gain on sale of marketable securities was US$0.4 million for the three months ended March 31, 2005 compared to US$0.3 million for the three months ended March 31, 2004.

Income before Tax Expense

As a result of the foregoing, income before tax increased by US$3.2 million, or 8.9%, from US$36.6 million for the three months ended March 31, 2004 to US$39.8 million for the three months ended March 31, 2005.

Tax Expense

The Company's tax expense increased by US$3.2 million, or 20.3%, from US$16.0 million for the three months ended March 31, 2004 to US$19.2 million for the three months ended March 31, 2005, mainly attributable to higher income before tax expense and higher effective tax rate.

Net Income

As a result of the foregoing, net income decreased by US$0.1 million, or 0.6%, from US$20.1 million for the three months ended March 31, 2004 to US$20.0 million for the three months ended March 31, 2005.

Comparison of Years Ended December 31, 2004 and 2003

Total Sales and Other Operating Revenues

The Company's total sales and other operating revenues increased by US$81.5 million, or 17.6%, from US$463.6 million in 2003 to US$545.1 million in 2004. The increase was primarily due to increased revenue from net oil and gas sales, revenues from drilling operations and related services and share of profits of joint ventures.

- *Net oil and gas sales.* Revenues from net oil and gas sales increased by US$52.4 million, or 16.9%, from US$310.0 million in 2003 to US$362.3 million in 2004. The increase in revenue from net oil and gas sales was primarily due to the acquisition of Novus in June 2004 which contributed US$35.0 million in sales from July 1, 2004, as well as higher sales prices for both oil and gas in 2004 compared to 2003. The Company's average realized prices for oil increased from US$29.33/Bbls in 2003 to US$36.93/Bbls in 2004 and average realized prices for gas increased slightly from US$1.61/MMBTU in 2003 to US$2.26/MMBTU in 2004. Average realized prices for gas did not change significantly as most of the Company's gas contracts are based on long-term prices. In addition, the Company's net oil and gas sales increased as a result of increased gas production from 82.8 MMBTUD in 2003 to 200.6 MMBTUD in 2004 due to higher demand from the Company's natural gas customers and the Company's newly built LPG plant. The increase in revenue from net oil and gas sales was partially offset by a decline in the Company's gross crude oil production, primarily from its Rimau block operations, from 51.8 MBOPD in 2003 to 35.0 MBOPD in 2004.

- *Drilling operations and related services.* Revenues from drilling operations and related services increased by US$15.0 million, or 18.8%, from US$79.5 million in 2003 to US$94.4 million in 2004, primarily due to increases in both the utilization rates from 78% in 2003 to 100% in 2004 and the average daily revenues of offshore rigs from US$34,904 in 2003 to US$44,376 in 2004, respectively. The offshore rig utilization rates for 2004 is higher compared to 2003 as a result of the full operation of the Company's three offshore rigs in 2004 (Maera, Raissa, and Yani) following the acquisition of two new offshore rigs (Raissa in May 2003 and Yani in June 2003) and the refurbishment of an existing offshore rig (Maera in March 2003). In addition, although the utilization rates of onshore rigs declined from 57% in 2003 to 53% in 2004, the average daily revenue of onshore rigs slightly increased from US$7,944 in 2003 to US$8,314 in 2004 due to higher contract prices for onshore rigs with more horsepower compared to those used in 2003.

- *Net methanol sales.* Revenues from net methanol sales increased slightly by US$0.4 million, or 0.7%, from US$55.1 million in 2003 to US$55.5 million in 2004. The increase in net methanol sales was primarily attributable to an increase in the average sales price of methanol, from US$212/MT in 2003 to US$230/MT in 2004, which was partially offset by a decrease in sales volume, from 783 MT/day in 2003 to 723 MT/day in 2004 due to an increase in the plant's downtime from 27 days in 2003 to 42 days in 2004 attributable to an unscheduled shutdown of the plant which was caused by turbine and compressor problems in 2004.

- *Share of profit of joint ventures.* Revenues from share of profits of joint ventures increased by US$10.4 million, or 111.8%, from US$9.3 million in 2003 to US$19.7 million in 2004. Revenue from share of profits of joint ventures increased due to the inclusion of revenues from Kakap, Brantas, Cooper Basin and Pakistan blocks as a result of the Company's acquisition of Novus in June 2004. The Company's share of profits of joint ventures for 2004 comprised of revenue from Kakap, Brantas, Cooper Basin and Pakistan operations (which are not operated by the Company) in the amount of US$17.9 million and revenue from Tuban operations (which is not operated by the Company) in the amount of US$1.8 million, whereas 2003 comprised only of revenue from Tuban operations in the amount of US$9.3 million.
- *Electric power sales.* Revenues from electric power sales was US$1.5 million in 2004 compared to nil in 2003. Revenue from electric power sales represents revenue derived from the Batam power plant which commenced commercial operations on October 29, 2004.
- *Other contracts.* Revenues from other contracts increased by US$1.9 million, or 19.4%, from US$9.7 million in 2003 to US$11.6 million in 2004, primarily due to the increase in back charges from higher offshore rig utilization rates as a result of the full operation of the Company's three offshore rigs in 2004 (Maera, Raissa, and Yani).

Production and Lifting Costs

The Company's production and lifting costs increased by US$11.6 million, or 17.6%, from US$66.1 million in 2003 to US$77.8 million in 2004. The increase in production and lifting costs was primarily due to the processing fee of US$5.8 million for the Company's recently completed LPG plant in the Rimau block which became operational in 2004, abandonment costs of US$1.0 million in the Rimau block and development costs for the Sukowati well in the Tuban block.

Depreciation and Amortization

The Company's depreciation and amortization increased by US$5.4 million, or 7.8%, from US$69.2 million in 2003 to US$74.6 million in 2004, primarily attributable to the depreciation and amortization of oil and gas properties of newly acquired Novus amounting to US$5.6 million and methanol and drilling operations amounting to US$3.5 million. The increase in depreciation and amortization was partially offset by decreases in the depreciation and amortization of the other existing oil and gas properties of the Company as a result of an increase in gas reserves and the offshore drilling rigs by US$2.4 million as a result of a change in the utilization life of these rigs.

Drilling Operations Costs

The Company's drilling operations costs increased by US$9.7 million, or 15.4%, from US$63.1 million in 2003 to US$72.8 million in 2004. The increase in drilling operations costs were attributable to an increase in offshore average daily cost from US$16,503 in 2003 to US$20,625 in 2004, primarily due to increases in drilling equipment costs, rig movement costs, labor costs and rental costs, as a result of the full operation of the Company's three offshore rigs in 2004 (Maera, Raissa, and Yani) compared to 2003. The increase in drilling operations costs was partially offset by a decrease in onshore average daily cost from US$7,221 in 2003 to US$7,697 in 2004, primarily due to a decrease in onshore rig utilization rate from 57% in 2003 to 53% in 2004 as a result of four idle rigs.

Cost of Methanol Sales

The Company's cost of methanol sales increased by US$10.0 million, or 30.5%, from US$32.7 million in 2003 to US$42.7 million in 2004. The increase in cost of methanol sales was primarily due to an increase in plant rental expense of US$7.3 million as a result of re-negotiation of the pricing formula in 2004 with Pertamina which owns the methanol plant. The increase was also attributable to the increase in the plant's operational costs as a result of an increase in the plant's downtime from 27 days in 2003 to 42 days in 2004 due to an unscheduled shutdown of the plant which was caused by turbine and compressor problems.

Exploration Expenses

The Company's exploration expenses increased by US$2.5 million, or 11.9%, from US$21.3 million in 2003 to US$23.8 million in 2004. The increase in exploration expenses was primarily attributable to the write-off of the capitalized costs associated with the Banteng 1, Puji 1, Talsa 1, Pering 1 and Tiki 1 wells which were reported as dry holes in 2004. The most expensive dry hole was the Banteng 1 well with an exploration expense in the amount of US$8.6 million.

Cost of Power Sales

The Company's cost of power sales was US$0.07 million in 2004 compared to nil in 2003. Cost of power sales represents maintenance costs and salaries related to the Batam power plant which commenced commercial operations on October 29, 2004.

Operating Expenses

The Company's operating expenses increased by US$12.1 million, or 19.4%, from US$62.2 million in 2003 to US$74.3 million in 2004, primarily attributable to increases in salaries and wages and other employee benefits, contract charges, and business traveling expenses. The increase in salaries and wages and other employee benefits was mainly due to the Company's acquisition of Novus in June 2004 and the Company's newly built LPG plant and power plant in Batam. The increase in contract charges was attributable to the Company's expenses related to acquisitions in its oil and gas operations.

Other Charges — Net

The Company's other charges — net increased by US$21.9 million, or 83.9%, from US$26.2 million in 2003 to US$48.1 million in 2004. The increase in other charges — net was primarily attributable to increases in interest expense, financing charges and loss on foreign exchange, which was partially offset by gain on sale of marketable securities, gain on exchange of non-monetary assets and others — net.

- Interest expense increased by US$17.4 million, or 94.3%, from US$18.4 million in 2003 to US$35.8 million 2004, which was mainly attributable to the interest expense relating to the issuance of new Indonesian Rupiah (''IDR'') Bond on July 12, 2004 with 13.125% coupon rate per annum, Senior Guaranteed Notes (SGN) and Guaranteed Notes (GN) which bear interest at 10% and 8.75% per annum, respectively, short-term and long-term loan from United Overseas Bank Limited (''UOB'') and long-term loan from PT Bank Central Asia Tbk (''BCA''). Some of the proceeds from these facilities were used to finance the acquisition of Novus.
- Financing charges were US$10.2 million in 2004 compared to nil in 2003, primarily due to the arrangement fees and rollover fees for the syndicated loan from UOB.
- Loss on foreign exchange was US$6.9 million in 2004 compared to gain on foreign exchange of US$0.05 million in 2003, primarily due to translation losses on the Company's non-U.S. dollar denominated liabilities primarily as a result of the weakening of the Rupiah against the U.S. dollar.
- Equity in net loss of associated entities was US$0.04 million in 2003 compared to US$0.8 million in 2004, primarily due to the Company's newly acquired associate entity, Medco Moeco Langsa Limited (''Medco Moeco'').
- Gain on sale of marketable securities was US$1.1 million in 2004 compared to loss on sale of marketable securities of US$4.2 million in 2003. In 2003, the loss on sale of marketable securities was primarily attributable to the Company's loss on redemption of notes payable. In 2004, gain on sale of marketable securities was primarily attributable to the Company's short-term investments.
- Gain on exchange of non-monetary assets was US$1.1 million in 2004. In December 2004, a rig, which was transferred by Apexindo to Mesa Drilling, Inc. (''Mesa Drilling'') in exchange for a 50%

ownership interest in Mesa Drilling, was sold by Mesa Drilling to a third party for US$8 million in connection with Apexindo's plan to divest all of its interests in Mesa Drilling. Accordingly, the outstanding balance of the deferred gain on exchange of non-monetary asset amounting to US$1.1 million was recognized as income at the time of the sale of such rig.

- Others — net was US$3.5 million in 2004 compared to US$(3.5) million in 2003, primarily due to reversal of overaccrual on the Company's U.S. tax liabilities following settlement in 2004 in the amount of US$5.4 million.

Income before Tax Expense

As a result of the foregoing, income before tax increased by US$8.2 million, or 6.7%, from US$122.8 million in 2003 to US$130.9 million in 2004.

Tax Expense

The Company's tax expense increased by US$12.1 million, or 28.2%, from US$42.9 million in 2003 to US$55.1 million in 2004. The increase in tax expense was mainly attributable to the recognition of deferred tax income of US$11.1 million in 2004 compared to US$24.8 million in 2003 due to the expectation of taxable income from U.S. subsidiaries which allowed the Company to recognize tax loss carry-forwards as deferred tax benefits. The Company's accrued tax loss carry forward was US$20.5 million as of December 31, 2004 compared to US$84.5 million as of December 31, 2003.

Net Income

As a result of the foregoing, net income decreased by US$4.5 million, or 5.6%, from US$79.0 million in 2003 to US$74.5 million in 2004.

Comparison of Years Ended December 31, 2003 and 2002

Total Sales and Other Operating Revenues

The Company's total sales and other operating revenues increased by US$55.0 million, or 13.5%, from US$408.6 million in 2002 to US$463.6 million in 2003. The increase was primarily due to methanol sales, revenues from drilling operations and related services, share of profit of joint ventures and revenues from other contracts, which was partially offset by a decrease in net oil and, to a lesser degree, gas sales.

- *Net oil and gas sales.* Revenues from net oil and gas sales decreased by US$9.0 million, or 2.8%, from US$319.0 million in 2002 to US$310.0 million in 2003. The decrease in net oil and gas sales was primarily due to the decrease in gross oil production from Rimau block from 71.9 MBOPD in 2002 to 51.8 MBOPD in 2003. This was partially offset by an increase in average crude oil price from US$25.30/Bbls in 2002 to US$29.33/Bbls in 2003 and an increase in gas sales from 66.5 MMBTUD in 2002 to 82.8 MMBTUD in 2003 due to higher demand from the Company's gas customers, including PLN in Simpang Tiga Indralaya South Sumatra, PLN in Tanjung Borang South Sumatera and PT Pupuk Sriwijaya Palembang, as well as an increase in average gas price from US$1.53/MMBTU in 2002 to US$1.61/MMBTU in 2003.

- *Drilling operations and related services.* Revenues from drilling operations and related services increased by US$34.9 million, or 78.2%, from US$44.6 million in 2002 to US$79.5 million in 2003, primarily due to the increase in the utilization rates of the Company's offshore rigs and commencement of new operations of Raissa rig in May 2003 and Yani rig in June 2003. The utilization rate of offshore rigs increased from 70% in 2002 to 78% in 2003 as a result of the recommencement of the operation of Maera rig in March 2003. The average daily revenues from offshore rigs increased from US$24,862 in 2002 to US$34,904 in 2003, while the average daily revenues from onshore rigs increased from US$7,396 in 2002 to US$7,944 in 2003.

- *Net methanol sales.* Revenues from net methanol sales increased by US$24.3 million, or 79.1%, from US$30.8 million in 2002 to US$55.1 million in 2003. The increase in net methanol sales was primarily attributable to an increase of sales volume from 232,576 MT in 2002 to 262,000 MT in 2003, an increase of production days from 276 days in 2002 to 339 days in 2003, and an increase in the average price from US$132/ton in 2002 to US$212/ton in 2003.

- *Share of profit of joint ventures.* Revenues from share of profit of joint ventures increased by US$3.4 million, or 57.6%, from US$5.9 million in 2002 to US$9.3 million in 2003. Revenue from share of profit of joint ventures increased primarily due to the recognition of uplift in the Tuban block. The Company's share of profits of joint ventures for 2002 and 2003 comprised revenues solely from Tuban operations (which is not operated by the Company).

- *Other contracts.* Revenues from other contracts increased by US$1.4 million, or 16.6%, from US$8.3 million in 2002 to US$9.7 million in 2003, primarily due to higher back charges from an increase in the offshore rig utilization rate from 70% in 2002 to 78% in 2003 and the commencement of new operations of Raissa rig in May 2003 and Yani rig in June 2003.

Production and Lifting Costs

The Company's production and lifting costs increased by US$25.9 million, or 64.3%, from US$40.3 million in 2002 to US$66.1 million in 2003. The increase in production and lifting costs was primarily due to a new field production (Matra), toll fee for gas sales to PLN in South and Central Sumatra block for the full year in 2003 compared to only part of 2002, fracturing jobs at Tellisa Sand to arrest production decline and pressure maintenance in Rimau block, oil movement from pipeline to barge due to pipeline leak in Kalimantan block, and pipeline problems and workovers at the Tuban block.

Depreciation and Amortization

The Company's depreciation and amortization increased by US$18.1 million, or 35.4%, from US$51.1 million in 2002 to US$69.2 million in 2003. The increase in depreciation and amortization was primarily due to a change in depletion basis for calculating the depletion rate in 2003 from using the proved reserves to proved developed reserves, resulting in an increase in the depletion rate applied to the Company's oil and gas properties, as well as higher depreciation from commencement of new operations of the Raissa and Yani rigs in 2003.

Drilling Operations Costs

The Company's drilling operations costs increased by US$23.3 million, or 58.3%, from US$39.8 million in 2002 to US$63.1 million in 2003. The increase in drilling operations costs was primarily attributable to increases in labor costs, repairs and maintenance costs and rental fees as a result of an increase in offshore utilization rate from 70% in 2002 to 78% in 2003 and commencement of new operations of the Raissa and Yani rigs.

Cost of Methanol Sales

The Company's cost of methanol sales increased by US$7.6 million, or 30.1%, from US$25.1 million in 2002 to US$32.7 million in 2003. The increase in cost of methanol sales was primarily due to an increase in the non-fixed rental fee in U.S. dollars which was determined based on an evaluation of the methanol standard price in the international market. The average price of methanol increased from US$132/ton in 2002 to US$212/ton in 2003.

Exploration Expenses

The Company's exploration expenses decreased by US$8.1 million, or 27.5%, from US$29.4 million in 2002 to US$21.3 million in 2003. The decrease in exploration expenses was primarily due to a decrease in new exploration activities at the Pasemah, Madura, Senoro, Simenggaris and Bengara fields.

Operating Expenses

The Company's operating expenses increased slightly by US$0.5 million, or 0.8%, from US$61.7 million in 2002 to US$62.2 million in 2003. The slight increase in operating expenses was primarily attributable to the higher contract charges and provisions for doubtful accounts.

Other Charges — Net

The Company's other charges — net increased by US$25.9 million, from US$0.3 million in 2002 to US$26.2 million in 2003. The increase in other charges — net was primarily attributable to the increases in interest expense, loss on sale of marketable securities, and others-net.

- Interest expense increased by US$11.6 million, or 170.7%, from US$6.8 million in 2002 to US$18.4 million 2003, which was mainly attributable to the interest expense relating to the 8.75% Guaranteed Notes in May 2003 and interest on long-term loans from Fortis Bank S.A./N.A. ("Fortis Bank") and BCA.
- Loss on sale of marketable securities was US$4.2 million in 2003 compared to nil in 2002, primarily due to loss on redemption of notes payable.
- Gain on foreign exchange was US$0.05 million in 2003, compared to US$1.7 million in 2002 primarily due to the translations of revenues and expenses and cash flows in Apexindo, which maintains its books of accounts and presents its financial statements in Rupiah, but earns most of its revenues and incurs some of its costs in U.S. dollars.
- Equity in net loss of associated entities decreased by US$1.0 million, or 96.2%, from US$1.1 million in 2002 to US$0.04 million in 2003, primarily due to a decrease in the accumulated equity in net losses of Mesa Drilling.
- Others — net was US$(3.5) million in 2003 compared to US$5.9 million in 2002, primarily attributable to the recognition of loss on insurance claims in the amount of US$1.5 million in 2003 to correct the overstatement of gain on insurance claims related to the Maera Rig drilling accident for Apexindo in the amount of US$5.6 million recognized in 2002.

Income before Tax Expense

As a result of the foregoing, income before tax decreased by US$38.1 million, or 23.7%, from US$160.9 million in 2002 to US$122.8 million in 2003.

Tax Income (Expense)

The Company's tax expense decreased by US$45.9 million, or 51.7%, from US$88.9 million in 2002 to US$42.9 million in 2003. The decrease in tax expense was mainly attributable to the recognition of deferred tax income in the amount of US$24.8 million in 2003 compared to the recognition of deferred tax expense in the amount of US$13.1 million in 2002.

Net Income

As a result of the foregoing, net income increased by US$6.8 million, or 9.4%, from US$72.2 million in 2002 to US$79.0 million in 2003.

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$142.5 million of cash flows from operating activities in the three years ended December 31, 2004 and had average capital expenditures of US$187.3 million in the same period. During 2004, the Company's cash generated from operations increased by 25.8% compared to 2003, primarily due to the Company's acquisition of Novus in June 2004, increased gas supply to customers, the newly built LPG plant and the full operations of the Company's four offshore rigs. During 2003, the Company's cash generated from operations decreased by 40.8% compared to 2002, primarily attributable to the significant decrease in production in Rimau block and the increases in drilling operations costs, production and lifting costs and cost of methanol sales, as well as the increase in interest expense due to the Fixed Rate Guaranteed Notes 8.75% per annum due 2010 (the ''Notes'') issued by MEI Euro Finance Limited, or MEFL, and guaranteed by the Company.

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 does not have any current facility. 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, 2004, the Company had cash and cash equivalents of US$215.3 million which comprised cash and time deposits with maturity dates not over three months and which are not used as collateral. As of March 31, 2005, the Company had cash and cash equivalents of US$90.2 million which comprised cash and time deposits with maturity dates not over three months and which are not used as collateral.

Cash Flows from Operating Activities

The Company's net cash provided by operating activities was US$182.9 million, US$108.4 million, US$136.3 million and US$17.9 million for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively.

The increase in net cash provided by operating activities for the first three months ended March 31, 2005 compared to US$11.7 million for the first three months ended March 31, 2004 was primarily due to the Company's acquisition of Novus in June 2004, increased gas supply to customers, the newly built LPG plant and the full operations of the Company's four offshore rigs.

The increase in net cash provided by operating activities in 2004 compared to 2003 was primarily due to the Company's acquisition of Novus in June 2004, increased gas supply to customers, the newly built LPG plant and the full operations of the Company's four offshore rigs.

The decrease in net cash provided by operating activities in 2003 compared to 2002 was primarily due to the significant decrease of production in Rimau block and higher production and lifting costs, as well as the increase in interest expense due to the Notes.

Cash Flows from Investing Activities

The Company's net cash used in investing activities was US$208.2 million, US$236.3 million, US$322.5 million and US$23.3 million for the years ended December 31, 2002, 2003 and 2004 and for the three months ended March 31, 2005, respectively.

The increase in net cash used in investing activities for the first three months ended March 31, 2005 compared to net cash provided by investing activities in the amount of US$7.5 million for the first three months ended March 31, 2004 was primarily due to the acquisitions of short-term investments.

The increase in net cash used in investing activities in 2004 compared to 2003 was primarily due to the acquisition of Novus in June 2004, acquisitions of oil and gas properties.

The increase in net cash used in investing activities in 2003 compared to 2002 was primarily due to the acquisitions of short term investments, property and equipment and placement of restricted cash in banks which was partially offset by insurance claims received.

Cash Flows from Financing Activities

The Company's net cash provided by financing activities was US$43.6 million, US$188.7 million and US$267.1 million for the years ended December 31, 2002, 2003 and 2004, respectively, and the Company's net cash used in financing activities was US$119.7 million for the three months ended March 31, 2005.

The increase in net cash used for financing activities for the first three months ended March 31, 2005 compared to net cash provided by financing activities in the amount of US$7.1 million for the first three months ended March 31, 2004 was primarily due to the Company's repayment of its syndicated loan from UOB in the amount of US$150 million.

The increase in net cash flows provided by financing activities in 2004 compared to 2003 was primarily due to the proceeds of bank loans such as the syndicated loan from UOB and IDR bonds, the proceeds from sale of treasury notes which were acquired in 2003 and lower cash dividend payments in 2004.

The increase in net cash flows provided by financing activities in 2003 compared to 2002 was primarily due to the issuance of the Notes in May 2003 and the proceeds of bank loans from Fortis Bank and BCA.

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, 2002, 2003 and 2004 and as of March 31, 2005.

	As of December 31,			As of March 31,
	2002	2003	2004	2005
	(in millions of U.S. dollars)			
Short-term bank loans	—	—	150.0	30.0
Current portion of long-term debts	2.5	25.0	30.9	31.6
Long-term debt, net of current maturities	—	50.3	100.0	104.1
Notes payable	96.2	257.9	274.2	274.7
Rupiah Bond	—	—	144.2	141.4
Total debt	98.7	333.2	699.3	581.8

The Company's long-term debt outstanding as of December 31, 2002, 2003 and 2004 and as of March 31, 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 March 31, 2005.

	U.S. dollar	Rupiah
	(in millions of U.S. dollars)	
Long-term debt, net of current maturities	87.0	17.2
Notes payable	274.7	141.4
Total long-term debt	361.7	158.6

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 Singapore Exchange Securities Trading Limited. 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 June 29, 2004, the Company issued IDR Bond at nominal value of Rp.1.35 billion, payable on July 12, 2009. The 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 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.

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 18, 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.

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, (ii) local credit amounting to US$5 million and (iii) bank guarantee amounting to US$5 million. The term loan is payable over four years with a grace period of six months commencing on the first drawdown. The MEB loan bears interest at 12.15% 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 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 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 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 will be used partially for refinancing all 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). The repayment was made in accordance with the payment date of the facility.

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. It is payable over four years with semiannually payment with the first payment due on March 15, 2005.

Encore Facilities

Encore recently acquired all of the issued and outstanding shares of the Company's former shareholder, New Links Energy Resources Limited, a company incorporated in the Republic of Mauritius (''New Links''), in an acquisition financed partly by a US$278,000,000 Transferable Loan Facility arranged by UOB Asia Limited (the ''UOB Facility'') and partly by a US$175,000,000 Collateralized Equity Leveraged Loan Facility arranged by Merrill Lynch (Asia Pacific) Limited (the ''CELL Facility'', and together with the UOB Facility the ''Encore Acquisition Financing Documents''). In connection with the Encore Acquisition Financing, the Common Shares previously held by New Links were transferred to two separate special purpose vehicles in proportion to the respective principal amounts of the two facilities, directly and indirectly owned by Encore, and pledged as separate collateral for each of the UOB Facility and the CELL Facility. See ''Principal and Selling Shareholders''.

The Encore Acquisition Financing Documents contain certain events of default relating to the Company's performance of certain obligations set forth therein. An event of default will occur if, among other things:

- the Company fails to declare and pay interim cash dividends on a semi-annual basis in each calendar year;
- the Company fails to declare and pay cash dividends in an amount not less than the aggregate of (i) 50% of the Company's consolidated net income in 2004 and (ii) the amount (if any) by which total dividends paid in 2004 were less than 50% of the Company's net income in 2003. For the UOB Facility, this item (ii) should have been declared by no later than June 30, 2005. However, because Encore obtained a waiver from the UOB Facility lenders on July 13, 2005 relating to the Company's performance of this obligation, it is not in default for this matter;
- the Company fails to dispose of its interests in its consolidated subsidiaries or other investments (including, if so required by the majority lenders, its interests in Apexindo and/or the Jeruk Well Operation) within 90 days of a notice directing such disposal under UOB Facility or 180 days under the CELL Facility, and, under the UOB Facility, if the Company fails to distribute the profit generated on such disposal as dividends to its shareholders within 30 days of such disposal;
- a ratio of Consolidated Borrowings to Consolidated Tangible Net Worth at any time exceeds 1.75 to 1, a ratio of EBITDA to Debt Service in respect of any Relevant Period at any time exceeds 1:1, and a ratio of Current Assets to Current Liabilities at any time is less than 1.5 to 1, each as defined in the CELL Facility; or
- the Company fails to cancel or otherwise place out 226,597,000 Common Shares held by the Company as treasury shares by no later than the date falling 90 days after February 8, 2005 and undertake a tender procedure to repurchase not more than 10% of its Common Shares pro rata from its shareholders, unless the Company, despite using its reasonable efforts, has been unable to obtain approval for this transaction from the Indonesian Ministry of Justice, the Indonesian Capital Markets Supervisory Board and the Trustee under the IDR Bond. The Company was not able to obtain such approvals by the stipulated time period and no event of default was triggered as a result. In addition, Encore obtained a waiver from the UOB Facility lenders and the CELL Facility lenders to extend the deadline to on or about November 30, 2005.

The Encore Acquisition Financing Documents also permit Encore to dispose of up to 569,882,913 of the Common Shares, representing 17.1% of its issued share capital, from the Common Shares held as collateral for the UOB Facility, in a private placement transaction provided that the purchasers of such Common Shares agree not to dispose of such Common Shares for a 75-day period. The requirement to obtain a lock-up shall terminate if an underwriting agreement is signed on or prior to October 15, 2005 or if an amount sufficient to repay all liabilities due under the Encore Acquisition Financing Documents has been paid into the reserve accounts established in respect thereof prior to such date.

Neither the Company nor any of its subsidiaries is a party to either the UOB Facility or the CELL Facility. See "Risk Factors — Risks Relating to the Company — The interests of Medco Energi's controlling shareholders may differ from those of the Company".

Capital Expenditures

The following table sets forth the Company's capital expenditures for 2002, 2003 and 2004 and for the three months ended March 31, 2005.

	For the Year Ended December 31,			For the Three Months Ended March 31,
	2002(1)	2003(2)	2004(3)	2005(4)
	(US$ in millions)			
Exploration and Development Activities	84.2	90.8	235.1	—
Drilling	40.8	58.1	11.5	11.5
Methanol	2.8	0.2	—	1.6
Electric Power	—	—	—	26.0
Others	38.2	0.1	0.1	—
Total	165.9	149.3	246.7	39.1

Notes:

(1) Such capital expenditures primarily related to development expenditure within the production blocks, particularly in relation to the Rimau block, as well as expenditures for the construction of two new rigs (Yani and Raissa) and refurbishment of the Maera rig by Apexindo. The Company also spent US$33.3 million to acquire new subsidiaries which is categorized in Others. Capital expenditures were funded from cash from operations and proceeds from the offering of 10.00% guaranteed notes due 2007.

(2) 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. The Company also spent US$3.1 million to acquire additional working interests in existing subsidiaries.

(3) 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.

(4) Such capital expenditures primarily related to the operation of MEB which commenced on October 29, 2004.

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 2005, 2006 and 2007.

	2005	2006	2007	Total
	(US$ in million)			
Exploration and Development Activities	199.0	274.4	244.3	717.8
Producing — Operated				
Rimau	31.8	37.6	31.8	101.2
Extension/Kampar	24.5	31.3	30.2	85.9
Lematang	9.6	22.2	11.1	43.0
Kalimantan	6.2	8.4	3.9	18.4
Tarakan	7.2	8.9	4.7	20.8
Producing — Non-Operated				
Tuban	4.2	1.3	—	5.4
Kakap	3.9	1.3	2.0	7.2
Brantas	25.6	24.1	29.4	79.1
Langsa	8.8	0.4	—	9.1
Development				
Senoro-Toili	13.8	23.6	35.8	73.2
Exploration				
Merangin	6.1	14.3	3.8	24.2

	2005	2006	2007	Total
	(US$ in million)			
Simenggaris	8.9	5.5	3.6	17.9
Madura	0.7	7.8	7.2	15.6
Nunukan	—	20.7	33.8	54.5
Asahan	0.6	—	—	0.6
Bengara	5.8	—	—	5.8
Yapen	1.0	—	—	1.0
Novus USA	35.8	34.7	11.0	81.5
Libya Project	4.6	32.6	36.0	73.2
Drilling(1)	6.0	6.0	146.8	158.7
Methanol(2)	0.6	2.2	0.5	3.3
Electric Power(3)	18.1	19.9	69.4	107.4
Total	223.7	302.5	461.0	987.3

Notes:

(1) Such capital expenditures will relate primarily to maintenance costs of existing assets that are owned by Apexindo and Apexindo's Jack Up project which is scheduled to be finished on 2007 with a total estimated cost in the amount of US$134 million. The Jack up project will be partly funded by equity and partly by project financing.

(2) Such capital expenditures will relate primarily to maintenance costs, including the scheduled maintenance shutdown in 2006.

(3) Such capital expenditures will 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.

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, 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.

Contractual Obligations and Commitments

The following table summarizes the Company's contractual cash obligations and other cash commitments as of March 31, 2005.

	Amounts Due By Period				
	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
	(US$ in millions)				
Bank loans	165.8	61.6(1)	77.0(1)(2)	18.0	9.2
Notes payable(3)	282.0	—	26.5	255.5	—
Rupiah bonds	142.5	—	—	142.5	—
Committed capital Expenditure(4)	78.8	27.0	31.0	20.6	0.2
Total	669.1	88.6	134.5	436.6	9.4

Notes:

(1) Within one year, the current maturities of long-term bank loans by Fortis Bank is US$18.8 million. US$23.3 million and US$13.5 million of a loan by Fortis Bank to Apexindo was repaid in full on May 3, 2005 and June 1, 2005, respectively.

(2) The Company fully repaid US$50.0 million of UOB loan upon completion of the sale of its Middle East assets on July 18, 2005.

(3) The Notes will mature in 2010 unless the holders of the Notes exercise their put option in 2008 in accordance with the terms and conditions of the Notes. Figures are net of Treasury Notes.

(4) As of June 30, 2005.

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. These off-balance sheet arrangements are not generally required to be recognized as liabilities on the Company's balance sheet. 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.

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 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.

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 2.0% in 2000, 9.4% in 2001, 12.6% in 2002, 10.0% in 2003 and 5.1% in 2004. 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 and natural gas, 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 faculties. The Company is, however, not covered for lost profits. The premium for insurance coverage at replacement cost as of March 31, 2005 was US$6.7 million, exclusive of service tax. 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 production sharing contracts (''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 March 31, 2005, the Company had foreign currency loans of US$428.4 million and Rupiah denominated loans of Rp.1,545 billion (US$163.5 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

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 March 31, 2005, 63.0% of the Company's short-term and 8.0% 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.

As of December 31, 2004 and March 31, 2005, a 1% change in interest rates on the Company's floating rate borrowings, which totaled US$300.9 million and US$99.8 million, respectively, would result in a change of approximately US$3.0 million and US$1.0 million, respectively, 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.

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 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 early on April 29, 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. Accordingly, the Company will pay fixed rate of 6.98% per annum and 6.99% per annum under the amended swap transactions with ML. All other terms and conditions remain the same.

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, starting from July 10, 2005 the Company will pay a fixed rate of 7.23% per annum under this swap agreement. All other terms and conditions remain 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 will receive a fixed rate of 13.125% per annum equivalent in Rupiah and pay a fixed rate equivalent to 9.15% per annum on April 12, July 12 and October 12, 2005 commencing on April 12, 2005.

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, 2002, 2003 and 2004 and for the three months ended March 31, 2004 and 2005. EBITDA means earnings before interest, taxes, depletion, depreciation, amortization, gain or loss on foreign exchange and other charges as calculated under Indonesian GAAP. EBITDAX means EBITDA adding back exploration expenses as calculated under Indonesian GAAP.

Reconciliation of EBITDA and EBITDAX to income from operations	2002	2003	2004	Q1 2004	Q1 2005
			(US$)		
EBITDAX	242,644,837	240,417,739	278,391,414	53,982,347	74,814,489
Exploration Expense	(29,392,497)	(21,307,817)	(23,847,061)	(4,406,908)	(1,434,336)
EBITDA	213,252,340	219,109,922	254,544,353	49,575,439	73,380,153
Depreciation and Amortization — Direct cost	(51,115,938)	(69,233,287)	(74,623,615)	(11,219,704)	(21,201,261)
Depreciation — Operating expenses	(981,685)	(969,877)	(890,889)	(143,419)	(337,850)
Income from Operations	161,154,717	148,906,758	179,029,849	38,212,316	51,841,042

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, 2002, 2003 and 2004 and for the three months ended March 31, 2004 and 2005. Adjusted EBITDA adjusts for earnings before interest, taxes, depletion, depreciation, amortization, gain or loss on foreign exchange and other 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. Adjusted EBITDAX means Adjusted EBITDA adding back exploration expenses as calculated under Indonesian GAAP. See "— Revenues from Company-Operated and Non-Company-Operated Fields".

Reconciliation of Adjusted EBITDA and Adjusted EBITDAX to net income	2002	2003	2004	Q1 2004	Q1 2005
			(US$)		
Adjusted EBITDAX	246,966,964	244,813,783	306,797,951	55,263,704	80,909,238
Exploration Expense (Consolidated)	(29,392,497)	(21,307,817)	(23,847,061)	(4,406,908)	(1,434,336)
Exploration Expense (Share of joint ventures)	(459,662)	(293,130)	(2,624,151)	(511,921)	(107,022)
Adjusted EBITDA	217,114,805	223,212,836	280,326,739	50,344,875	79,367,880
Depreciation and Amortization (Consolidated)	(51,115,938)	(69,233,287)	(74,623,615)	(11,219,704)	(21,201,261)
Depreciation and Amortization (Share of joint ventures)	(3,408,953)	(3,815,152)	(13,394,244)	(769,436)	(3,264,741)
Depreciation — Operating expenses (Consolidated)	(981,685)	(969,877)	(890,889)	(143,419)	(337,850)
Interest expenses (Consolidated)	(6,812,407)	(18,440,094)	(35,821,757)	(4,475,111)	(12,818,376)
Financing Charges (Consolidated)	—	—	(10,218,408)	(74,346)	(92,542)
Current Taxes (Consolidated)	(75,760,303)	(67,748,579)	(66,148,681)	(15,545,629)	(20,521,086)
Deferred Taxes (Consolidated)	(13,115,789)	24,809,651	11,080,177	(447,261)	1,279,028
Other non charges (Consolidated)	6,551,690	(7,712,069)	(2,048,526)	2,911,287	889,416
Interest, financing, tax and other charges (Share of joint ventures)	(453,512)	(287,762)	(12,388,142)	—	(2,722,986)
Minority interest (Consolidated)	220,395	(816,696)	(1,328,186)	(474,332)	(594,595)
Net Income	72,238,303	78,998,971	74,544,468	20,106,924	19,982,887

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.

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 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 and MEM maintain their books/accounts in Indonesian 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 currency, MEFO in Euro and MEAPL and 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 is 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 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.

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 recorded 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 recorded 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 recorded 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.

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.

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 off shore drilling rigs and offshore drill pipes which are classified under rig equipment have been changed, to reflect a more realistic assumption of the economic benefits over the utilization of such assets. The effect of the change is 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 and subsidiaries recognize employee benefits liability in accordance with requirements of Labor Law No. 13 Year 2003 (Law No. 13/2003) dated March 25, 2003 issued by the President of Indonesia.

The Company and subsidiaries use the Projected-Unit-Credit Method with long-term actuarial assumptions in recognizing the employees' 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 period 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 arising from the addition of the new labor law is amortized over four and 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.

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 and Exspan Airlimau 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/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.

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.

INDUSTRY

The information in the section below has been derived, in part, from various Government and private publications or obtained in communications with Government agencies in Indonesia. This information has not been independently verified by us, the Initial Purchasers or any of our or their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside Indonesia. Neither we nor the Initial Purchasers have any actual knowledge of any material misstatement contained in this section.

Brief History

Indonesia's oil and gas industry is generally considered to be the third oldest in the world after the United States and Russia. The first discovery of oil in commercial quantities was in 1885 in North Sumatra, Indonesia. However, the main oil producing fields in Sumatra were not discovered until the 1930s and 1940s. Following its independence in 1945, Indonesia recognized the potential which oil possessed for providing the funds necessary for the development of the country and its infrastructure. In late 1971, a major gas discovery was made in the Arun field in northern Sumatra by Mobil Oil Indonesia Inc., followed by Huffco Indonesia in the Badak field in East Kalimantan in early 1972. These two independent discoveries established Indonesia as a major exporter of liquefied natural gas ("LNG") with the shipment of its first cargo in August 1977 to Japan. World trade in LNG has grown at a rate of 8.5% per year from 1970 to 1999, resulting in Indonesia being the fifth largest supplier of LNG in the world.

Indonesia has a diversity of geological basins, which continue to offer sizeable oil and gas reserve potential. The country has in total 75 tertiary sedimentary basins, 15 of which are producing oil and gas, 23 of which have oil and gas discoveries but have yet to be developed, and 22 basins which are unexplored. In 2002, the Government of Indonesia estimated Indonesia's crude oil reserves at 9.7 billion barrels, with proven reserves of 4.7 billion barrels and potential reserves of 5.0 billion barrels, and Indonesia's proven and potential gas reserves estimated to be between 170-180 trillion cubic feet.

Indonesia is the 17th largest oil producing country in the world. Indonesia produced an average of 1.0 MMBbls of oil and condensate per day and exported about 543,000 Bbls/d in 2003. Oil and gas are the largest contributors to Government revenue by industry sector, contributing approximately 16.3% to domestic revenues in 2002. Indonesia is a member of OPEC, a group of 11 oil producing countries representing approximately 39.6% of world oil production in 2003.

The historical oil and gas production in Indonesia is shown in the following table:

	Oil (MMBbls)	Gas (Bcf)
1997	545	3,166
1998	538	2,979
1999	496	3,068
2000	518	2,907
2001	490	2,803
2002	459	3,031
2003	419	3,143
Jan-Sep 2004	301	2,280

Source: CEIC Data
Note: Oil production includes condensate production

Indonesia's oil and gas sector has historically been a key contributor to its economy, and today remains an important contributor of Government export revenues and an important source of foreign exchange for the country. In 2002, exports of oil and gas products accounted for approximately 21% of all export earnings.

The following table compares Indonesia's oil and gas production with its export earnings:

	1999	2000	2001	2002	2003	Jan-Sep 2004
Crude oil production (1,000 Bbls/d)	1,209	1,275	1,211	1,124	1,013	973
Condensate oil production (1,000 Bbls/d)	148	143	132	132	134	130
Natural gas production (Bcf)	3,068	2,907	2,803	3,031	3,143	2,280
Crude oil exports (1,000 Bbls)	244,171	195,157	216,673	185,190	162,344	N.A.
Condensate exports (1,000 Bbls)	22,012	21,806	24,151	34,132	36,288	N.A.
LNG exports (MMBTU)	1,501,921	728,082	967,138	1,360,311	1,368,383	N.A.
LPG exports (1,000 MT)	1,730	1,306	1,483	1,270	1,008	N.A.

Source: CEIC Data

	1997	2000	2003	2004
	US$ in billions			
Oil & gas				
Exports (f.o.b.)	11.6	14.4	13.7	15.6
Imports (c.i.f.)	–3.9	–6.0	–7.6	–11.6
Net oil & gas exports	7.7	8.4	6.1	4.0

Source: Central Bureau of Statistics, Indikator Ekonomi

The tables below describe the domestic uses of Indonesia's oil and gas production. The main use for oil in Indonesia is as fuel source, with the largest consumption of oil being the transportation sector. The table below describes the end users of fuel oil products from 2000 to 2002.

Domestic Fuel Oil Consumption by Sector	2000	2001	2002	2002 %
	(Liters in millions)			
Transportation	25,548	26,248	27,329	47%
Industry	11,862	12,384	12,338	21%
Household	12,407	12,242	11,625	20%
Electricity	5,008	5,017	6,505	11%
Total	54,825	55,891	57,797	100%

Source: MIGAS

In comparison, Indonesia's natural gas is primarily used as feedstock for downstream manufacturing industries. The fertilizer industry has been consistently the largest offtaker for Indonesia's domestically marketed natural gas over the last three years to 2003.

Indonesia Marketed Natural Gas	2001	2002	2003	2003 % of Total	2003 % of Domestic
	(In Millions of square feet)				
LNG Export	1,489,935	1,656,472	1,719,127	64.9%	
Natural Gas Export	32	82,619	118,112	4.5%	
LPG Export	2,410	2,474	5,655	0.2%	
Total Export	1,492,377	1,741,565	1,842,894	69.6%	
Fertilizer	211,730	244,445	256,741	9.7%	31.9%
Electricity	254,237	195,300	187,187	7.1%	23.2%
City Gas	78,389	82,743	157,478	5.9%	19.5%
LPG/LEX Plants	10,397	26,611	32,008	1.2%	4.0%
Petrochemical	29,437	30,892	22,773	0.9%	2.8%
Cement Plants	3,420	2,751	2,872	0.1%	0.4%
Other Industry	132,964	159,509	146,912	5.5%	18.2%
Total Domestic	720,574	742,251	805,971	30.4%	100.0%
Total	2,263,297	2,505,072	2,648,973	100.0%	

Source: MIGAS

Fuel Oil Pricing

Fuel oil is an alternative, competitive fuel to natural gas for many industrial and electricity sector companies in Indonesia. Historically, the Government has set and subsidized the price of fuel oil sold domestically. As a part of its plan to remove fuel oil pricing subsidies, beginning in April 2001, fuel oil prices were quoted both in official market prices and subsidized prices. Through Presidential Decree Number Nine, on January 16, 2002 as amended by Presidential Decree No. 27, on April 30, 2002, subsidies were lowered to 25.0%, and subsidized prices were quoted at 75.0% of the official market price, subject to a minimum of Rp.800 per liter and a maximum of Rp.1,150 per liter. With effect from January 2003, prices were further altered by Presidential Decree No. 90, issued on December 31, 2002. The set domestic price is established monthly, based on the previous monthly average of Mid-Oil Platt's Singapore prices, plus 5.0%. The set domestic price for fuel oil was Rp.1,560 per liter as of September 30, 2003, which was equivalent to approximately US$4.8 per MMBTU. As of July 2005, the government had increased the subsidized oil-product prices by approximately 51% from the 2004 average subsidized prices to narrow the gap with international oil market prices. The following table summarizes oil and fuel oil average pricing levels between 2000 and 2005:

	2000	2001	2002	2003	2004	2005[1]
Indonesian Fuel Oil Prices:						
Subsidized price (Rp./liter)[2]	363	670	1,047	1,568	1,560	2,360
Official market price (Rp./liter)[3]	—	1,413	1,452	1,575	1,589	2,900
International Market Prices:						
Singapore HSFO (US$/tonne)[4]	159.2	134.1	148.5	169.6	183.9	263.5
Minas crude oil (US$/bbl)[5]	28.53	23.99	25.11	29.04	36.6	53.6

Notes:

(1) As at July 1, 2005.

(2) Source: 2000, 2001 sourced from MIGAS and Petroleum Report Indonesia 2003 (American Embassy); 2002, 2003, 2004 and 2005 from Pertamina, based on average reported monthly price.

(3) Source: 2000, 2001 sourced from MIGAS and Petroleum Report Indonesia 2002 (American Embassy); 2002, 2003, 2004 and 2005 from Pertamina, based on average reported monthly price. Based on average 100.0% market price quoted by the Government.

(4) Source: Bloomberg. Based on Singapore High Sulfur Fuel Oil 180, Spot Price daily average.

(5) Source: Bloomberg. Based on Pertamina Minas Crude Oil Price monthly average.

Oil and Gas Industry Outlook in Indonesia

The outlook for the Indonesian oil and gas industry will be influenced by the Indonesian and regional political situation and economics as well as by world prices for crude oil. Although crude oil is traded globally, the supply and demand equation varies within each region. The Asia Pacific region is a net importer of oil, importing over 40% of its oil consumption. The expected renewed growth of the Indonesian and the South-East Asian economies will lead to further growth in energy demand from oil, natural gas and other energy sources. Increasing domestic oil consumption has led to expectations that Indonesia will cease to be a net exporter of oil within this decade. To offset the potential loss of foreign currency earnings and to remain a net oil exporter, the Government has taken a number of steps including:

- Increasing the price of oil-based fuels beginning in 2001 by reducing its subsidies in an effort to reduce the increasing demand for such fuels in Indonesia to a target growth rate of 5.0% per annum. It is expected that by 2006 the remaining subsidies on oil-based fuels will be abolished. However, although the fuel oil price controls are a burden on the Government and it is committed under the ASEAN Free Trade Agreement to remove these price controls, given delays which have occurred to date there can be no certainty that this will happen.
- Issuing incentive packages at regular intervals to stimulate further exploration for oil and gas in so called ‘‘frontier’’ and ‘‘deep water’’ areas, particularly in eastern Indonesia.
- Offering better economic profit-sharing terms to participating parties under PSCs for production of natural gas.

- Deregulating the electricity generation industry to allow private investors to generate electricity for public consumption. Fuel usage efficiency is expected to improve as a result.
- Promulgating the New Oil and Gas Law in October 2001, setting out the basis for the liberalization of the oil and gas industry in Indonesia. See "— New Oil and Gas Law".
- Promoting the use of natural gas as a domestic fuel in substitution for liquid fuel, which can be exported more readily for foreign currency earnings.

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

Exploration geoscientists generally believe that opportunities for further oil and gas discoveries exist in Indonesia. The demand for electrical power also provides opportunities for the provision of gas-fuelled power plants and has resulted in an increase in demand for gas.

Production Sharing Arrangements

Indonesia's oil and gas resources are national assets controlled by the Government. Prior to the enactment of the New 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 New Oil and Gas Law came into force in November 2001. Under the New 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 New 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 New 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 New Oil and Gas Law. See "— New 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 predecessor regulatory framework to the New 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 new 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 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 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 at the Indonesian corporate tax rate in effect at the time the PSC is executed. 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 old law, DMO did not apply to natural gas production. Under the New Oil and Gas Law, DMO may apply to natural gas production. In addition, on December 21, 2004, the Constitutional Court declared that a fixed rate of 25% will be applicable for DMO, instead of a maximum threshold of 25%. See ''— New Oil and Gas Law''.

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. BPMigas has the right to demand that a specified percentage (generally 10%) 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 the 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 New 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 PT Pertamina (Persero) 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 PT Pertamina (Persero).

Other Cooperation Contracts

The New 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 investors. 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. 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.

New Oil and Gas Law

The New Oil and Gas Law was enacted on November 23, 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. Unlike its predecessor law, which did not distinguish between upstream and downstream activities as they were monopolized by Pertamina, the New 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 midstream activities) encompass processing, transporting, storage and commerce. The New Oil and Gas Law introduces two new governmental bodies, the Upstream Operating 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 New 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 has 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 New 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 New Oil and Gas Law.

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 production sharing 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 is handled primarily by the Ministry of Energy and Natural 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 New Oil and Gas Law, management believes that the New Oil and Gas Law has not to date materially altered the terms of existing production sharing arrangements.

The New 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 New 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 to the domestic markets. In addition, on December 21, 2004, the Constitutional Court revoked certain provisions of the New Oil and Gas Law. In particular, the Constitutional Court also declared 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 Government/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 applicable 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.

Another key term of the New Oil and Gas Law was the establishment of BPMigas, an independent governmental agency, in December 2002 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 New 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, on December 21, 2004, the Constitutional Court 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 held that Article 28(2)(3) of the New 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 on Upstream Oil and Gas Business Activities, or the Upstream Regulation, was enacted on October 14, 2004 by the Government. The Upstream Regulation provides 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.

Not all of the implementing regulations to the New 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 New 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 New Oil and Gas Law is uncertain and may adversely affect the Company's business''.

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, 2005, the Company's estimated gross proved reserves of 159.7 MMBOE consisted of 94.3 MMBbls of oil and condensate and 382.3 Bcf of natural gas. As of January 1, 2005, the Company's estimated gross proved plus probable reserves of 574.0 MMBOE consisted of 201.2 MMBbls of oil and condensate and 2,180.7 Bcf of natural gas. The Company produced approximately 31.7, 24.7, and 20.3 MMBbls of oil and condensate and approximately 24.3, 30.2 and 73.4 Bcf of natural gas in the years 2002, 2003 and 2004, respectively. The Company was a top four crude oil producer by volume in Indonesia in 2002, 2003 and 2004. The reserve and production data set forth above and in this Offering Circular excludes the Company's interests in Australian blocks which were divested in December 2004.

For the years ended December 31, 2002, 2003 and 2004, the Company had total sales and other operating revenues of US$408.6 million, US$463.6 million and US$545.1 million, respectively, and EBITDA of US$213.3 million, US$219.1 million and US$254.5 million, respectively. Net oil and gas sales accounted for 78.1%, 66.9% and 66.5% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. For a reconciliation of EBITDA to income from operations, see ''Management's Discussion and Analysis of 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 44,401 square kilometers of property in Indonesia under 17 different production sharing arrangements with BPMigas, and in some cases, with Pertamina. 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 ''Industry — Production Sharing Arrangements''. The Company currently produces crude oil and natural gas from 696 wells in nine contract areas located in Sumatra, Java and Kalimantan in Indonesia. It also holds an interest in the large Senoro-Toili block, currently under development, and seven exploration contract areas in Indonesia, four of which it has already targeted as future development blocks. The Company has also acquired stakes in four U.S. blocks as well as one exploration block in Libya.

Drilling operations and related services accounted for 10.9%, 17.1% and 17.3% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. The Company owns a fleet of 11 onshore drilling rigs and five offshore drilling rigs, including four submersible swamp barge rigs and one jack-up rig, and offers onshore and offshore contract drilling services through its 77.5%-owned subsidiary, Apexindo. All of the contract drilling operations of the Company are conducted by Apexindo. Apexindo's shares were listed on the 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 GSA with Pertamina to sell gas from its adjacent Tarakan field as feedstock to the plant through 2007. Sales of methanol accounted for 7.5%, 11.9% and 10.2% of the Company's total sales and other operating revenues in 2002, 2003 and 2004, respectively. To position itself for gas sales to the power sector, the Company also acquired in 2003 two small stakes in gas-fired power plants, which accounted for less than 0.3% of its total sales and other operating revenues in 2004.

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 17 Indonesian blocks, nine 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 55,500 Bbls/d and 201 MMcf/d in 2004.

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 the largest 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 Ltd (''Santos'') and Anadarko, and major customers, including Itochu, Statoil ASA (''Statoil'') and Total E&P Indonesie. Given its large size, the Company has the resources and expertise to serve as operator of seven of its 10 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 sizeable undeveloped proved plus probable reserves of over 422.3 MMBOE of oil and gas, which is equivalent to approximately 73.6% of its gross proved plus probable reserves as of January 1, 2005. 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, 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 425.7 Bcf of gross proved plus probable undeveloped gas reserves, of which gross volumes of over 166 Bcf have already been commercially committed for sale and 117 Bcf are under negotiation for sale. The Company also has over 63.3 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 acquisition and exploration. Of its existing reserve portfolio as of January 1, 2005, the Company believes that over 40% 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 17 Indonesian blocks, five 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, with the flexibility to monetize the remaining U.S. 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 36% for wildcat wells and 85% for delineation wells. More recently, the Company opportunistically entered into a Jeruk Agreement with Santos (Sampang) on November 5, 2003, resulting in the significant Jeruk offshore oil field discovery in 2004. The Company continues to explore actively in Indonesia and has identified over 250 prospects and leads in its operated blocks. The Company has budgeted for an exploration drilling program which targets seven of its exploration blocks and eight of its producing and development blocks. In addition to its exploration drilling program, the Company has also entered into an EJVA on July 26, 2005 with Anadarko, which will allow the Company to utilize Anadarko's exploration expertise and US$80 million of Anadarko's capital to explore new and higher risk prospects in the Company's exploration acreage. The Company also intends to explore and appraise the prospective acreage of its recently acquired Libya block. 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 1994 to 89.8 MBOE/d in 2004. 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 exemplified by having one of the lowest lifting costs among oil and gas operators in Indonesia and the Asia-Pacific region. For the year ended December 31, 2004, the Company's lifting cost was US$2.93 per BOE for all of its assets (other than the Langsa block and the divested Australian blocks). The Company's average production and lifting cost for the three-year period ended December 31, 2004 was US$2.22 per BOE (other than the Langsa block and the divested Australian blocks). 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, since 2002 the Company has entered into over 12 gas arrangements for a gross volume of approximately 729 Bcf for its natural gas, including six gas agreements for a gross volume of approximately 216 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 Libya. The Company intends to opportunistically pursue attractive asset acquisitions, such as Senoro-Toili in 2000 and Lematang in 2002, 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, such as the Jeruk sole-well project in 2003. The Company plans to drill 60 exploration wells, including 43 wildcat wells and 17 delineation wells in Indonesia from 2005 through 2007. This exploration drilling is expected to be focused on seven of its exploration blocks as well as eight 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 also plans to study and develop an exploration program for its newly acquired block in Libya. The Company intends to continue its disciplined approach to exploration over the next three years and has allocated US$207.1 million as budgeted capital expenditure for exploration activities through the end of 2007. In addition to its exploration program, the Company has also entered into an EJVA on July 26, 2005 with Anadarko, which will allow the Company to utilize Anadarko's exploration expertise and US$80 million of Anadarko's capital to explore new and higher risk prospects in the Company's exploration acreage. 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 461.1 Bcf of gross proved plus probable gas reserves from the South Sumatra PSC and Lematang PSC gas fields, of which gross volumes of approximately 166 Bcf has been commercially committed for sale under long-term marketing arrangements and a further 117 Bcf is under negotiation for sale. Moreover, the Company, through its subsidiary, PT Medco E&P Tomori Sulawesi ("MEP Tomori"), is also in the early stages of developing its significant Senoro gas field, with approximately 30% of its 1,291.5 Bcf of gross probable natural gas reserves having been recently committed under a long-term sales arrangement with an ammonia offtaker. Finally, the Company intends to continue to minimize production declines in the Rimau block Kaji-Semoga fields, which have over 44.1 MMBbls of gross probable reserves as of January 1, 2005, 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 192 development wells between 2005 and 2007 in Indonesia, including 57 water injection wells for the Kaji-Semoga oil fields. 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-prong approach to commercialize its gas reserves:

- direct sales to adjacent customers 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 potentially transport and market its uncommitted gas to the West Java, Batam and East Java markets. The Company has entered into eight agreements 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. The Company is also evaluating compressed natural gas sales for a Bali power plant. 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 recently completed 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. It has been developing strong alliances and signing MOUs with domestic and international partners for a range of potential activities ranging from compressed natural gas and mini-LNG projects to fuel-gas supply for power plants and feed-gas supply for petrochemical and fertilizer manufacturers. The Company has recently signed a Heads of Agreement (''HOA'') with PT Panca Amara Utama for approximately 378.7 Bcf of gas sales, or approximately 30% of its current Senoro gross probable gas reserves, and expects to continue marketing the remaining volumes while developing the block. 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 has disposed of select 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. In addition, the Company plans to continue to improve its finding and development costs and operation and production costs. 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

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 alliance with Anadarko and PTTEP at Merangin, as well as partnerships with PetroChina at Tuban, East Java, Santos at Jeruk, Sampang block, East Java, and Mitsui at Langsa, Nanggroe Aceh Darussalam.

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, 2003, 2004 and 2005. 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.

	As of January 1,		
	2003	**2004**	**2005**
Crude oil and condensate (MMBbls):			
Gross proved reserves			
Beginning of prior year	158.1	152.0	113.9
Discoveries/extensions/revisions	19.8	(15.4)	(5.8)
Acquisitions/sales	5.9	2.0	6.6
Production for the prior year	(31.7)	(24.7)	(20.3)
End of prior year(1)	152.0	113.9	94.3
Natural gas (Bcf):			
Gross proved reserves			
Beginning of prior year	101.7	124.0	271.0
Discoveries/extensions/revisions	46.6	177.2	(4.1)
Acquisitions/sales	—	—	186.7
Production for the prior year	(24.3)	(30.2)	(71.3)
End of prior year(2)	124.0	271.0	382.3
Total (MMBOE):			
Gross proved reserves(3)			
Beginning of prior year	175.4	173.2	160.3
Discoveries/extensions/revisions	27.7	14.9	(6.5)
Acquisitions/sales	5.8	2.0	38.4
Production for the prior year	(35.8)	(29.8)	(32.5)
End of prior year(4)	173.2	160.3	159.7

Notes:

(1) Approximately 9.3 MMBbls, or 9.8% of the Company's gross proved reserves for oil and condensate, have not been certified by GCA as of January 1, 2005.

(2) Approximately 161.8 Bcf, or 42.3% of the Company's gross proved reserves for natural gas, have not been certified by GCA as of January 1, 2005.

(3) The total discoveries/extensions/revisions and acquisitions/sales of the Company's gross proved reserves for the 12-months ended January 1, 2003, 2004 and 2005 was 33,552,487 BOE, 16,901,632 BOE and 31,897,963 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, 2004 was 27,450,694.3 BOE.

(4) Approximately 36.9 MMBOE, or 23.1% of the Company's gross proved reserves for oil, condensate and natural gas, have not been certified by GCA as of January 1, 2005.

The table below sets forth information about changes in the Company's net proved reserves for the 12-months ended January 1, 2003, 2004 and 2005. 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — 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 9.8% of the Company's gross proved reserves for oil and condensate and approximately 42.3% 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.

	As of January 1,		
	2003	2004	2005
Crude oil and condensate (MMBbls):			
Net proved reserves			
Beginning of prior year	76.4	47.4	44.9
Discoveries/extensions/revisions	(17.3)	7.3	(2.8)
Acquisitions/sales	—	—	—
Production for the prior year	(11.7)	(9.7)	(7.7)
End of prior year	47.4	44.9	34.4
Natural gas (Bcf):			
Net proved reserves			
Beginning of prior year	63.3	82.2	106.3
Discoveries/extensions/revisions	35.1	44.3	81.9
Acquisitions/sales	—	—	—
Production for the prior year	(16.2)	(20.2)	(34.2)
End of prior year	82.2	106.3	154.0

The table below sets forth information about changes in the Company's gross proved plus probable reserves for the 12-months ended January 1, 2003, 2004 and 2005. 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.

	As of January 1,		
	2003	2004	2005
Crude oil and condensate (MMBbls):			
Gross proved plus probable reserves			
Beginning of prior year	363.1	237.6	236.5
Discoveries/extensions/revisions	(99.7)	19.0	(28.5)
Acquisitions/sales	5.8	4.6	13.6
Production for the prior year	(31.7)	(24.7)	(20.3)
End of prior year(1)	237.6	236.5	201.2(3)
Natural gas (Bcf):			
Gross proved plus probable reserves			
Beginning of prior year	1,829.8	1,793.3	1,986.9
Discoveries/extensions/revisions	(160.1)	189.1	35.8
Acquisitions/sales	147.8	34.8	229.3
Production for the prior year	(24.3)	(30.2)	(71.3)
End of prior year(2)	1,793.3	1,986.9	2,180.7(4)

Notes:

(1) Approximately 46.8 MMBbls, or 23.3% of the Company's gross proved plus probable reserves for oil and condensate, have not been certified by GCA.

(2) Approximately 1,678.4 Bcf, or 77.0% of the Company's gross proved plus probable reserves for natural gas, have not been certified by GCA.

(3) Includes 27.9 MMBbls of probable condensate estimates for the Senoro field of the Senoro-Toili JOB, which was not certified by GCA in the January 1, 2005 GCA Report.

(4) Includes 1,291.5 Bcf of probable gas resource estimates for the Senoro field of the Senoro-Toili JOB, which was not certified by GCA in the January 1, 2005 GCA Report.

The Company's reserve estimates for the Senoro field of the Senoro-Toili JOB were certified in the GCA Report as of January 1, 2003 and restated in the GCA Report as of January 1, 2004. The Company's probable condensate and gas estimates for the Senoro field of the Senoro-Toili JOB were not certified by GCA in the January 1, 2005 GCA Report. Oil volumes for the Tiaka field of the Senoro-Toili JOB were updated in GCA Report as of January 1, 2005.

The following table lists, as of January 1, 2005, 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, 2005								
	Net Proved Reserves[1]			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)
Indonesia									
Sumatra									
Rimau (PSC)	21.4	16.1	24.2	60.2	18.3	63.3	104.2	31.3	109.6
Extension/Kampar (PSC)	6.7	101.0	23.9	15.6	153.7	41.8	34.7	413.9	105.5
Lematang (PSC) (Harimau field)	—	0.4	0.1	—	0.4	0.1	—	0.4	0.1
East Kalimantan									
Kalimantan (TAC)	3.2	15.2	5.8	5.5	20.9	9.0	7.9	20.9	11.4
Tarakan (PSC)	0.8	21.2	4.4	1.3	27.2	5.9	2.1	35.8	8.2
Senoro-Toili (JOB) (Tiaka field)	2.4	—	2.4	2.6	—	2.6	5.5	—	5.5
Total GCA (January 1, 2005 Report)	34.4	154.0	60.7	85.1	220.5	122.7	154.4	502.2	240.2
Other									
Senoro-Toili (JOB) (Senoro field)[2]	N.A.	N.A.	N.A.	—	—	—	27.9	1,291.5	248.7
Lematang (PSC) (Singa field)[3]	N.A.	N.A.	N.A.	—	—	—	—	182.6	31.2
Langsa (TAC)[4]	N.A.	N.A.	N.A.	1.9	—	1.9	4.5	—	4.5
Total Operated	34.4	154.0	60.7	86.9	220.5	124.6	186.8	1,976.3	524.6
Natuna (Offshore)									
Kakap (PSC)[5]	N.A.	N.A.	N.A.	2.5	38.9	9.1	3.6	49.7	12.1
East Java									
Brantas (PSC)[6]	N.A.	N.A.	N.A.	1.0	33.2	6.6	4.5	42.5	11.7
Tuban (JOB)[7]	N.A.	N.A.	N.A.	1.9	—	1.9	1.9	—	1.9
Total Non-Operated	N.A.	N.A.	N.A.	5.3	72.2	17.6	10.0	92.2	25.7
Total Indonesia	34.4	154.0	60.7	92.3	292.7	142.3	196.8	2,068.5	550.4
International									
Middle East									
Bukha[8]	N.A.	N.A.	N.A.	1.1	17.9	4.2	1.5	19.6	4.9
United States									
East Cameron[9]	N.A.	N.A.	N.A.	—	44.2	7.6	—	54.8	9.4
Sorrento Dome[9]	N.A.	N.A.	N.A.	0.1	15.3	2.7	0.2	25.3	4.5
Main Pass[9]	N.A.	N.A.	N.A.	0.9	12.2	3.0	2.8	12.2	4.9
Padre Island[9]	N.A.	N.A.	N.A.	—	—	—	—	0.2	0.0
Total United States	N.A.	N.A.	N.A.	1.0	71.7	13.2	3.0	92.6	18.8
Total	34.4	154.0	60.7	94.3	382.3	159.7	201.2	2,180.7	574.0

Notes:

(1) The Company does not produce in-house estimates for net proved reserves.

(2) The Company's reserve estimates for the Senoro field of the Senoro-Toili JOB were certified in the GCA Report as of January 1, 2003 and restated in the GCA Report as of January 1, 2004. The Company's probable condensate and gas estimates for the Senoro field of the Senoro-Toili JOB were not certified by GCA in the January 1, 2005 GCA Report.

(3) The Company's reserve estimates for the Singa gas field of the Lematang block are based on reserve data certified by other independent petroleum engineering consultants as of December 17, 2000. Production-to-date from the Singa gas field has been negligible.

(4) The Company's reserve estimates for Langsa block are based on the Company's estimates.

(5) The Company's reserve estimates for the Kakap block gas fields are based on operator's estimates and an effective working interest of 18.75%. See "— Description of the Properties — Properties Recently Relinquished or Divested".

(6) The Company's reserve estimates for the Brantas block are based on reserve data certified by other independent petroleum engineering consultants as of November 1, 2003 for the Wunut field and as of September 21, 2004 for the Tanggulangin field, after deduction of production to December 31, 2004 and a working interest of 32%.

(7) The Company's reserve estimates for the Tuban block are based on reserve data certified by other independent petroleum engineering consultants as of December 31, 2003, after deduction of production from January 1 to December 31, 2004.

(8) The Company's reserve estimates for the Middle East assets are based on the estimates of the Company's subsidiary, Novus, as of December 31, 2003, after deduction of production from January 1, to December 31, 2004. See "— Description of the Properties — Properties Recently Relinquished or Divested".

(9) The Company's reserve estimates for the U.S. assets consisting of Padre Island, East Cameron, Main Pass and Sorrento Dome blocks are based on the estimates of the Company's subsidiary, Novus, as of December 31, 2003, after deduction of production from January 1, to December 31, 2004. See "— Description of the Properties — Properties to be Relinquished or Divested — Padre Island (Coastal Bend Blocks), Texas, United States".

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 proved 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 23.1% of the Company's gross proved oil and gas reserves and 58.1% of the Company's gross proved and probable oil and gas reserves as of January 1, 2005, 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 55.5 MBbls/d of oil and condensate during the year ended December 31, 2004, of which an average of 35.0 MBbls/d and 9.8 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 35.0 MBbls/d of oil and condensate in 2004.

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.

	Year Ended December 31,						Three Months Ended March 31,			
	2002		2003		2004		2004		2005	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
	(oil in MMBbls and gas in Bcf)									
Indonesia										
Operated Properties										
Sumatra										
Rimau (PSC)	26.255	—	18.893	—	12.814	9.313	3.501	2.239	2.812	1.644
Extension/Kampar (PSC)	2.259	14.350	2.746	16.102	3.594	22.483	0.849	5.092	0.955	5.300
Lematang (PSC)	0.005	0.144	0.022	1.650	0.019	0.754	0.007	0.218	0.005	0.141
Sub-total	28.519	14.494	21.661	17.752	16.427	32.550	4.357	7.549	3.772	7.085
East Kalimantan										
Kalimantan (TAC)	2.187	4.180	1.878	4.598	1.888	5.360	0.443	1.413	0.468	1.332
Tarakan (PSC)	0.313	5.586	0.256	7.868	0.244	8.450	0.044	1.657	0.165	1.948
Sub-total	2.500	9.766	2.134	12.466	2.132	13.810	0.487	3.070	0.633	3.280
Sub-Total — Operated	31.019	24.260	23.795	30.218	18.559	46.360	4.844	10.619	4.405	10.365
Non-Operated Properties										
East Java										
Brantas (PSC)(1)	N.A.	N.A.	N.A.	N.A.	—	11.772	N.A.	N.A.	—	1.852
Tuban (JOB)	0.641	—	0.869	—	0.617	—	0.169	—	0.146	—
Other										
Kakap (PSC)(2)	N.A.	N.A.	N.A.	N.A.	0.657	5.003	N.A.	N.A.	0.146	1.037
Langsa (PSC)	—	—	—	—	0.074	—	—	—	0.146	—
Sub-Total — Non-Operated	0.641	—	0.869	—	1.348	16.775	0.169	—	0.438	2.889
Total Indonesia Production	31.660	24.260	24.664	30.218	19.907	63.135	5.013	10.619	4.843	13.254
International										
U.S. Assets(3)	N.A.	N.A.	N.A.	N.A.	0.085	5.365	N.A.	N.A.	0.034	0.902
Middle East Assets(4)	N.A.	N.A.	N.A.	N.A.	0.317	4.914	N.A.	N.A.	0.078	1.087
Total	31.660	24.260	24.664	30.218	20.309	73.414	5.013	10.619	4.955	15.243

Note:

(1) 2004 Brantas production contribution is from July 1, 2004 to December 31, 2004, based on a working interest of 50%. For 2005 production, this is based on an effective working interest of 32%.

(2) 2004 Kakap production contribution is from July 1, 2004 to December 31, 2004, based on effective working interest of 25%. For 2005 production, this is based on an effective working interest of 18.75%.

(3) 2004 production contribution for July 1, 2004 to December 31, 2004, and includes contribution of 2.1319 Bcf from Stratton gas field which was divested in December 2004.

(4) 2004 production contribution from July 1, 2004 to December 31, 2004. In July 2005, the Company sold all of the Middle East assets to Meridian Oil & Gas (Middle East) Limited, a Cayman Islands company associated with Silk Route Investments, a Cayman Islands company. See ''— Description of the Properties — Properties Recently 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.

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2002	2003	2004	2004	2005
Average realized sales prices:[1]					
Oil and condensate (US$ per Bbls)	25.30	29.33	36.93	31.00	47.00
Natural gas (US$ per Mcf)	1.53	1.61	2.26	1.55	2.32
LPG (US$ per MT)	—	—	360	—	349
Lifting costs per BOE produced (US$ per BOE)[2]	1.32	2.52	2.93	2.44	2.31

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, 2004.

Indonesian Wells	As of December 31, 2004
Oil producing wells	625
Gas producing wells	71
Total producing wells	696
Water injection wells	79
Gas injection wells	4
Total injection wells	83

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 17 production sharing arrangements (PSCs, TACs and JOBs) covering 19 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''). Nine 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 and the Tuban JOB. Of the 17 Indonesian production sharing arrangements in which the Company has an interest, 11 are production sharing contracts (PSCs), two are technical assistance contracts (TAC) and four are joint operating bodies (JOBs). See ''Industry — Production Sharing Arrangements''. See ''Industry — 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 March 31, 2005.

Contract Area (Type)	Date of Acquisition	Medco Effective Interest	Gross Km^2	Effective Date	Expiry Date	Effective Post-Government Tax and Post-Cost Recovery Share to Contractor[1] Profit Crude Oil	Profit Natural Gas
						%	%
Indonesia							
Producing Properties							
Sumatra							
Rimau (PSC)	1995	95.00%	1,577	1973	2023	15	35
Extension/Kampar (PSC)	1995	99.99%	5,493	1993	2013	15	30
Lematang (PSC)	2002	74.00%	409	1987	2017	20	30
Langsa (TAC)[1]	2003	35.00%	77	1997	2017	15	35
East Kalimantan							
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	30
East Java							
Brantas (PSC)[2]	2004	32.00%	2,000	2001	2028	15	35
Tuban (JOB)[3]	2002	25.00%	1,478	1988	2018	15	35
Natuna (Offshore)							
Kakap (PSC)[4]	2004	18.75%	3,041	1990	2020	15	30
Development Properties							
Sulawesi							
Senoro-Toili (JOB)[5]	2000	50.00%	451	1997	2027	35	40
Exploration Properties							
Sumatra							
Asahan (PSC)[5][6]	2002	15.00%	3,019	1996	2006 (exploration) 2026 (development)	15	30
Merangin (PSC)[5]	2003	100.00%[7]	3,226	2003	2013 (exploration) 2033 (development)	25	40
East Java							
Madura (JOB)[5][8]	2000	33.15%	2,729	1997	2005 (exploration) 2027 (development)	15	35
East Kalimantan							
Bengara (PSC)[5]	2001	95.00%	4,614	1999	2009 (exploration) 2029 (development)	15	35
Nunukan (PSC)	2004	100.00%	4,917	2004	2010 (exploration) 2034 (development)	35	40
Simenggaris (JOB)[5]	2000	37.50%	1,734	1998	2008 (exploration) 2028 (development)	15	35
Papua							
Yapen (PSC)[5]	2002	15.00%[9]	9,500	1999	2009 (exploration) 2029 (development)	35	40

Contract Area (Type)	Date of Acquisition	Medco Effective Interest	Gross Km^2	Effective Date	Expiry Date	Effective Post-Government Tax and Post-Cost Recovery Share to Contractor[1] Profit Crude Oil	Profit Natural Gas
						%	%
International[10]							
United States							
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.
Padre Island	2004	31.25-70%	127	2000	Various, last contract expiring in 2008	N.A.	N.A.
Sorrento Dome	2004	63.20-100%	10	1998	Various, last contract expiring in 2007	N.A.	N.A.
Africa							
Libya (EPSA)	2005	50.00%	6,182	2005	2035 (exploration)	N.A.	N.A.

Notes:

(1) Prior to any potential domestic market obligations and any local government taxes.

(2) Operated by Lapindo Brantas Inc.

(3) Operated by PetroChina and Pertamina.

(4) Operated by Star Energy (Kakap) Ltd.

(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) Operated by Petroleum Development Asia.

(7) On July 18, 2005, the Company agreed to farm-out a 39% participating interest in the Merangin PSC to PTTEP Offshore Investment Company Limited, a subsidiary of PTTEP, in order to minimize its exploration risk. See ‘‘— Description of the Properties — Exploration Properties — Exploration Properties for Future Development — Merangin Block, Jambi, South Sumatra’’.

(8) Exploration activities under the Madura JOB were originally due to expire in May 2003 but were extended for two years. The Company has applied for an additional two-year extension in 2005.

(9) Subject to BPMigas' consent. See ‘‘— Description of the Properties — Exploration Properties — Other Exploration Properties — Yapen, Papua’’.

(10) Excludes the Company's production sharing arrangements in the Middle East.

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 12 producing and development blocks. The Company has identified over 250 leads and prospects in its Indonesian producing, development and exploration blocks. The Company plans to drill 60 exploration wells, including 43 wildcat wells and 17 delineation wells in Indonesia from 2005 through 2007. This exploration drilling is expected to be focused on all seven 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 $20 billion and production of over 190 million BOE in 2004, 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 13 PSCs at a cost of US$80 million, subject to the satisfaction of certain conditions. Anadarko has the right to earn up to a 40 percent 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 a non-refundable payment of US$1 million, and will receive a further non-refundable payment of up to US$4 million upon the EJVA becoming effective. The EJVA will become effective on August 12, 2005 unless terminated before then by a party due to a material breach by the other party of representations and warranties relating to compliance with anti-corruption laws. If Anadarko believes that there has been a material breach of such representations and warranties by the Company in relation to one or more PSCs only, Anadarko has the right to reduce its Work Commitment (as defined below) by the amount attributable to the applicable PSC or PSCs. After August 12, 2005, if Anadarko elects at any point to withdraw from any PSC, the amount of Work Commitment in respect of that PSC must be reallocated to other PSCs.

Anadarko's Work Commitment

Under the EJVA, Anadarko has committed to fund certain exploration activities by the Company pursuant to plans of development under 13 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 areas to be agreed within each PSC block. The agreed exploration areas exclude those areas that are already in production and areas currently 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, and following approval by BPMigas, to conduct such exploration activities at Anadarko's cost as part of Anadarko's Work Commitment.

Anadarko Interest

Upon discovery of oil or gas (through a successful well), the Company is required to file an application with BPMigas for approval of a plan of development and the Company's intention to assign an interest in the PSC to Anadarko and, upon receiving such approval, to assign such 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

The assignment of an interest in a PSC to Anadarko is conditional on (i) approval by BPMigas of the plan of development; (ii) approval of the assignment by other government authorities; and (iii) no other participant in the PSC exercising its pre-emptive rights. In the event that BPMigas' approval of the plan of development is obtained but approval of the assignment is not obtained or another participant exercises its pre-emptive rights, the Company is required to deliver to Anadarko the effective economic benefit of such an interest either by (i) issuing or transferring shares in the Company's subsidiary which holds the PSC interest to Anadarko; or (ii) entering into an Economic Sharing Agreement under which Anadarko receives an interest in the relevant subsidiary's revenue streams from the PSC.

Representation and Warranties

The EJVA contains certain representation and warranties, covenants and indemnities by the parties, including in relation to the PSC, compliance with laws and the operations of the subsidiaries of the Company which hold interests in the PSCs. Certain representations and warranties are repeated by such subsidiary at the time that Anadarko acquires an interest in the PSC to which such subsidiary is a party.

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 including those in Australia, Pakistan, Philippines (expiration), a portion of the Indonesian assets, and one of the five U.S. assets. The Company has retained interests in Novus' two key Indonesian blocks and four of the U.S. blocks. The Company recently sold all of the Novus Group's remaining Middle East assets and 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 Recently 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 consists of 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 12.8 MMBbls of oil and 9.3 Bcf of gas for the year ending December 31, 2004. The Company's gross proved reserves in the block were 60.2 MMBbls of oil and 18.3 Bcf of gas, while gross proved plus probable reserves were 104.2 MMBbls of oil and 31.3 Bcf of gas, as of January 1, 2005. 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, 2004, the block averaged gross production of approximately 35,000 Bbls/d of oil. Producing operations in the Rimau block consist of approximately 113 commercially producing wells across seven fields, as well as 25 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, and 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 10 infill and eight switched wells through Telisa formation since 2004.

- Developing the Talang Akar reservoir by drilling three infill wells and one switched well through the same zone from 2003 to 2004.

- Drilling two horizontal producing wells in the Kaji and Semoga fields to minimize pressure drawdown. Currently, these horizontal wells produce approximately 580 Bbls/d.

Moreover, the Company has also recently realized enhanced productivity levels 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, the month of March 2005 averaged 44,400 Bbls/d compared to an average of 35,000 Bbls/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 crude to Itochu, from January 1, 2005 until December 31, 2005, at a premium to ICP-SLC of US$2.69 Bbls. 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, 2004, the Company sold 20.3 MT of LPG, 53.4 MBbls of condensate, and averaged 5.75 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$101.2 million of capital expenditure for exploration and development in the Rimau block through 2007. This plan consists of drilling a total of 94 development (producing and injection) wells and six exploration wildcat wells through 2007. 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 44.1 MMBbls gross probable oil reserves with the following additional initiatives:

- Begin the waterflood optimization program by converting 49 high water cut wells to water injector wells, and drilling 25 producing wells through 2008. The results of this program are expected to impact production volumes over time beginning in 2006.
- Begin the EOR pilot program in 2007, by drilling eight injection wells and 12 new producers wells through 2007, and begin a polymer-water injection program into key reservoir formations. The Company intends to evaluate the EOR pilot program in 2008 and institute a EOR program for the entire Kaji-Semoga fields starting in 2009.
- Continue the development of the Kaji-Semoga fields by drilling 37 conventional producing wells in Telisa and Talang Akar formation through 2006.

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 5,493 square kilometers. The Company's gross production from the blocks was 3.6 MMBbls of oil and 22.5 Bcf of gas for the year ending December 31, 2004. The Company's gross proved reserves in the blocks were 15.6 MMBbls of oil and 153.7 Bcf of gas, while gross proved plus probable reserves were 34.7 MMBbls of oil and 413.9 Bcf of gas, as of January 1, 2005. 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 production 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, 2004, the Extension/Kampar PSC averaged gross production of approximately 9,820 Bbls/d of oil in aggregate. Producing operations consisted of approximately 213 producing wells across 22 fields in the Extension/Kampar PSC. The Soka field produced 2,600 Bbls/d for the year end December 31, 2004. The Matra field started producing in September 2003 and produced an average of 2,100 Bbls/d from eight producing wells for the year end December 31, 2004.

Sales. The Company has a crude sale agreement with Pertamina for the sale and purchase of the full volume of crude oil produced from the Extension and Kampar contract areas. Oil production from the Extension block is transferred to Pertamina's Musi refinery in Plaju, South Sumatra by a 180-kilometer pipeline with a 24,000 Bbls/d capacity owned and operated by Pertamina. Oil production from the Kampar block used to be transferred to the Company's marine terminal at Buatan on the Siak River in Central Sumatra by a 180-kilometer pipeline with a capacity of 10,000 Bbls/d. However, due to plugging in the Pertamina pipeline, transportation to Buatan is currently by trucks and transportation from Buatan to the Pertamina refinery is by shuttle tankers.

The Company 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, 2004, the Company averaged 61 MMcf/d of gross gas sales from the South Sumatra block. In addition, the Company has recently entered into two binding HOAs with two separate power plants to sell up to 50.2 Bcf of gross volumes. See "— Sales and Distribution".

Strategy. The Company is focused on developing and commercializing the Extension block's significant gross probable gas reserves of 260.2 Bcf. The Company has budgeted US$85.9 million of capital expenditure on the blocks for exploration and development through 2007. This budget includes planned drilling for a total of 36 development wells and 16 exploration wells, including 13 wildcat wells, through 2007. Exploration is expected to target five near field oil prospects and two gas prospects.

Kalimantan TAC, East Kalimantan

The Kalimantan TAC block, which consists of blocks in the Tarakan area and blocks 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 block was 1.9 MMBbls and 5.4 Bcf for the year ending December 31, 2005. The Company's gross proved reserves in the blocks were 5.5 MMBbls and 20.9 Bcf, while gross proved plus probable reserves were 7.9 MMBbls and 20.9 Bcf, as of January 1, 2005. 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, 2004, the block averaged gross production of approximately 5,173 Bbls/d of oil and 14.7 MMcf/d of gas. Crude oil operations in the Sanga-Sanga and Samboja blocks consist of approximately 179 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 76 wells in three fields which currently produce crude oil at approximately 590 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 19 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$18.4 million of capital expenditure on the block for development through 2007. This budget includes planned drilling for 13 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 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 blocks was 8.5 Bcf of gas and 0.2 MMBbls of oil for the year ending December 31, 2004. The Company's gross proved reserves in the blocks were 27.2 Bcf of gas and 1.3 MMBbls of oil, while gross proved plus probable reserves were 35.8 Bcf of gas and 2.1 MMBbls of oil, as of January 1, 2005. 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, 2004, the block averaged gross production of approximately 23.1 MMcf/d of gas and 667 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 12 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 has budgeted approximately US$20.8 million of capital expenditure in the blocks for exploration and development through 2007. This budget includes planned drilling for six development wells, US$2.6 million of 3D seismic, and six exploration wells, including four wildcat wells, through 2007.

Lematang, South Sumatra

The Lematang PSC block is located in South Sumatra and covers 409 square kilometers. The Company's gross production from the blocks was 754 MMcf of gas and 0.019 MMBbls of condensate for the year ended December 31, 2004. The Company's gross proved gas reserves in the blocks were 0.4 Bcf, while gross probable gas reserves were 182.6 Bcf, as of January 1, 2005. The Company is the operator of the block and has a 74.00% 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, 2005, the gross probable reserves for the Singa 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 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, 2004, the block produced an average of 2.1 MMcf/d of gas and 52 Bbls/d of condensate from the Harimau field. The Singa 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 signed a HOA in June 2005 with PLN to supply approximately 25 MMcf/d of total field gas volumes to the PLN Keramasan II power plant over a ten year period, starting in October 2006. The gas will be supplied from the Singa field, 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 Singa field's significant gross probable gas reserves of 182.6 Bcf. The Company has budgeted to spend US$43.0 million of capital expenditure for development through 2007. This budget includes production facilities with a planned production capacity of up to 50 MMcf/d and planned drilling for one additional development well through 2007. The Singa field is targeted to enter production in 2006.

Kakap PSC

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 0.66 MMBbls and 5.0 Bcf for the period from July 1, 2004 to December 31, 2004. The Company's gross proved reserves in the blocks were 2.5 MMBbls and 38.9 Bcf, while gross proved plus probable reserves were 3.6 MMBbls and 49.7 Bcf, as of January 1, 2005. The Company has a 18.75% non-operating interest in the Kakap PSC. In December 2004, the Company sold a 6.25% interest to Santos and signed an agreement to sell down an additional 2.75% to Santos. 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 period from July 1, 2004 to December 31, 2004, the Kakap block averaged gross production of approximately 3,571 Bbls/d of oil and 27 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 Gas Sales Agreement (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$7.2 million of capital expenditure on the Kakap block for exploration and development through 2007. 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.

Brantas PSC

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 11.8 Bcf for the period from July 1, 2004 to December 31, 2004. The Company's gross proved reserves in the blocks were 1.0 MMBbls and 33.2 Bcf, while gross proved plus probable reserves were 4.5 MMBbls and 42.5 Bcf, as of January 1, 2005. The Company holds a 32.00% effective interest in the block, and Lapindo Brantas Inc., 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 period from July 1, 2004 to December 31, 2004, the block averaged gross production of approximately 64 MMcf/d of gas. Production comes from 13 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 and bringing the Tanggulangin oil field on line as quickly as possible. It has budgeted to spend approximately US$79.1 million of capital expenditure in the block for exploration and development through 2007. This budget includes planned drilling for 24 development wells and nine exploration wells through 2007. The Tanggulangin oil field has been flow tested at an estimated total field average of 800 Bbls/d of oil production and is expected to commence operations in mid-2005, with a planned production capacity of up to 5,000 BOPD.

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, 2004. The Company booked gross proved reserves in the block as 1.9 MMBbls of oil as of January 1, 2005 while the operator estimated reserves to be 8.7 MMBbls for the Company's working interests. 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. However, the Sukowati field overlaps into ExxonMobil's adjacent Cepu block which will require a unitization agreement. Negotiations are currently under way between both block parties for unitization. A cost sharing arrangement between Tuban JOB partners and Cepu block partners was entered into in March 2001 allocating costs for the Sukowati field. Currently, the arrangement allows for the Tuban JOB partners to receive 20% of production subject to further delineation drilling. Production from the Sukowati field began in the middle of 2004.

Production. For the year ending December 31, 2004, the block produced an average of approximately 1,690 Bbls/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$5.4 million of capital expenditure for development through 2007. This budget includes planned drilling for a total of five development wells and six exploration wells, including four wildcat wells, through 2007. The exploration drilling is expected to target both the Mudi and Sukowati structures.

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 4.5 MMBbls as of January 1, 2005. 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 1,213 Bbls/d for the two months ended December 31, 2004 and recorded a total gross production of 74 MBbls for the two months ended December 31, 2004. 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 will sell to Pertamina or export up to 1.5 million to 2.0 million Bbls of crude oil in 2005.

Strategy. The Company plans to focus on optimizing production of the oil field, by drilling two more development wells in 2005. The Company has budgeted US$9.1 million of capital expenditure for development through 2007.

Development Properties

Senoro-Toili, Sulawesi

The Senoro-Toili JOB block holds the Company's largest gas reserves, accounting for nearly 44% of the Company's gross proved plus probable oil and gas reserves. 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 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 the gross possible reserves to be 541.5 Bcf, resulting in gross proved plus probable plus possible reserves of 1,833 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 done no further drilling or production in the Senoro field and believes that the GCA estimates remain accurate as of January 1, 2005.

The Company received formal approval for its plan of development for the Senoro field in May 2005, for up to 230 MMcf/d of total field production capacity by 2008. The Company intends to develop the field in two phases under this plan. Phase I will require drilling four development wells, recompleting one well and constructing production related facilities by 2007. The field is targeted to enter production in 2008, with total field initial rate up to 130 MMcf/d by 2009. Phase I will also require an additional three development wells for an additional 100 MMcf/d of volumes and is expected to be in production as early as 2009, depending on the timing of finalizing commercial sales and drilling. While drilling Phase I, the Company intends to further delineate the Senoro field through targeted spacing of its development wells with an aim to prove up additional gas for Phase II development. The Company may also expand Phase I to account for larger sales volumes.

Toili Block. The Tiaka oil field in the offshore Toili block is estimated to have gross proved oil reserves of 2.6 MMBbls and gross proved plus probable oil reserves of 5.5 MMBbls as of January 1, 2005. The Company's reserve estimates for the Tiaka field are certified in the GCA Report as of January 1, 2003 and restated in the GCA Report as of January 1, 2004. 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 more will be 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.

Management has made the commercialization and development of the Senoro-Toili block a strategic focus of the Company. The Company has budgeted US$56.7 million for Senoro block and US$16.5 million for Toili block for development capital expenditures through 2007, 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 mini-LNG. The Company is now committed to developing and selling the Senoro gas in stages, with an emphasis on establishing the production infrastructure and drilling activity through the first phase.

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 agreement, 757.4 Bcf of total field gas volumes for up to 130 mmbtu/d will be sold from 2008 through 2027 as feedstock to PAU's ammonia plant to be constructed near the Senoro field, at an escalated price of US$1.55 to 2.50 per MMBTU. These volumes account for approximately 30% of the Company's gross probable gas reserve volumes in the block.

In June 2005 the Company also entered into a MOU in the form of an Exclusivity Agreement with LNG International Pty Limited (LNGI) of Australia, to jointly undertake a feasibility study to develop a mini-LNG project at Senoro. Under such a proposed project, LNGI would build and invest in a mini-LNG plant with a LNG production capacity of 700,000 tonnes per year, which would utilize approximately 800 Bcf of total field Senoro's gas as feed stock from 2008 through 2027, at a rate of approximately 120 mmcf/d. The proposed project would be subject to government approvals.

The Company continues to explore a variety of commercial options for Phase II volumes of additional uncommitted gas reserves. The Company has been developing strong alliances and signing MOUs with domestic and international partners for a range of potential activities ranging from compressed natural gas and mini-LNG projects to fuel-gas supply for power plants and feed-gas supply for petrochemical and fertilizer manufacturers. The Company is also in discussions with PLN and potential CNG carriers for the possibility of delivering up to 100 MMcf/d of gas to Bali gas-fired power plants through CNG shipping. It also signed a memorandum of understanding (''MOU'') with PGN to sell 100 MMcf/d of gas to PGN, which would also utilize CNG technology to ship the gas to its customers in East Java and neighboring islands. The Company has also had discussions on direct gas sales to the operators of the Inco nickel mine and the Antam coal mine, both of which are located in Sulawesi and on operating captive power plants that would each require approximately 100 MMcf/d of gas supply. In addition, the Company has completed studies for and held extensive discussions with potential partners for methanol, dimethyl-ether and ammonia green field projects, all of which would require large gas-feedstock volumes. If substantial additional gas volumes are proven up through further drilling, the Company may also consider pursuing on LNG project for Phase II.

Exploration Properties

Exploration Properties for Future Development

The Company has identified four 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.

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$54.5 million in exploration and development capital expenditure through 2007. 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 six development wells through 2007. The Company intends to submit a Plan of Development to BPMigas for approval before the end of 2005 assuming successful delineation drilling. 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 nearby PLN power plant or piped to the Bunyu Methanol plant. The Company is currently seeking a strategic partner to farm-into the block in order to minimize exploration and development risk.

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 100.00% 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$24.2 million in exploration capital expenditure through 2007. This budget consists of drilling four exploration wells, including two wildcat wells and two delineation wells through 2007, which are targeting oil prospects. The budget also includes one wildcat well and 2D seismic to be 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 has agreed to assign a 39% 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. The assignment is subject to the approvals of BPMigas and the Government. The Company believes that the Farmout Agreement will minimize its exploration risk in the Merangin PSC 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 Sesayab and Sembakung gas field discoveries. The Company has identified 11 leads and 14 prospects remaining in the block, being primarily gas focused.

Strategy. The Company has budgeted US$17.9 million in exploration capital expenditure for the Simenggaris JOB through 2007. This budget consists of drilling five exploration wells, including one wildcat well and four delineation wells for Sesayab and Sembakung through 2007. If the delineation drilling is successful, the Company intends to start development as early as 2006. The Company's internal plan currently estimates eight 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. The Company is currently seeking a potential partner for joint development to farm-into the block to minimize exploration risk, although no agreement has been signed with PLN.

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, 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 has budgeted US$15.6 million in exploration capital expenditure for the Madura JOB through 2007. This budget consists of drilling two delineation wells through 2007, including the Sebaya-3 delineation well in May 2005. As of July 2005, the Sebaya-3 well has been side-tracked and renamed Sebaya-3B. If drilling of Sebaya-3B is successful, the Company intends to submit for approval a plan of development for the block in 2005. The Company's internal plan currently targets drilling 11 development wells with gas production expected to commence as early as 2008, with a planned production capacity of 16 MMcf/d. The Company is currently seeking a partner to farm-into the block to minimize exploration risk and future capital requirements. A Japanese oil company has indicated interest in the Madura block and recently completed the data inspection. The potential partner is now planning to undertake seismic data reprocessing prior to making a farm-in offer.

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$5.8 million in exploration capital expenditure for the Bengara PSC through 2007. This budget consists of drilling one wildcat well in 2005, which targets an oil prospect. 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. The Company completed the divestment of its interest in the Stratton block to Apache Corporation ("Apache") in December 2004 for a purchase price of US$47.0 million (before the working capital adjustment of US$1.7 million). The Company has decided to retain the four 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 four its 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 four of the Company's remaining U.S. blocks are producing, with three primarily as development and producing blocks and one primarily as an exploration block.

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 2.36 Bcf of gas for the period of July 1, 2004 to December 31, 2004. The Company's gross proved gas reserves in the blocks were 44.2 Bcf, while gross proved plus probable gas reserves were 54.8 Bcf, as of January 1, 2005. Gas is produced from four wells and a single unmanned offshore platform in Block 317. The Company plans 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. The Company also plans to install an unmanned platform in Block 318 in mid-year 2005, to tie-in its three producing wells. Estimated capital expenditure for the drilling and platform is US$28.7 million through 2007. 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.

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 0.18 Bcf of gas and 0.06 MMBbls for the period from July 1, 2004 to December 31, 2004. The Company's gross proved gas reserves in the blocks were 12.2 Bcf and 0.9 MMBbls oil and condensate, while gross proved plus probable gas reserves were 12.2 Bcf and 2.8 MMBbls, as of January 1, 2005. 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 plans 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. Estimated exploration and development capital expenditure is US$30.7 million through 2007. 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 0.52 Bcf of gas for the period from July 1, 2004 to December 31, 2004. As of January 1, 2005, the Company's gross proved gas reserves in the blocks were 15.3 Bcf and 0.1 MMBbls oil and condensate, while gross proved plus probable gas reserves were 25.3 Bcf and 0.2 MMBbls. The field has two producing wells as well as separation, dehydration and oil storage facilities. The Company plans to drill four development wells and three exploration wells through 2007. Estimated exploration and development capital expenditure is US$18.8 million through 2007. 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 63.20% interest in the Sorrento Dome-BUL14-1 block and is the operator.

Libya

In 2005, the Company was successful in winning 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 the Company and Verenex Energy Inc. (''Verenex'') with a 50.00% effective interest each 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. Work is underway to secure contractors to carry out a 3D and 2D seismic program in late 2005 with first drilling expected to commence in 2006.

Properties Recently Relinquished or Divested

The Company has 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 purchase 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 purchase 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 purchase 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 purchase 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 purchase 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.

- In addition, the Company is planning to transfer an additional 2.75% non-operating interest in Kakap PSC to Santos pursuant to the sale agreement dated December 22, 2004 for a purchase price of US$13.0 million, which is subject to BPMigas' consent.

Properties to be Relinquished or Divested

Jeruk Well, Sampang Block, East Java

The Jeruk well exploration operation in the Sampang block is an example of the Company's ability to identify exploration opportunities and opportunistically pursue them. 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 a Jeruk Agreement with Santos (Sampang) on November 5, 2003 for the sole risk exploration on the Jeruk field on the Jeruk Well Operation. Under the Sampang JOA, both Cue and SPC retained 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 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, with estimated recoverable resources to be in excess of the pre-drilled estimate of 170 MMBbls contingent resources. The field is still being analyzed and appraised through 3D seismic and potentially further drilling, before any reserve estimates will be formally released.

On April 29, 2005, SPC and Cue notified the Company of their intention to reinstate their interest in the Jeruk field under the terms of the Sampang JOA. As a result, the Company is required to return its 50% interest in the Jeruk Well Operation for compensation based on the penalty formula in the Sampang JOA. This will include immediate repayment of the Company's expenditures of US$30.4 million, as well as US$190 million compensation payment based on 1,000% of expenditures related to the drilling and completion of the first well and 500% of expenditures related to the drilling and completion of the second well. The US$190 million is to be repaid out of all of SPC's and Cue's initial net oil entitlement from production of the field. The timing of this payment will therefore be subject to the start-up date, oil prices, and cost recoverable calculations under the Sampang PSC fiscal regime. The Company's preliminary estimates indicate the Jeruk Field should be operational by 2008. On June 1, 2005, the Company received a payment of US$30.4 million from SPC and Cue.

Padre Island (Coastal Bend Blocks), Texas, United States

The Company is in the process of finalizing the sale of Padre Island (Coastal Bend blocks), one of Novus Group's United States assets. The Padre Island project area is a collection of 160 leases covering over 1,500 square kilometers along the coastal area of south Texas and includes parts of Padre Island itself (a barrier island some 180 kilometers long), Laguna Madre (a lagoon between Padre Island and the Texas mainland) and the offshore Gulf of Mexico. The blocks are primarily exploration in nature, though three small gas wells are in production, with minimal gas production. The Company's gross proved gas reserves in the blocks gross proved plus probable gas reserves were 0.40 Bcf, as of January 1, 2005. Novus has previously identified over 20 leads and prospects in the area. Over 200 square kilometers of 3D seismic has been acquired over prospective acreage, as well as two of six planned exploration wells drilled in four key prospects. Based on the results of this expenditure, the Company is currently in negotiations with a potential buyer to take over the Padre Island asset at a reasonable price.

Asahan, North Sumatra

The Asahan PSC block is located offshore North Sumatra in the Straits of Malacca, and currently covers 3,019 square kilometers. The Company owns a 15% effective working interest in the Asahan PSC, which is operated by Asahan Petroleum Development (Serica Energy). The Company discovered NSO-1S gas in one of the Asahan block wells in 1975.

The Company has budgeted US$0.5 million in exploration capital expenditure through 2007. This budget consists of drilling one wildcat well in 2005, which targets a gas prospect. The Company is seeking a potential buyer for its 15% stake.

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. As of March 31, 2005, the Company has a 15.00% effective interest in the Yapen PSC. However, BPMigas has not yet consented to this assignment.

The Company has budgeted US$1.0 million in exploration capital expenditure through 2007. This budget consists of drilling one delineation well in 2005. The Company plans to relinquish the block.

Drilling Activity

The Company has an average success rate of 56% for its exploration drilling, including 45% for its wildcat wells and 85% for its delineation wells from 2000 through 2004. The following table sets forth the number of exploration wells completed by the Company on its properties for the periods indicated.

Gross Wells	2000	2001	2002	2003	2004	Last 5 Year Total (% in average)
Wildcat total	5	5	9	10	4	33
Successful	1	2	6	2	1	12
Success rate	20%	40%	67%	20%	25%	36%
Delineation total	3	4	2	2	2	13
Successful	3	4	1	1	2	11
Success rate	100%	100%	50%	50%	100%	85%
Total Exploration	8	9	11	12	6	46
Successful	4	6	7	3	3	23
Success rate	50%	67%	64%	25%	50%	50%

The Company currently has seven exploration contract areas in Indonesia, and also has plans to explore six 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 60 exploration wells, including 43 wildcat wells and 17 delineation wells in Indonesia in 2005 through 2007. 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, 37 of its 43 wildcat wells will be within producing blocks, near existing fields, and ten of its 17 delineation wells are within exploration blocks targeting appraisals of known discoveries. Key areas of this strategy include:

- 13 and six wildcats targeting near-field oil and gas prospects in the producing Extension/Kampar and Rimau blocks, respectively, which, if successful, could be commercialized relatively quickly;
- four wildcats targeting near-field gas prospects in the producing Tarakan block to replace its declining gas reserves and production; and
- nine 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 2005, 2006 and 2007:

	2005		2006		2007		Total	
Block	**Wildcat**	**Delineation**	**Wildcat**	**Delineation**	**Wildcat**	**Delineation**	**Wildcat**	**Delineation**
Producing — Operated								
Rimau	—	—	3	—	3	—	6	—
Extension/Kampar	3	1	5	2	5	—	13	3
Lematang	—	—	—	—	—	—	—	—
Tarakan	1	—	3	1	—	1	4	2
Kalimantan	—	—	—	—	—	—	—	—
Producing — Non-Operated								
Kakap	—	—	1	—	—	—	1	—
Brantas	8	—	1	—	—	—	9	—
Tuban	2	2	2	—	—	—	4	2
Langsa	—	—	—	—	—	—	—	—
Subtotal	14	3	15	3	8	1	37	7
Development								
Senoro-Toili	—	—	—	—	—	—	—	—
Exploration								
Merangin	1	—	1	2	—	—	2	2
Simenggaris	—	2	—	2	1	—	1	4
Madura	—	1	—	—	—	1	—	2
Nunukan	—	—	—	1	1	—	1	1
Asahan	1	—	—	—	—	—	1	—
Yapen	—	1	—	—	—	—	—	1
Bengara	1	—	—	—	—	—	1	—
Subtotal	3	4	1	5	2	1	6	10
Planned Wells to be Drilled	24		24		12		60	

In addition, the Company is also drawing up preliminary plans to explore its newly acquired Libya block, and may further delineate the Senoro gas field once production begins in the block.

The Company's development program will primarily target drilling 192 development wells in 2005 through 2007, including 57 injection wells and 135 producing wells. Over 180 development wells will be drilled in producing blocks where production facilities and infrastructure already exist. Key areas of development drilling include:

- 94 wells planned for Rimau's oil fields, including 57 injector wells for the Kaji-Semoga waterflood and EOR programs, as well as 37 producing wells;

- 36 and seven primarily gas focused wells in the producing Extension block and Tarakan block, respectively; and

- 11 producing wells in the undeveloped gas fields of Senoro, Lematang (Singa), and Nunukan blocks

The following table summarizes the Company's drilling plans for development wells (in gross wells) by block in the years 2005, 2006 and 2007:

Block	2005	2006	2007	Total
Operated				
Rimau				
Producers	31	6	—	37
Injectors	—	24	33	57
Total for Rimau	31	30	33	94
Extension/Kampar	15	11	10	36
Lematang	—	—	1	1
Senoro-Toili	1	3	—	4
Kalimantan	6	4	3	13
Tarakan	3	3	1	7
Nunukan	—	2	4	6
Non-Operated				
Tuban	4	1	—	5
Kakap	—	—	—	—
Brantas	10	7	7	24
Langsa	2	—	—	2
Planned Wells to be Drilled	72	61	59	192

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 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — 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. The bid was won by Itochu, which bid a premium of US$2.69/Bbls above the ICP-SLC. The Company has entered into a sale and purchase agreement with Itochu for a term of one year from January 1 to December 31, 2005. 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$2,000,000. The agreed price of US$2.69/Bbls above the ICP-SLC is for 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 gas sale and purchase agreements (''GSPA''), gas supply agreements (''GSUA''), where Pertamina as the purchaser serves as an agent and on sells the gas to other customers, or binding HOA. 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 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 Quantity[1]	Take-or-Pay
South Sumatra									
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%
South and Central Sumatra	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	HOA	Jan 2009-May 2013	2.7	Flat	Dec 12, 2004	13.3 BBTUD	70%
	4. Meta Epsi/PJB	Gunung Megang Power Plant	HOA	Feb 2006-May 2013	2.45	Flat	Dec 12, 2004	14.5 BBTUD	70%
	5. PLN	Borang Power Plant	Amendment to GSPA	Sep 2004-May 2013	2.55	Flat	Jul 19, 2003	21 BBTUD	70%
	6. PLN	Borang Power Plant	Amendment to GSPA	Jan 2006-May 2013	2.42	Flat	Dec 12, 2004	5 BBTUD	70%
Lematang	PLN	Keramasan II Power Plant	HOA	2006-2016	2.75-3.00	Escalated	Jun 10, 2005	24 BBTUD	85%
East Java									
Madura	PJB	Sebaya Power Plant	MOU	2006-2021	N.A.	N.A.	Jul 9, 2004	5 MMcf/d	N.A.
East Kalimantan									
Sanga Sanga	Pertamina	Tanjung Batu Power Plant	GSUA	Jul 2003-Mar 2008	2.50	Flat	Jul 19, 2003	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	1.33-2.1	Step-up	Dec 30, 2002	3.5 BBTUD	70%
Sulawesi									
Senoro-Toili	PT Panca Amara Utama	Ammonia Plant	HOA	Oct 2008-Jun 2027	1.55-2.50	Escalated	Mar 31, 2005	130 BBTUD	80%

Block	Counterparty	Offtaker Industry	Agreement	Term	Pricing (US$/ MMBTU)	Index	Signing Date	Gross Quantity[(1)]	Take-or-Pay
Senoro-Toili	LNG International	Mini-LNG	MOU	2008-2027	N.A.	N.A.	Jun 8, 2005	120 MMcf/d	N.A.

Note:

(1) Total contract volume for the entire block.

Gas Related Downstream Projects

With the enactment of the New Oil and Gas Law under which domestic companies other than Pertamina as well as international companies 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 80% of designed capacity and using approximately 28 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 costs 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, 2004, the Company sold 2,726.94 MT of LPG, 7,334.16 Bbls of condensate, and an average of 379.64 MMcf/d of gas sales 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 March 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 55MW Power Plant

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 commerical 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. The effectiveness of this agreement is still subject to the approval of the shareholders of PT PLN (Persero). The Company expects to obtain such shareholders' approval in August 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.2.855 trillion.

Contract Drilling Operations

The Company provides onshore and offshore oil, gas and geothermal drilling services through its 77.5%-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 Indonesie, Statoil, PetroChina, Pertamina, Virginia Indonesia Co., LLC (VICO), Unocal Corporation and ConocoPhillips Indonesia. 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.

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, the Company intends to reduce its equity interest to 51% through a rights issue in 2005.

Drilling Rigs

The Company, through Apexindo, owns and operates five offshore drilling rigs, comprising four submersible swamp barge rigs and one jack-up rig, as well as 11 onshore drilling rigs.

Submersible Swamp Barges

The Company's submersible rigs, Maera, Raisis, 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 Indonesie, 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 Indonesie 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 approximately US$15.8 million in compensation from the insurer to date. The total refurbishment cost for the Maera rig was US$37.7 million.

Jack-Up Rig

A jack-up is a mobile rig that jacks down its legs to stand on the sea floor with its hull elevated above the water surface during drilling operations. For transportation between locations, the legs are raised and the hull is floated. The legs are raised and lowered by multiple jacking units attached to the legs. The water depth limit for each rig is a function of several factors, including leg length, seafloor conditions and the anticipated wind, wave and current severity. The Company's jack-up rig, 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 announced that it awarded a contract to construct a new jack-up rig for US$133.7 million. The drilling rig will be constructed by the Singapore-based engineering group, Sembcorp Marine Ltd, through its subsidiary, PPL Shipyard Pte. Limited. The super premium jack-up rig, will be cantilevered, with capabilities of operating in 375 feet of water 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:

	Year Ended December 31,			
	2001	**2002**	**2003**	**2004**
	in percentages (%)			
Onshore rigs	42	61	57	53
Offshore rigs	100	70	78	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.

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 May 2003, and a three-year drilling contract (with an option to renew for a further three years) for rig Yani in July 2003, with Total E&P Indonesie, a leading oil company in Indonesia. The summary contract terms for the Company's offshore rigs are shown in the following table:

Name of Offshore Rig	Contract Term	Contract Value	Name of Company
Raniworo	779 days (from December 2003)	US$50,280 per day	Statoil ASA
Raisis	36 months (from April 1, 2003)	US$40.2 million	Total E&P Indonesie
Maera	36 months (from June 16, 2004)	US$50.0 million[(1)]	Total E&P Indonesie
Raissa	5 years (from October 9, 2002)	US$93.8 million	Total E&P Indonesie
Yani	3 years (from August 8, 2002)	US$47.7 million	Total E&P Indonesie

Note:

(1) The contract value represents the maximum amount of the contract.

Competition

Oil and Gas Exploration and Production

The Company faces competition from other oil and gas companies including Pertamina, the state-owned national oil company, as a consequence of the New 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 an 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 New Oil and Gas Law, given the depth of its knowledge and experience of the exploration and production environment in Indonesia and its long-standing relationship with the Government.

Contract Drilling

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 average number of Medco Energi's regular employees, temporary employees and total employees for the periods indicated below:

Date	Regular Employees	Temporary Employees	Total
2002	38	7	45
2003	49	11	60
2004	65	19	84

The following table sets forth the average number of the Company's regular employees, temporary employees and total employees for the periods indicated below:

Date	Regular Employees	Temporary Employees	Total
2002	1,603	513	2,116
2003	1,720	494	2,214
2004	1,856	340	2,196

The following table sets forth the Company's regular employees and temporary employees by categories of activity as of March 31, 2005:

Employees	Exploration and Development Activities	Drilling	Methanol	Power	Total
Regular Employees	1,277	427	292	25	2,021
Temporary Employees	163	11	95	4	273
Total	1,440	438	387	29	2,294

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 New 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. 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 New 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.

Legal Proceedings

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

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 March 31, 2005.

Company[1]	Business Activity	Net Income for the Year Ended December 31, 2004	Capital Stock	Retained Earnings	Reserves as of January 1, 2005 (in MMBOE): Net Proved Reserves	Gross Proved Reserves	Gross Proved and Probable Reserves	Percentage of Effective Ownership
		(in US$)	*(in US$)*	*(in US$)*				*(%)*
PT Medco E&P Kalimantan[2]	Oil and gas exploration and production	12,485,813	12,463,025	40,910,861	5.8	9.0	11.4	100.00
PT Medco E&P Indonesia[3]	Oil and gas exploration and production	21,441,091	12,998,320	57,910,200	23.9	41.8	105.5	100.00
Exspan Airsenda Inc.[4]	Oil and gas exploration and production	23,909,478	10,000	178,417,246	12.1	31.7	54.8	100.00
Exspan Airlimau Inc.[4]	Oil and gas exploration and production	23,909,478	10,000	178,417,246	12.1	31.7	54.8	100.00
PT Medco E&P Tuban[5]	Oil and gas exploration and production	2,440,394	29,295	2,508,565	N.A.	1.9	1.9	99.99
Medco Energi (Australia) Pty., Ltd.[6]	Oil and gas exploration and production	30,570,295	313,942,545	29,871,822	N.A.	33.6	47.1	100.00
Medco Energi Finance Overseas B.V.[7]	Raise funds through issuance of debt securities	850,121	19,160	927,041	N.A.	N.A.	N.A.	100.00
MEI Euro Finance Ltd.[8]	Raise funds through issuance of debt securities	(31,806,649)	1	(77,363,875)	N.A.	N.A.	N.A.	100.00
PT Apexindo Pratama Duta Tbk[9]	Contract drilling	5,907,583	77,593,734	65,778,389	N.A.	N.A.	N.A.	77.53

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) Operator of 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.

(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.

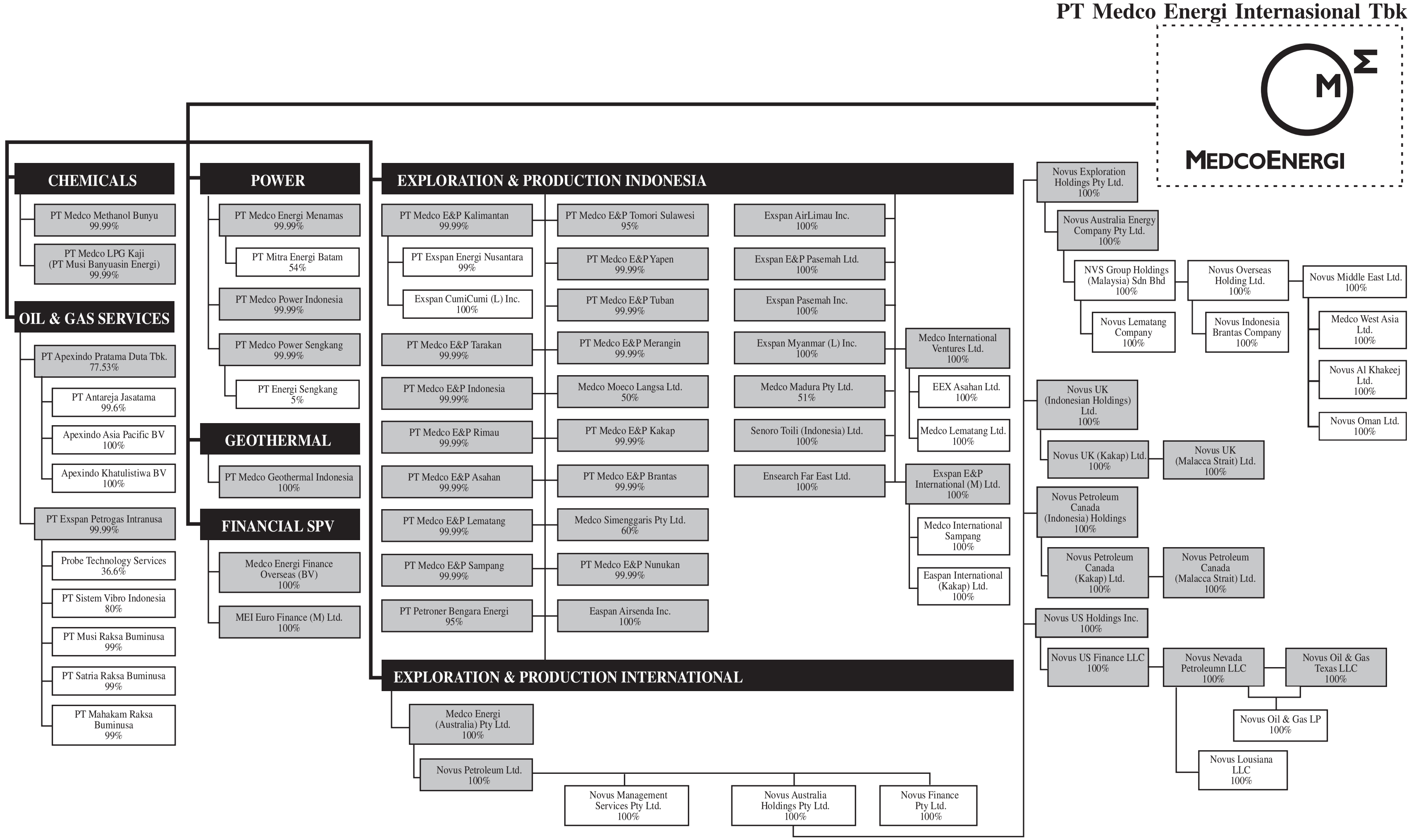
(7) The registered office is located at Locatellikade 1 Parnassustoren, 1076 AZ Amsterdam, The Netherlands.

(8) The registered office is located at c/o Citco (Mauritius) Limited, Cathedral Square, Port Louis, Mauritius.

(9) 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. The Company intends to bring a strategic partner to invest in Apexindo through an injection of assets, most likely jack-up rigs, which is expected to enhance offshore operating capabilities. Following such an injection, the Company intends to sell down its interest through a public offering to above consolidation or 50% ownership levels.

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 May 31, 2005.



MANAGEMENT

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 Articles of Association of the Company 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 boides), 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

Name	Position	Date of Appointment	Date of Expiration of Term
Mr. John Sadrak Karamoy	President, Independent Commissioner	June 25, 2001 April 29, 2003	2008
Mr. Sudono N.S	Independent Commissioner	April 29, 2003	2008
Mr. Gustiaman 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. John Sadrak Karamoy. Joined the Company in 1992. Graduated with a degree in Chemical Engineering, Bandung Institute of Technology in 1963. Has more than 40 years of experience in the oil and gas sector. Held various key positions at Stanvac Indonesia for 32 years until becoming Senior Vice President of Stanvac Indonesia (1981-1987), Senior Vice-President Director of Huffco Indonesia (now VICO) (1987-1992), President Director of Exspan Kalimantan (1992-1995), President Commissioner of Medco Energi (1994-1998) and President Director/Chief Executive Officer of Medco Energi (1998-2001). Currently President, Independent Commissioner of Medco Energi and Commissioner of Medco E&P Indonesia.

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. Gustiaman 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

Name	Position	Date of Appointment	Date of Expiration of Term
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 Financial Officer	March 10, 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 a MBA degree and a MSc degree from 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 Financial Officer of Medco Energi since March 2005, Commissioners of Medco E&P Indonesia subsidiaries since April 2004 and Apexindo since December 2004.

Advisors

Name	Position	Date of Appointment	Date of Expiration of Term
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. Advisor to the Company since withdrawal from management.

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 2002, 2003 and 2004 totaled approximately US$5.7 million, US$5.3 million and US$6.2 million, respectively.

As of June 30, 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 Common Shares. See ''Principal and Selling Shareholders''. None of the Company's Commissioners, Directors and Advisors will be selling any of their Common 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. Gustiaman 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 AND SELLING SHAREHOLDERS

The authorized share capital of Medco Energi is Rp.400 billion comprising 4,000,000,000 shares of Rp.100.00 each, of which 3,332,451,450 Common Shares (including treasury stock) were issued and outstanding and were fully paid up, as of May 31, 2005.

The following table sets forth certain information, as of May 31, 2005, with respect to the ownership of the Common Shares by each person who, according to the records of Medco Energi, owned more than 1% of Medco Energi's Common Shares, and ownership by the public and treasury stock held by Medco Energi.

	Ownership Before Offering			Ownership After Offering (With Over-allotment)	
Name of Shareholder	Number of Common Shares Held	Percentage of Total Outstanding Common Shares	Number of Common Shares Being Offered (With Over-allotment	Number of Common Shares Held	Percentage of Total Outstanding Common Shares
Densico Energy Resources Pte Limited[1]	1,748,647,349	52.47	635,005,554	1,113,641,795	33.42%
Aman Energy Resources Pte Limited[1]	974,956,657	29.26	399,205,446	575,751,211	17.28%
Public (including Founders)	382,250,444	11.47	—	1,416,461,444	42.50%
Treasury Stock	226,597,000	6.80	—	226,597,000	6.80

Note:

(1) Encore Int'l Limited 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 81.73% of the Common 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 Common 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 Common Shares to MLFPSI Securities Account. As of May 31, 2005, Aman Energy Resources Pte. Limited owns 29.26% of the Common Shares. The remaining 52.47% of New Links Common 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 Common 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 ''Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness — Encore Facilities'' and ''Risk Factors — Risks Relating to the Company — The interests of Medco Energi's controlling shareholders may differ from those of the Company''.

As of May 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 Common Shares. None of the Company's Commissioners and Directors will be selling any of their Common Shares in the offering in their individual capacity. 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 GDSs and the Common 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":

- Sale and Purchase Agreement between MEFO and Apexindo dated May 15, 2002 and its amendments on September 16, 2002 and April 4, 2003, with regards to the financing arrangement on the repair of Maera rig, with Apexindo's insurance claim as security, on a recourse basis and with buy back provision. This was approved by the Company's independent shareholders 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.

- Joint Financing Arrangements between Apexindo and MEFO to finance the construction of Raissa and Yani rigs based on MEFO's Joint Financing Letters ("Joint Financing Letters") dated May 16, 2002 and August 27, 2002 and Reconfirmation on the Participation of Joint Financing ("Reconfirmation") dated November 17, 2002. Under the Joint Financing Letters and Reconfirmation, MEFO has agreed to participate in the joint financing of Raissa and Yani rigs. Furthermore, based on the above documents, Apexindo or its wholly-owned subsidiary may take over the rights and obligations of MEFO by paying MEFO a certain sum of money, as specified in the above documents or such other amount to be mutually determined by both parties. 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.

- The plan for compensation payment by AAP, a wholly-owned subsidiary of Apexindo, to MEFO for its share in the construction cost of Raissa and Yani rigs. This was approved by the Company's independent shareholders in their Third Extraordinary Stockholders' Meeting held on April 21, 2004 and on Apexindo's General Independent Stockholders' Meeting held on April 28, 2003.

- Apexindo's drilling services rendered or to be rendered to related parties are as follows: (i) the execution of agreement with JOB Pertamina — Medco Madura Pty. Limited based on contract dated August 6, 2002 covering the use of rig No. 2, (ii) the execution of an agreement with MEP Tomori to provide drilling services using rig No. 10, and (iii) the execution of agreements dated May 1 and 2, 2003 with Medco E&P Indonesia to provide drilling services using land rigs. These transactions were approved by the independent shareholders of Apexindo in their General Meeting held on April 28, 2003.

For more information, see note 34 to the Company's consolidated financial statements.

DESCRIPTION OF CAPITAL STOCK

The following is a summary of material rights and restrictions related to the Common 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 is Rp.400 billion (US$42.105 million) divided into 4,000,000,000 Common Shares, each with a par value of Rp.100 per Share. Prior to this offering, 3,332,451,450 Common Shares (including treasury stock) were fully subscribed and paid for as of the date hereof, and have been listed on JSX.

Common Shares

All transfers of the Common 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 or based on other documents that give satisfactory evidence of such transfer in the opinion of the Board of Directors. In addition, any transfer of the Common Shares must comply with rules and regulations applicable in the Indonesian capital markets and of the Jakarta Stock Exchange. Transfers of Common Shares take effect only after the transfer is registered in the Company's register of shareholders (the ''Register''). The transferor of any Common Shares will be treated as the owner of such Common Shares until the name of the transferee has been recorded in the Register by the Board of Directors. Under the scripless system, KSEI will be registered as the holder of the Common Shares in the Register, in its capacity as the central securities depositary institution that holds the Common Shares on behalf of KSEI participants that in turn hold the Common Shares on behalf of the investors (''Beneficial Shareholders'').

The holders of Common Shares whose names are recorded in the Register (''Registered Shareholders'') are entitled to pre-emptive rights in the event the Company issues new Common Shares, convertible bonds, warrants or other securities convertible into equity securities, except as provided below. For Common Shares deposited with KSEI, all ownership rights are automatically distributed by KSEI, through KSEI participants, to investors ultimately holding the Common 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 Jakarta Stock Exchange. 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) after the issuance of new securities, the Board of Directors may issue such Common 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 a preemptive right to the Registered Shareholders or the Beneficial Shareholders to subscribe for securities. However, as a public company, the Company must also comply with the applicable Capital Market Laws and Regulations. Rule IX.D.4 provides that the Company may increase its capital without providing a preemptive right to the Registered Shareholders or the Beneficial Shareholders to subscribe for securities if the Company complies with the following provisions:

- if within any three-year period, the increase in the Company's authorized share capital without pre-emptive rights attaching is no more than 5.0% of the paid-in capital; or
- for shares issued as 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 loan provider or non-affiliated creditor agrees to receive its Common Shares or convertible bonds to settle the loan.

Other than as described above, the Company's authorized share capital may be increased or decreased by a resolution of an extraordinary general meeting of shareholders and amendment of the Company's Articles of Association. Any such amendment will be effective only after obtaining approval from the Minister of Justice and Human Rights. In the case of a decrease in the Company's authorized share capital, the approval from the Minister of Justice and Human Rights may only be given if (i) approved by a general meeting of shareholders;

(ii) there are no objections from the Company's creditors; (iii) a settlement has been reached on any objection raised; or (iv) any creditors' lawsuit as the result of objections by creditors has obtained a final and binding judgment rendered by the court.

Shareholders' Meetings and Voting Rights

Each Share entitles the owner thereof to cast one vote in general meetings of shareholders. In the case of Common Shares held by KSEI, prior to the Company's taking corporate action, KSEI must provide details to the Company concerning the share entitlements of all the Beneficial Shareholders on whose behalf Common Shares are held. A KSEI participant holding the Common 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) report on the Company's affairs and management and the results for the most recent financial 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 by the shareholders 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, for appointment by the shareholders, the registered public accountant. All materials 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 10.0% of the Company's subscribed Common Shares must be included in the agenda of such meeting, provided that such proposals are received by the board of directors at least seven days prior to such notification.

Either the board of directors or the board of commissioners may convene an extraordinary general meeting of shareholders. An extraordinary general meeting of shareholders must be convened upon receipt of written notice requesting a meeting from one or more shareholders owning an aggregate of at least 10.0% of the Company's subscribed Common 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.

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 or at the places where the Company's Common Shares are listed, 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 shareholders and/or authorized proxies representing more than 50.0% of the issued Common Shares with voting rights represented either in person or by a power of attorney at such meeting (except for a general meeting of shareholders concerning certain transaction such as (i) the transfer or disposal of rights or encumbrances of all or more than 50.0% of the Company's total assets, which requires the quorum for such general meeting of shareholders to be shareholders and/or authorized proxies representing at least 75.0% of the issued Common Shares, with voting rights represented either in person or by a power of attorney at such meeting, (ii) amendments to the Company's Articles of Association, which requires the quorum for such general meeting of shareholders to be shareholders and/or authorized proxies representing at least 66.7% of the issued Common Shares, with voting rights represented either in person or by power of attorney at such meeting or (iii) a merger consolidation or acquisitions, which requires the quorum for such general meeting of shareholders to be shareholders and/or authorized proxies representing at least 75.0% of the rights represented either in person or by a power of attorney at such meeting).

Shareholders may be represented in a general meeting of shareholders by any person 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 must receive the affirmative votes of shareholders holding more than 50.0% of the Common Shares who are either present or represented in the meeting (except for resolutions concerning certain transactions such as (i) the transfer or disposal of rights or encumbrances of all or more than 50.0% of the Company's total assets, which requires the votes of at least 75.0% of the Common Shares represented at such meeting, (ii) amendments to the Company's Articles of Association, which requires the votes of at least 66.7% of the Common Shares represented at such meeting, or (iii) a merger, consolidation or acquisitions, which requires the votes of at least 75.0% of the Common Shares represented at such meeting).

Dividends

A portion of the Company's profits, as determined by an annual general meeting of shareholders, after deduction of corporate tax, must be used as a reserve fund for dividends and certain other purposes.

Dividends, if any, are paid in accordance with a resolution adopted by an annual general meeting of shareholders, which resolution must establish the dividend payment amount. All Common Shares that are fully paid and outstanding at the time a dividend or other distribution is declared are entitled to share equally in such dividend or other distribution. 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 their dividends from the special reserve fund within the five-year period running from the date dividends are first payable.

A reserve fund, up to an amount of 20.0% of the Company's subscribed capital, may be established to cover future losses and the amount to be placed in such reserve fund is determined by the general meeting of shareholders. Amounts in the reserve fund that exceed 20.0% of the Company's subscribed 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 two-thirds of the votes cast with respect thereto. Any amendment that would change the Company's name, domicile or objectives and purpose, or would increase or reduce the Company's authorized capital, reduce the subscribed 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 within 14 days of the date of passage of the related resolution) and registered with the Department of Trade. A resolution reducing the Company's capital must be delivered to the Company's creditors and published in the State Gazette of the Republic of Indonesia and in at least two newspapers published in Indonesia with wide circulation within seven days after such resolution has been passed. If a quorum for such extraordinary general meeting is not obtained, 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 Common 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 Common Shares outstanding and approved by at least three-fourths of the total votes 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 it 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 representing at least 10.0% of all voting common 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 company has the right to request the Company to repurchase the shareholder's Common Shares at the then prevailing market price if such shareholder disagrees with certain of the Company's actions which harm the Company's interests or the interests of such shareholder. 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 Common Shares, provided that such repurchase (i) may only be performed from the Company's net profits and must 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) may not cause the Company and the Company's subsidiaries to own more than 10.0% of the Company's outstanding Common Shares. To the extent that a request to repurchase Common Shares exceeds these limitations, the Company is required to seek a third-party purchaser for such Common Shares. Under Article 33 of the Company Law, Common 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 Common 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.

DESCRIPTION OF GLOBAL DEPOSITARY SHARES

Citibank, N.A. has agreed to act as the Depositary for the Global Depositary Shares, or ''GDSs.'' Citibank's depositary offices are located at 388 Greenwich Street, New York, New York 10013. Rule 144A and Regulation S Global Depositary Shares are referred to as ''Rule 144A GDSs'' and ''Regulation S GDSs,'' respectively. In this summary the Company intends to use the term ''GDSs'' to refer to the Rule 144A GDSs and to the Regulation S GDSs. Unless the Company otherwise states, the investor should assume that the term ''GDSs'' encompasses both Rule 144A GDSs and Regulation S GDSs. The GDSs the Company is selling in the United States are referred to and will be issued as Rule 144A GDSs and the GDSs the Company is selling outside the United States to non-U.S. persons are referred to and will be issued as the Regulation S GDSs. GDSs represent ownership interests in securities that are on deposit with the Depositary. Any reference to ''investor'' in this section assumes that the investor owns GDSs and will own GDSs at the relevant time.

The Depositary has appointed a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank, N.A., Jakarta Branch having its principal office at Citibank Tower, Plaza Bapindo, Jalan Jenderal Sudirman Kav. 54-55, Jakarta 12190, Indonesia.

The Company has appointed Citibank as Depositary pursuant to two separate deposit agreements, one for the Rule 144A GDSs, the ''Rule 144A Deposit Agreement,'' and one for the Regulation S GDSs, the ''Regulation S Deposit Agreement''. A copy of the deposit agreements may be obtained from the Depositary. This is a summary description of the material terms of the GDSs and of the investor's material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable deposit agreement and not by this summary. The Company urges the investor to review the deposit agreements in their entirety. Any italicized text in this section is provided for the investor's information but is not contained in the Deposit Agreements.

Each GDS represents the right to receive 50 Common Shares, on deposit with the custodian. A GDS will also represent the right to receive any other property received by the Depositary or the custodian on behalf of the owner of the GDS but that has not been distributed to the owners of GDSs because of legal restrictions or practical considerations.

If the investor becomes an owner of GDSs, the investor will become a party to the applicable deposit agreement and therefore will be bound to its terms and to the terms of the applicable Master GDR that represents his GDSs. The deposit agreement and the Master GDR specify the Company's rights and obligations as well as the investor's rights and obligations as owner of GDSs and those of the Depositary. As a GDS owner the investor appoints the Depositary to act on his behalf for the Common Shares represented by his GDSs, either upon (1) his specific instructions when the Company calls a meeting of shareholders, distributes an elective dividend or make a rights offering, or (2) the specific terms of the deposit agreement to receive any dividends the Company distributes in Rupiah or Common Shares and to convert the Rupiah received. The deposit agreements are each governed by New York law. However, the Company's obligations to the holders of Common Shares will continue to be governed by Indonesian laws, which may be different from the laws in the United States. In addition, the Company notes that the laws and regulations of Indonesia may restrict the deposit and withdrawal of the Common Shares into or from the depositary receipts facility.

Presently, the investor may hold his GDSs only through a brokerage or safekeeping account. As such, the investor must rely on the procedures of his broker or bank to assert his rights as GDS owner. The investor should consult with his broker or bank to determine what those procedures are. When the Company refers to ''the investor,'' the Company assumes the reader owns GDSs and will own GDSs at the relevant time. When the Company refers to a ''holder'' the Company assumes the person owns GDSs and such person's agent (i.e., broker, custodian, bank, trust company) is the holder of the applicable GDSs.

Distinctions Between "Rule 144A GDSs" and "Regulation S GDSs"

The Rule 144A GDSs and the Regulation S GDSs are similar in many ways but constitute different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are ''restricted securities'' under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDSs are not *per se* ''restricted securities'' under the U.S. securities laws, but the Company has imposed certain contractual restrictions on the Regulation S GDSs in an effort to prevent the transfer of Regulation S GDSs in violation of the U.S. securities laws. These restrictions the Company imposes on the Regulation S GDSs will be in place for a period of 40 days after the Company closes the offering of the Regulation S GDSs described in this Offering Circular. The Company will refer to this 40-day period as the ''restricted period.''

The differences between the Regulation S GDSs and the Rule 144A GDSs and the restrictions imposed on the Rule 144A GDSs and the Regulations S GDSs cover primarily the following:

- The venue for trading the GDSs:
  - — the Regulation S GDSs may be traded only outside the United States, and
  - — the Rule 144A GDSs may only be traded in the PORTAL Market among ''Qualified Institutional Buyers'' (as defined in Rule 144A).
- The persons who may own and trade the GDSs:
  - — only ''Qualified Institutional Buyers'' (as defined in Rule 144A) and persons other than ''U.S. persons'' (as defined in Regulation S) may own and trade Rule 144A GDSs, and
  - — upon the expiration of the ''restricted period,'' any person may own and trade Regulation S GDSs, and
  - — during the ''restricted period,'' only persons other than U.S. persons (as defined in Regulation S) may own and trade the Regulation S GDSs and only outside the United States.
- The persons who may create additional GDSs:
  - — only persons other than ''U.S. persons'' (as defined in Regulation S) may deposit Common Shares to receive Regulation S GDSs, and
  - — only ''Qualified Institutional Buyers'' (as defined in Rule 144A) and persons other than ''U.S. persons'' may deposit Common Shares to receive Rule 144A GDSs.
- The persons to whom the investor may transfer the GDSs, upon sale or otherwise:
  - — the investor may transfer Rule 144A GDSs only to ''Qualified Institutional Buyers'' (as defined in Rule 144A) or to persons other than ''U.S. persons'' (as defined in Regulation S), and
  - — during the ''restricted period,'' the investor may transfer the Regulation S GDSs only in transactions outside the United States (in compliance with Regulation S) and to persons other than ''U.S. persons'' (as defined in Regulation S) or to ''Qualified Institutional Buyers'' (as defined in Rule 144A) but in this latter case only after ''converting'' the Regulation S GDSs into Rule 144A GDSs.
- The restrictions on the transfers and withdrawal of the Common Shares represented by the GDSs.
  - — Please refer to ''Legends'' below.
- The eligibility for book-entry transfer.
  - — Please refer to ''Settlement and Safekeeping'' below.

These distinctions and the requirements of the U.S. securities laws may require the Company and the Depositary to treat the Regulation S GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of Regulation S GDSs and vice versa.

Settlement and Safekeeping

Rule 144A GDSs

The Depositary has made arrangements with The Depository Trust Company (''DTC'') to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in this offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Rule 144A GDR will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive certificates representing their ownership interests in the Rule 144A GDSs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to the depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, Rule 144A GDRs will be printed and delivered to the applicable Rule 144A GDS owners.

If at any time DTC ceases to make its book-entry settlement system available for the Rule 144A S GDSs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available Rule 144A GDSs in physical certificated form.

Regulation S GDSs

The Company and the Depositary have made arrangements with DTC, Euroclear (''Euroclear'') and Clearstream, Luxembourg (''Clearstream'') to act as securities depositories for the Regulation S GDSs. All Regulation S GDSs issued in this offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Regulation S GDR will represent all Regulation S GDS issued to and registered in the name of Cede & Co. Euroclear and Clearstream will hold the Regulation S GDSs on behalf of their participants through their respective depositories, which are participants in DTC (any such participant of Euroclear, Clearstream or DTC, a ''Participant''). Transfers of ownership interests in Regulation S GDSs are to be accomplished by entries made on the books of Euroclear, Clearstream and DTC and of participants in Euroclear, Clearstream and DTC, acting in each case on behalf of Regulation S GDS owners. Owners of Regulation S GDSs will not receive certificates representing their ownership interests in the Regulation S GDSs, except in the event that use of the DTC book-entry system for the Regulation S GDSs is discontinued.

DTC may discontinue providing its services as securities depository with respect to the Regulation S GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, Regulation S GDRs will be printed and delivered to the applicable Regulation S GDS owners.

If at any time Euroclear, Clearstream or DTC, as the case may be, cease to make its respective book-entry settlement systems available for the Regulation S GDSs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available Regulation S GDSs in physical certificated form.

Dividends and Distributions

As a holder, the investor generally has the right to receive the distributions the Company makes on the securities deposited with the custodian bank. The investor's receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreements in proportion to the number of GDSs held as of a specified record date.

Distributions of Cash

Whenever the Company makes a cash distribution for the securities on deposit with the custodian, the Company will notify the Depositary and deposit the funds with the custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to Indonesian laws and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements.

Distributions of Common Shares

Whenever the Company makes a free distribution of Common Shares for the securities on deposit with the custodian, the Company will notify the Depositary and deposit the applicable number of Common Shares with the custodian. Upon receipt of notice of such deposit, the Depositary will either distribute to holders new GDSs representing the Common Shares deposited or modify the GDS-to-Common Shares ratio, in which case each GDS the investor holds will represent rights and interests in the additional Common Shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-Common Shares ratio upon a distribution of Common Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new Common Shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law (*i.e.,* the U.S. securities laws) or if it is not operationally practicable. If the Depositary does not distribute new GDSs as described above, it will sell the Common Shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever the Company intends to distribute rights to purchase additional Common Shares, the Company will give prior notice to the Depositary and the Company will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if the Company provides all of the documentation contemplated in the applicable deposit agreement (such as opinions to address the lawfulness of the transaction). The investor may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of the investor's rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Common Shares other than in the form of GDSs.

The Depositary will *not* distribute the rights to the investor if:

- The Company does not timely request that the rights be distributed to the investor or the Company requests that the rights not be distributed to the investor; or
- The Company fails to deliver satisfactory documents to the Depositary; or
- It is not reasonably practicable to distribute the rights.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever the Company intends to distribute a dividend payable at the election of shareholders either in cash or in additional Common Shares, the Company will give prior notice thereof to the Depositary and will indicate whether the Company wishes the elective distribution to be made available to the investor. In such case, the Company will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to the investor only if it is reasonably practicable and if the Company has provided all of the documentation contemplated in the deposit agreement. In such case, the Depositary will establish procedures to enable the investor to elect to receive either cash or additional GDSs, in each case as described in the deposit agreements.

If the election is not made available to the investor, the investor will receive either cash or additional GDSs, depending on what a shareholder in Indonesia would receive upon failing to make an election, as more fully described in the corresponding deposit agreement.

Other Distributions

Whenever the Company intends to distribute property other than cash, Common Shares or rights to purchase additional Common Shares, the Company will notify the Depositary in advance and will indicate whether the Company wishes such distribution to be made to the investor. If so, the Company will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to the investor and if the Company provides all of the documentation contemplated in the deposit agreements, the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will *not* distribute the property to the investor and will sell the property if:

- The Company does not request that the property be distributed to the investor or if the Company asks that the property not be distributed to the investor; or
- The Company does not deliver satisfactory documents to the Depositary; or
- The Depositary determines that all or a portion of the distribution to the investor is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Redemption

Whenever the Company decides to redeem any of the securities on deposit with the custodian, the Company will notify the Depositary. If it is reasonably practicable and if the Company provides all of the documentation contemplated in the deposit agreements, the Depositary will mail notice of the redemption to the holders.

The custodian will be instructed to surrender the Common Shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into U.S. dollars upon the terms of the deposit agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDSs to the Depositary. The investor may have to pay fees, expenses, taxes and other governmental charges upon the redemption of the investor's GDSs. If less than all GDSs are being redeemed, the GDSs to be retired will be selected by lot or on a *pro rata* basis, as the Depositary may determine.

Changes Affecting Common Shares

The Common Shares held on deposit for the investor's GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Common Shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, the investor's GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the Common Shares held on deposit. The Depositary may in such circumstances deliver new GDSs to the investor or call for the exchange of the investor's existing GDSs for new GDSs. If the Depositary may not lawfully distribute such property to the investor, the Depositary may sell such property and distribute the net proceeds to the investor as in the case of a cash distribution.

Issuance of GDSs upon Deposit of Common Shares

Subject to limitations set forth in the deposit agreements and the GDRs, the Depositary may create GDSs on the investor's behalf if the investor or the investor's broker deposits Common Shares with the custodian. The Depositary will deliver these GDSs to the person the investor indicates only after the investor pays any applicable issuance fees and any charges and taxes payable for the transfer of the Common Shares to the custodian and the investor provides the applicable deposit certification. The investor's ability to deposit Common Shares and receive GDSs may be limited by U.S. and Indonesian legal considerations applicable at the time of deposit.

The Depositary will refuse to accept Common Shares for deposit whenever it is notified in writing that such deposit would result in any violation of applicable laws, including ownership restrictions under Indonesian laws. The Depositary will also refuse to accept certain Common Shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the Common Shares are listed an a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any Common Shares presented for deposit are eligible for resale pursuant to Rule 144A.

The issuance of GDSs may be delayed until the Depositary or the custodian receives confirmation that all required approvals have been given and that the Common Shares have been duly transferred to the custodian. The Depositary will only issue GDSs in whole numbers.

When the investor makes a deposit of Common Shares, the investor will be responsible for transferring good and valid title to the Depositary. As such, the investor will be deemed to represent and warrant that:

- The Common Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.

- All preemptive (and similar) rights, if any, with respect to such Common Shares have been validly waived or exercised.

- The investor is duly authorized to deposit the Common Shares.

- The Common Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim and, in the case of a deposit of Common Shares under the Regulation S Deposit Agreement, are not, and the Regulation S GDSs issuable upon such deposit will not be, ''restricted securities'' (as defined in the corresponding deposit agreement).

- The Common Shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, the Company and the Depositary may, at the investor's cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When the investor deposits Common Shares to receive Rule 144A GDSs, the investor will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- the investor acknowledges that the Common Shares and the Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- the investor is not an "affiliate" of the Company and the investor is not acting on behalf of the Company or one of its "affiliates;" and
- the investor certifies that the investor is, or is acting on behalf of, (i) a "Qualified Institutional Buyer" (as defined in Rule 144A), or (ii) a person other than a U.S. Person (as defined in Regulation S); and
- the investor agrees, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the Common Shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:
  - — to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
  - — outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or
  - — in accordance with Rule 144 under the Securities Act, if available, or
  - — pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A deposit agreement and may be obtained from the Depositary upon request.

When the investor deposits Common Shares to receive Regulation S GDSs, the investor will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- the investor acknowledges that the Common Shares and the Regulation S GDSs have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- the investor is not an "affiliate" of the Company and the investor is not acting on behalf of the Company or one of its "affiliates;" and
- the investor certifies that the investor is, or is acting on behalf of, a person other than a U.S. Person (as defined in Regulation S); and
- the investor agrees, as the owner of the Regulation S GDSs, to offer, sell, pledge and otherwise transfer the Regulation S GDSs or the Common Shares represented by the Regulation S GDSs in accordance with the applicable U.S. state securities laws and during the "restricted period" only:
  - — to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, in which case the investor is required to "convert" the Regulation S GDSs into Rule 144A GDSs prior to making delivery to the transferee, or
  - — outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or
  - — in accordance with Rule 144 under the Securities Act, if available, or
  - — pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Regulation S GDSs is attached to the Regulation S deposit agreement and may be obtained from the Depositary upon request.

Withdrawal of Common Shares Upon Cancellation of GDSs

Subject always to the withdrawal of deposited property being permitted under Indonesian laws and regulations, as a holder, the investor will be entitled to present the investor's GDSs to the Depositary for cancellation and then receive the corresponding number of underlying Common Shares at the custodian's offices. The investor's ability to withdraw the Common Shares may be limited by U.S. and Indonesian law considerations applicable at the time of withdrawal.

Subject always to the withdrawal of deposited property being permitted under Indonesian laws and regulations, the investor may also request that the Common Shares represented by the investor's GDSs be sold on the investor's behalf. The Depositary may require that the investor delivers his request for sale in writing. Any sale of the Company's Common Shares will be conducted according to applicable Indonesian law through a securities company in Indonesia on the Jakarta Stock Exchange or in any other manner as is permitted under applicable Indonesian law. Any sale will be at the investor's risk and expense. The investor may also be required to enter into a separate agreement to cover the terms of the sale of the Company's Common Shares.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by Indonesian law and regulations, the Depositary shall convert the proceeds into U.S. dollars and distribute the proceeds to the investor, net of any fees, expenses, taxes or governmental charges (including, without limitation, any Indonesian and U.S. taxes) incurred in connection with the sale. Sales of the Company's Common Shares may be subject to Indonesian taxation on capital gains and will be subject to a securities transaction tax in Indonesia. Indonesia does not currently impose capital gains tax on Indonesian securities transactions, but the Company cannot assure the investor that a capital gains tax will not be imposed in the future or the manner in which any Indonesian capital gains tax would be imposed or calculated.

In order to withdraw or instruct the sale of the Common Shares represented by the investor's GDSs, the investor will be required to pay to the Depositary the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the Common Shares being withdrawn and the investor will be required to provide to the Depositary the applicable withdrawal certification. The investor assumes the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding deposit agreement.

If the investor holds a GDS registered in his name, the Depositary may ask the investor to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel the investor's GDSs. The withdrawal of the Common Shares represented by the investor's GDSs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the Depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

When the investor requests the withdrawal of the Common Shares represented by the investor's Rule 144A GDSs, the investor will be required to provide the Depositary with a withdrawal certification stating, *inter alia*, that:

- the investor acknowledges that the Common Shares represented by the investor's Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- the investor certifies that:

  (X) the investor is, or is acting on behalf of, a "Qualified Institutional Buyer" (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, and

  (A) either

    i. the investor has sold or agreed to sell the Common Shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

ii. the investor has sold or agreed to sell the Common Shares to a ‘‘Qualified Institutional Buyer’’ (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

iii. the investor (or the person on whose behalf the investor is acting) will be the beneficial owner of the Common Shares upon withdrawal and the investor (or the person on whose behalf the investor is acting) will sell the Common Shares only

(a) to another Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) to a person other than a ‘‘U.S. Person’’ (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 (if available), or

(d) pursuant to an effective registration statement under the Securities Act; and

(B) the investor (or the person on whose behalf the investor is acting) will not deposit the Common Shares in any depositary receipts facility that is not a ‘‘restricted’’ depositary receipts facility;

OR

(Y) the investor is a person other than a ‘‘U.S. Person’’ (as defined in Regulation S) and the investor acquired or agreed to acquire the Common Shares outside the United States and will be the beneficial owner of the Common Shares upon withdrawal.

When the investor requests the withdrawal of the Common Shares represented by the Regulation S GDSs at any time during the ‘‘restricted period’’, he will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- the investor acknowledges that the Common Shares represented by the investor’s Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- the investor certifies that

(X) the investor is, or is acting on behalf of, a person other than a ‘‘U.S. Person’’ (as defined in Regulation S) who is the beneficial owner of the Regulation S GDSs presented for cancellation, and

either

i. the investor has sold or agreed to sell the Common Shares to a person other than a ‘‘U.S. Person’’ (as defined in Regulation S) in accordance with Regulation S, or

ii. the investor has sold or agreed to sell the Common Shares to a ‘‘Qualified Institutional Buyer’’ (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, and will make delivery thereof in the form of Rule 144A GDSs, or

iii. the investor (or the person on whose behalf the investor is acting) will be the beneficial owner of the Common Shares upon withdrawal and the investor (or the person on whose behalf the investor is acting) will at any time during the ‘‘restricted period’’ sell the Common Shares only

(a) to a Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) to a person other than a ‘‘U.S. Person’’ (as defined in Regulation S) in accordance with Regulation S, OR

(Y) the investor is a "Qualified Institutional Buyer" (as defined in Rule 144A, the investor has agreed to acquire the Regulation S GDSs in a transaction made in reliance on Rule 144A and he will take all action necessary to cause the Common Shares to be withdrawn and deposited under the Rule 144A Deposit Agreement for the purpose of receiving Rule 144A GDSs.

Voting Rights

As a holder of GDSs, the investor will not be entitled to instruct the Depositary as to the exercise of any voting rights attaching to any Common Shares represented by the investor's GDSs under any circumstances. Upon receipt of written notice from the Company, the Depositary will (subject to receipt of an opinion of the Company's Indonesian counsel that such action is in conformity with all applicable Indonesian laws and regulations and the Company's Articles of Association) grant the proxy or power of attorney to Encore to vote the Common Shares underlying the then-outstanding GDSs at such time. Encore has agreed to indemnify the Depositary for any loss liability or expense incurred by it in connection with the grant of such proxy or power of attorney. The Depositary has no obligation to deliver any notice of meeting or solicitation of proxy to holders of GDSs. By holding or continuing to hold a GDS, holders of the GDSs will be deemed to have authorized and directed the Depositary to grant the proxy or power of attorney to Encore as set forth above and as set forth in the Deposit Agreements. Registered holders of Common Shares timely withdrawn from the depositary arrangements will be entitled to vote and exercise other direct shareholder rights in accordance with applicable Indonesian law. See "Risk Factors — Risks Relating to the GDSs and the Common Shares — Holders of GDSs will not be able to exercise voting rights and Encore, the Company's controlling shareholder, will have the right to control voting of the Common Shares represented by the GDSs".

Fees and Charges

As a GDS holder, the investor will be required to pay the following service fees to the Depositary:

Service	Fees
— Issuance of GDSs	Up to 5¢ per GDS issued
— Cancellation of GDSs	Up to 5¢ per GDS canceled
— Distribution of cash dividends or other cash distributions	Up to 2¢ per GDS held
— Distribution of GDSs pursuant to stock dividends, free stock distributions or exercise of rights.	Up to 5¢ per GDS issued
— Distribution of securities other than GDSs or rights to purchase additional GDSs	Up to 5¢ per share (or share equivalent) distributed
— Annual Depositary Services Fee	Annually up to 2¢ per GDS held at the end of each calendar year except to the extent of any cash dividend fee charged during such calendar year
— Transfer of GDRs	$1.50 per certificate presented for transfer

As a GDS holder the investor will also be responsible to pay certain fees and expenses incurred by the Depositary and certain taxes and governmental charges such as:

- Fees for the transfer and registration of Common Shares charged by the registrar and transfer agent for the Common Shares in Indonesia (*i.e.*, upon deposit and withdrawal of Common Shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities (*i.e.*, when Common Shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of Common Shares on deposit.

The Company has agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges the investor may be required to pay may vary over time and may be changed by the Company and by the Depositary. The investor will receive prior notice of such changes.

Amendments and Termination

The Company may agree with the Depositary to modify the deposit agreements at any time without the investor's consent. The Company undertakes to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreements. The Company will not consider to be materially prejudicial to the investor's substantial rights any modifications or supplements that are reasonably necessary for the GDSs to be registered under the Securities Act or settled in electronic book-entry form, in each case without imposing or increasing the fees and charges the investor is required to pay. In addition, the Company may not be able to provide the investor with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

The investor will be bound by the modifications to the deposit agreements if he continues to hold the his GDSs after the modifications to the applicable deposit agreements become effective. The deposit agreements cannot be amended to prevent the investor from withdrawing the Common Shares represented by his GDSs (except as permitted by law).

The Company has the right to direct the Depositary to terminate the deposit agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the deposit agreements. In either case, the Depositary must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the deposit agreements:

- For a period of six months after termination, the investor will be able to request the cancellation of the investor's GDSs and the withdrawal of the Common Shares represented by the investor's GDSs and the delivery of all other property held by the Depositary in respect of those Common Shares on the same terms as prior to the termination. During such six months' period the Depositary will continue to collect all distributions received on the Common Shares on deposit (*i.e.*, dividends) but will not distribute any such property to the investor until the investor requests the cancellation of the investor's GDSs.

- After the expiration of such six months' period, the Depositary may sell the securities held on deposit. The Depositary will hold the proceeds from such sale and any other funds then held for the holders of GDSs in a non-interest bearing account. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding.

Books of Depositary

The Depositary will maintain GDS holder records at its depositary office. The investor may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the deposit agreements.

The Depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreements limit the Company's obligations and the Depositary's obligations to the investor. Please note the following:

- The Company and the Depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.

- The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to the investor on the Company's behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Common Shares, for the validity or worth of the Common Shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreements, for the timeliness of any of the Company's notices or for the Company's failure to give notice.
- The Company and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the deposit agreements.
- The Company and the Depositary disclaim any liability if the Company is prevented or forbidden from acting on account of any law or regulation, any provision of the Company's Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond the Company's control or for any failure to obtain the benefit of any tax treaty as a result of a Holder or Beneficial Owner's failure to timely provide the requisite information to the Company or the Depositary.
- The Company and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreements or in the Company's Articles of Association or in any provisions of securities on deposit.
- The Company and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Common Shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of the Depositary or the Company in good faith to be competent to give such advice or information.
- The Company and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Common Shares but is not, under the terms of the deposit agreements, made available to the investor.
- The Company and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- The Company and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable deposit agreements.

Pre-Release Transactions

The Depositary may, in certain circumstances, issue GDSs before receiving a deposit of Common Shares or release Common Shares before receiving GDSs for cancellation. These transactions are commonly referred to as "pre-release transactions." The deposit agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (i.e., the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

The investor will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs, including all stamp duty taxes imposed upon the transfer of Common Shares to the Depositary for the issuance of GDSs and upon the withdrawal of Common Shares from the Depositary upon cancellation of GDSs. The Company, the Depositary and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. The investor will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on the investor's behalf. However, the investor may be required to provide to the Depositary and to the custodian proof of taxpayer status and residence and such other information as the Depositary and the custodian may require to fulfill legal obligations. The investor is required to indemnify the Company, the Depositary and the custodian for any claims with respect to taxes based on any tax benefit obtained for the investor.

Foreign Currency Conversion

The Depositary will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreements. The investor may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the applicable holders.

Arbitration

Subject to certain limitations described in the Deposit Agreements, any dispute, controversy or cause of action brought by any party to the Deposit Agreements against the Company and/or the Depositary relating to the deposited securities, the GDSs or the Deposit Agreements shall be resolved by binding arbitration in accordance with the rules of the International Arbitration Rules of the International Institute for Conflict Prevention & Resolution, and judgment by the arbitrators may be entered in any court having jurisdiction. The parties to the Deposit Agreements agree that the District Court of Central Jakarta is the only Indonesian court which has the authority to recognize and enforce the arbitration award. Each of the Deposit Agreements sets forth the mechanics for initiating an arbitration proceeding and establishing a claim in accordance with the rules of the International Institute for Conflict Prevention & Resolution, as well as the number and disposition of the requisite arbitrators. The place of the arbitration shall be the Borough of Manhattan in The City of New York and the language of the arbitration shall be English. The arbitrators' award shall be final and binding upon the parties and their respective successors, heirs, executors and assigns.

TRANSFER RESTRICTIONS

As a result of the following restrictions, purchasers are advised to consult legal counsel prior to making any resale, pledge or transfer of the Common Shares or GDSs.

The offering is being made in accordance with Rule 144A and Regulation S. None of the Offered Shares or GDSs have been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons, except in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and to persons outside the United States in accordance with Regulation S. Terms used in this section that are defined in Rule 144A or in Regulation S are used herein as so defined.

Transfer Restrictions with Respect to the Offered Shares

Offered Shares Offered in Reliance on Rule 144A

Each purchaser of Offered Shares within the United States will, by its purchase of such Offered Shares, be deemed to have represented, acknowledged and agreed as follows:

1. The Offered Shares 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 or other jurisdiction and are subject to significant restrictions on transfer.

2. Such purchaser is either purchasing Offered Shares for its own account or an account with respect to which it exercises sole investment discretion and it or such account is a QIB and is aware that the transferor of such securities is relying on the exemption from registration under the Securities Act provided by Rule 144A.

3. Such purchaser will not offer, sell, pledge or otherwise transfer any Offered Shares except (a) within the United States to persons reasonably believed to be QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise in accordance with Rule 144, if available, (b) outside the United States in offshore transactions in reliance on Regulation S, or (c) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

4. Offered Shares sold pursuant to Rule 144A will continue to be ‘‘restricted securities’’ within the meaning of Rule 144A, and for so long as they remain restricted securities, such Offered Shares may not be deposited into any unrestricted depositary receipt facility with respect to the Offered Shares.

Offered Shares Offered in Reliance on Regulation S

Each purchaser of Offered Shares within the United States will, by its purchase of such Offered Shares, be deemed to have represented, acknowledged and agreed as follows:

1. The Offered Shares 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 or other jurisdiction and are subject to significant restrictions on transfer.

2. Such purchaser and the person, if any, for whose account its is acquiring the Offered Shares, is a person other than a U.S. person and is purchasing such Offered Shares outside the United States in an offshore transaction meeting the requirements of Regulation S.

3. Such purchaser will not, prior to the expiration of the restricted period, offer, sell, pledge or otherwise transfer any Offered Shares (as the case may be), except (a) outside the United States to persons other than U.S. persons in offshore transactions in reliance on Regulation S or (b) within the United States to persons reasonably believed to be QIBs in accordance with the exemption from the registration requirements of the Securities Act provided by Rule 144A, in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. During the restricted period, the deposit of Offered Shares into any unrestricted depositary receipt facility with respect to the Offered Shares is prohibited.

Each purchaser of Regulation S GDSs will be required, or deemed by its purchase, to confirm that the purchaser is aware of the restrictions on the offer and sale of Offered Shares offered pursuant to Regulation S described in this Offering Circular.

Upon the expiration of the restricted period, the Offered Shares offered in reliance on Regulation S shall no longer be subject to the restrictions set forth above, if, at the time of such expiration, the offer or sale of such Offered Shares in the United States would not be restricted under the securities laws of the United States or any state of the United States or any other jurisdiction.

Each purchaser of Regulation S GDSs will also be deemed to have represented that it is aware that the JSX is not a ''designated offshore securities market'' within the meaning of Regulation S.

Until the expiration of the 40-day restricted period referred to above, an offer or sale of Offered Shares within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Transfer Restrictions with Respect to the GDSs

Rule 144A GDSs

Each owner of an interest in the Rule 144A GDSs will, by its acceptance thereof, be deemed to have acknowledged, represented to and agreed with us, the Depositary and the Initial Purchasers that:

1. The Rule 144A GDSs and underlying Common Shares have not been, and are not expected to 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.

2. Such owner is a QIB purchasing the Rule 144A GDSs for its own account, or for the accounts of one or more QIBs with respect to which account it exercises sole investment discretion, and such owner is aware that the transferor of such securities is relying on the exemption from registration under the Securities Act provided by Rule 144A for the transfer.

3. Such owner will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A GDSs and underlying Common Shares except as permitted by the applicable legend set forth in paragraph (4) below.

4. The Master Rule 144A GDR issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of Rule 144A GDSs shall be bound by the terms of, the following legend, unless otherwise agreed between the Depositary and the Company:

''NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. 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 OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S

UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE ‘‘RESTRICTED SECURITIES’’ WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDSs.

NEITHER THE SHARES NOR THE GDSs 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. The Company, the Depositary, the Initial Purchasers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If such owner is acquiring any Rule 144A GDSs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

6. The Rule 144A GDSs offered in the offering will be evidenced by a Master Rule 144A GDR certificate and before any beneficial interest in the Rule 144A GDRs evidenced by such Master Rule 144A GDR certificate may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S GDSs evidenced by the Master Regulation S GDR certificate, the transferor will be required to provide certain written certifications (in the form provided in the Rule 144A Deposit Agreement).

7. Any resale or other transfer, or attempted resale or other transfer, of the Rule 144A GDSs made other than in compliance with the above-stated restrictions shall not be recognized by the Company or the Depositary.

Regulation S GDSs

Each owner of an interest in the Regulation S GDSs, by its acceptance thereof will be deemed to have acknowledged and represented to and agreed with the Company, the Depositary and the Initial Purchasers that:

1. The Regulation S GDSs and the underlying Common Shares have not been, and are not expected to be, registered under the Securities Act or with any securities regulatory authority of any state of the United States.

2. Each owner purchasing as part of the distribution of the Regulation S GDSs during the ‘‘restricted period’’ is purchasing the Regulation S GDSs in an offshore transaction meeting the requirements of Regulation S.

3. Such owner, prior to the expiration of the ‘‘restricted period’’, will not offer, sell, pledge or otherwise transfer any interest in the Regulation S GDSs and the underlying Common Shares except as permitted by the applicable legend set forth in paragraph (4) below.

4. The Master Regulation S GDR certificate, until the expiration of the ‘‘restricted period’’ and unless otherwise agreed between the Depositary and the Company, shall contain, and all owners of Regulation S GDSs shall be bound by the terms of, the following legend:

‘‘NEITHER THIS REGULATION S GDR, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. 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 OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR AND THE REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) REGULATION S GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTION S EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT, (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AND (C) SHARES IN INDONESIA IN RELIANCE ON REGULATION S AND (II) THE CLOSING DATE WITH RESPECT TO THE REGULATION S GDRs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE REGULATION S DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH SHARES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GLOBAL DEPOSITARY SHARES TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR OR A BENEFICIAL INTEREST IN THE REGULATION S GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

NEITHER THE SHARES NOR THE GDSs 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. The Company, the Depositary, the Initial Purchasers and their respective affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

6. The Regulation S GDSs offered in the offering will be evidenced by a Master Regulation S GDR certificate and before any beneficial interest in the Regulation S GDSs evidenced by such Master Regulation S GDR certificate may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate, the transferor will be required to provide certain written certifications (in the form provided in the Regulation S Deposit Agreement)

7. Any resale or other transfer, or attempted resale or other transfer, of the Regulation S GDSs made other than in compliance with the above-stated restrictions shall not be recognized by the Company or the Depositary.

Other Provisions Regarding Transfers of the GDSs

The above legends and the certifications as further described in the Deposit Agreements and herein prohibit or restrict certain transfers as summarized below. Interests in GDSs evidenced by the Master Rule 144A GDR certificate may be transferred to a person whose interest in such GDSs is subsequently represented by the Master Regulation S GDR certificate only upon receipt by the Depositary of such written certifications from the transferor to the effect that such transfer is being made in accordance with Regulation S and subject to the terms and such further representations as may be required by the Deposit Agreements. Prior to the expiration of the restricted period, interests in Regulation S GDSs evidenced by the Master Regulation S GDR certificate may be transferred to a person whose interest in such GDSs is subsequently represented by the Master Rule 144A GDR certificate only upon receipt by the Depositary of such written certifications from the transferor to the effect that such transfer is being made in accordance with Rule 144A and subject to the terms and such further representations as may be required by the Deposit Agreements. Any interest in GDSs evidenced by one of the Master GDR certificates that is transferred to a person whose interest in such GDSs is subsequently evidenced by an interest in the other Master GDR certificate will, upon transfer, cease to be an interest in the GDSs evidenced by such first Master GDR certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDSs evidenced by such other Master GDR certificate for so long as it remains such an interest. Except in the limited circumstances described in the Deposit Agreements and herein, no person will be entitled to receive physical delivery of definitive GDRs. The GDSs are not issuable in bearer form. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by the Company or the Depositary.

INFORMATION RELATING TO THE DEPOSITARY

Citibank, N.A. (''Citibank'') has been appointed as Depositary pursuant to the Deposit Agreements. Citibank is a wholly-owned subsidiary of Citicorp, a Delaware corporation whose principal office is located in New York, New York, which in turn is a wholly-owned subsidiary of Citigroup Inc. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organized on June 16, 1812, and is now a national banking association organized under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal office is at 399 Park Avenue, New York, NY 10043.

The Consolidated Balance Sheets of Citibank as of December 31, 2004 and December 31, 2003 are set forth in Citicorp's 2004 Annual Report on Form 10-K. The Consolidated Balance Sheets of Citibank as of March 31, 2005 is set forth in Citicorp's Quarterly Report on Form 10-Q for the period ending March 31, 2005. Citicorp's 2004 Annual Report on Form 10-K and Quarterly Report on Form 10-Q are on file with the SEC.

Citibank's Articles of Association and By-laws, each as currently in effect, together with Citicorp's 2004 Annual Report on Form 10-K are available for inspection at the depositary receipt office of Citibank, 388 Greenwich Street, New York, New York 10013.

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 off-shore 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 people 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 with total annual gross revenues of at least Rp.100 billion to report to Bank Indonesia all data concerning their foreign currency activities.

INDONESIAN SECURITIES MARKET

The following information has been derived from publicly available information and has not been independently verified by the Company, the Selling Shareholders or the Initial Purchasers.

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 JSX took place in August 1977. Up until the end of 1988, the shares of 24 companies were listed on the JSX and the volume of shares traded was relatively low.

Over the last twelve years, 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 is now operating under its new name, the Capital Markets Supervisory Agency or Badan Pengawas Pasar Modal, with its principal function 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 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 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 April 30, 2005, there were 330 firms listed on the JSX, with a market capitalization of Rp.701.8 trillion (US$74.0 billion), compared to 24 listed companies with a capitalization of approximately Rp.100 billion (US$10.5 million) in December 1987, just prior to the introduction of the capital market reform measures.

Overview of the Jakarta Stock Exchange

JSX currently comprises 125 members. The top 20 most active members in total trading volume handled transactions for 12,804.3 million shares for the four months ended April 30, 2005, about 45.6% of total shares traded on the JSX during that period. In trading value, the top 20 most active members accounted for Rp.20.7 billion in trading, or about 73.9% of the overall value of buying and selling transactions on the JSX for the four months ended April 30, 2005.

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 regular market, negotiated market and cash market from Monday to Thursday, 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 is divided into three market segments: regular market, negotiated market and cash market. 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. Auctioning takes place according to price priority, time priority and client 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. If a member were to make an order for its client and itself at the same price, priority will be given to the client.

The negotiated market trading consists of: (i) block trading of unit lots of 200,000 shares or more; (ii) odd lot trading with round lots of less than 500 shares for shares other than bank shares and round lots of less than

5,000 for bank shares; (iii) crossing by an exchange member receiving buying and selling orders for the same number of shares at the same price agreed by the parties; and (iv) foreign board trading for foreign investors or listed shares where the foreign portion have achieved certain limits. Odd lots may not be traded more than 5.0% above or below the latest price on the regular market. Odd lot dealers may set prices within a range of not more than 7.0% above or below the regular market price, and must buy or sell stock direct to and from customers through cross trades and without charging commission. In the case of newly listed or newly traded shares which have yet to establish a market price, the benchmark price is the initial public offering price.

Transactions on the JSX regular market and negotiated market are required to be settled no later than the third trading day after the transactions, except for cross trading. 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 defaulting in settlement is subject to sanctions by JSX, including a written warning and/or a fine of up to Rp.500,000,000, and/or revocation of its license as an exchange member.

All transactions involving shares listed only on the JSX which use the services of brokers 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, 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, 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 agreement with their client, 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 levy equal to the cumulative transaction value for each month based on 0.04% (subject to a minimum fee of Rp.250,000 a month) of transactions for shares and other registered securities. Exchange members pass on the cost of this levy to their clients. These clients are also responsible for paying a 10.0% value added tax on the amount of brokerage fee and transaction levy. Also, Indonesian sellers are required to pay a withholding tax of 0.1% (0.6% for founder shares) of the total transaction value. Additionally, stamp duty of Rp.3,000 is payable on any transaction with a value between Rp.250,000 and Rp.l,000,000 and stamp duty of Rp.6,000 is payable on every transaction with a value of more than Rp.l,000,000. See "Taxation — Indonesian Taxation".

Shareholders or their appointees may request the issuer or a securities administration bureau appointed by the issuer of such shares at any time during working hours 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 issued and fully paid-up capital, upon meeting such share ownership level.

The following table sets forth key figures for the JSX for the years 2000 to 2004:

	2000	2001	2002	2003	2004
Market capitalization (trillion Rp.)	260	239	252	460	680
Trading Volume (million shares)	134,531	148,381	171,207	234,030	411,768
Average daily trading value (million shares)	563	603	699	967	1,708
Trading Volume	122,775	97,523	120,763	125,437	247,006
Average daily trading value (billion shares)	513	396	493	518	1,024
Number of listed companies	287	316	331	333	331

Source: Bank Indonesia

Offering, Listing and Reporting Regulations

BAPEPAM, on behalf of the Minister of Finance, regulates and monitors securities issues which 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 historical financial requirements in order to become listed on the JSX. Requirements for the listing on JSX were changed by certain rules issued in June 2000, as last amended in July 2004.

JSX Listing, Delisting and Corporate Governance Rules

In June 2000, the JSX issued new listing rules for equity securities and regulations aimed at enhancing good corporate governance and clarifying listing and delisting criteria. 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 liquidity. The Development Board allows both large and small companies with prospects, but not yet qualified to list on the Main Board, as well as companies in the phase of recovery, to be listed on the JSX.

The rules allow a company listed in the Development Board to be promoted to the Main Board for at least two times in a year (April and October) if it fulfills the requirement for listing on the Main Board, including, among other things, if for two consecutive years, the auditor opinion is an unqualified opinion and the total net tangible asset is equal or more than Rp.100 billion.

A company can be voluntarily delisted if, among other things, the Company has been listed for a minimum of five years, the proposed voluntary delisting has been approved by general meeting of shareholders, or the Company buys back upon the shares or the shareholders who disagree with the voluntary delisting proposal. The Company can be unvoluntarily delisted if it suffers from a significant condition or event which affects its business whether financially or legally and the shares have been suspended for trading for 24 months.

Under the JSX regulations, a listed company must have:

- independent commissioners in a number proportionate to the number of shares owned by the non-controlling shareholders, provided that the number of the independent commissioners must be at least 30.0% of the total number of members of the Commissioners;
- an audit committee; and
- a corporate secretary.
- In addition to the independent commissioner and an audit committee, the company must have one unaffiliated director.

An independent commissioner in a listed company may not:

- have an affiliated relationship with the controlling shareholder of the listed company concerned;
- have an affiliated relationship with the other directors and/or commissioners of the listed company concerned; and
- concurrently hold a position as a director of another company affiliated to the listed company concerned.

An independent commissioner is also required to be knowledgeable with respect to the statutes and regulations relating to capital markets.

The audit committee must comprise at least three members, one of whom will be the independent commissioner of the listed company and 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 a Circular Letter issued by the JSX which became effective as of December 7, 2001, the following persons are prohibited by JSX regulations from becoming members of the audit committees of a listed company:

- any public accountant that personally audits the financial statements of the listed company;
- any public accountant employed by any public accounting firm that audits the financial statements of the listed company;
- any external legal counsel of the listed company;
- any legal counsel employed by an external legal firm than represents the listed company;
- any controlling party that is not a commissioner, director or employee of the listed company; and
- any employee or commissioner of an affiliated company.

The function of a 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 must have access to material and relevant information relating to the listed company and must mater all statutory regulations relating to capital markets.

Scripless Trading

In 1997, a private limited company, the Indonesian Central Securities Depositary, KSEI was established to serve as the central securities clearing house. On November 11, 1998, KSEI obtained a license from BAPEPAM to act as an approved central securities depositary 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 Depositary and Book Entry Settlement System (‘‘C-Best’’). In 1997, BAPEPAM has implemented regulations to provide for a scripless trading system. Only shares held through KSEI (and which have not been pledged or 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, who becomes the registered holder of the securities. Any institution becoming a KSEI Participant is required to open at least one 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 its participants or its participants’ clients and as such, rather than as ‘‘direct owners’’, 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 deposit accounts by way of a computer system and at the end of each trading day, KSEI delivers a statement showing the balance of securities held for each participant.

BAPEPAM regulations require issuers of shares to register their shares in a central depositary. Each KSEI Participant holding securities on behalf of a client is required to:

- establish a securities sub-account on behalf of each client and record each client’s securities in such sub-account;
- take measures to ensure that the identity of each client is properly recorded by the KSEI Participant; and
- take measures to ensure that the securities sub-account balance of each client is and remains correct.

Transfers of Common Shares

Under 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.

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.

PLAN OF DISTRIBUTION

The Selling Shareholders intend to offer the Offered Shares and the GDSs through the Initial Purchasers named below. Merrill Lynch International, Credit Suisse First Boston (Hong Kong) Limited and UOB Kay Hian Private Limited are acting as representatives of each of the Initial Purchasers named below. Subject to the terms and conditions contained in a purchase agreement dated July 29, 2005 between the Company, the Selling Shareholders and the Initial Purchasers, the Selling Shareholders have agreed to sell, and the Initial Purchasers severally have agreed to purchase, the number of Offered Shares and the GDSs listed opposite their names below.

Initial Purchaser	Number of Offered Shares (directly or in the form of GDSs)
Merrill Lynch International	305,766,590
Credit Suisse First Boston (Hong Kong) Limited	229,324,943
UOB Kay Hian Private Limited	229,324,943
PT Macquarie Securities Indonesia	89,931,350
PT Bahana Securities	44,965,674
Total	899,313,500

The offer price per GDS is US$14.50. The offer price per Common Share is Rp.2,850. Investors can choose to receive GDSs or Common Shares. Investors will pay for the Offered Shares or GDSs in immediately available funds to accounts designated by the Initial Purchasers or their agents. The Initial Purchasers have agreed to purchase all of the Offered Shares and GDSs being sold pursuant to the Purchase Agreement if any of these Offered Shares or GDSs are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated. The Initial Purchasers have advised the Selling Shareholders that they propose initially to offer the Offered Shares and GDSs at the offering price listed on the cover page of this offering circular. If all the Offered Shares and GDSs are not sold at such offering price, the Initial Purchasers may change the offering price and other selling terms. The Initial Purchasers may also acquire for their own account a portion of the Offered Shares or GDSs.

The Selling Shareholders have granted an option to the Initial Purchasers to purchase up to 134,897,500 additional Option Shares, either directly or in the form of GDSs, at the offering price listed on the cover page of this offering circular less the underwriting discount. The Initial Purchasers may exercise this option within thirty days from the date of this offering circular. If the Initial Purchasers exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional Option Shares or GDSs proportionate to that Initial Purchaser's initial amount reflected in the above table.

Subject to certain exceptions, the Company and the Selling Shareholders have agreed not to sell or transfer any Common Shares, directly or indirectly, for 90 days after the closing of the offering without first obtaining the written consent of the Initial Purchasers. Specifically, the Company and the Selling Shareholders have agreed not to directly or indirectly:

- offer, pledge, sell, or contract to sell any Common Shares,
- sell any option or contract to purchase any Common Shares,
- purchase any option or contract to sell any Common Shares,
- grant any option, right or warrant for the sale of any Common Shares,
- lend or otherwise dispose of or transfer any Common Shares,
- request or demand that the Company files a registration statement related to the Common Shares, or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares, depositary receipts or other securities, in cash or otherwise.

This lock-up provision applies to Common Shares and to securities convertible into or exchangeable or exercisable for or repayable with Common Shares. It also applies to Common Shares owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

The Company and the Selling Shareholders have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

As compensation to the Initial Purchasers, the Selling Shareholders will pay to the Initial Purchasers a total combined commission of 2.75% of the total proceeds from the sale of the Offered Shares and the GDSs. In addition, the Selling Shareholders may in their absolute discretion pay to one or more of the Initial Purchasers an incentive fee of up to 0.75% of the total proceeds from the sale of the Offered Shares and GDSs.

The expenses of the offering, not including the Initial Purchasers' commission, are estimated to be US$6,630,000 and are payable by the Selling Shareholders, except for certain expenses related to the listing of the GDSs.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Offered Shares and GDSs is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions maybe applicable to them and must observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

The Initial Purchasers have the right to terminate the offering in certain circumstances in accordance with the terms of the purchase agreement described above prior to payment being made to the Selling Shareholders. If the Initial Purchasers are released and discharged from their obligations under such purchase agreement, the offering will be cancelled and any moneys received in connection with the offering will be returned to prospective purchasers of the Offered Shares and/or GDSs without interest.

Investors purchasing Offered Shares or GDSs from the Initial Purchasers may be required to pay a commission of up to 1.0% of the offer price per Offered Share or GDS to the Initial Purchasers (subject to value-added tax, if applicable).

It is expected that delivery of the Offered Shares and GDSs will be made against payment therefor on the closing date, which will be on or about August 3, 2005.

The Initial Purchasers have informed the Company that they do not expect that discretionary sales of Offered Shares or GDSs will exceed 5% of the offering.

The GDSs will constitute a new class of securities for which there is no trading market. The Company has applied to the Luxembourg Stock Exchange for the Regulation S GDSs to be admitted to listing on the Official List and to be admitted to trading on the EU regulated market and has agreed to use its best efforts to obtain such listing. Approval in-principle has been received for the listing of the GDSs on the Luxembourg Stock Exchange. The Common Shares are listed on the JSX, and the Company has agreed to use its best efforts to maintain such listing. The Company does not intend to apply for listing or quotation of the Offered Shares or GDSs on any national securities exchange in the United States or through Nasdaq, the National Association of Securities Dealers Automated Quotation System. The GDSs are expected to be eligible for trading in the IOB of the London Stock Exchange, as well as the PORTAL Market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for resale under Rule 144A. However, neither the Company nor the Selling Shareholders can assure prospective purchasers that the prices at which the Offered Shares or GDSs will sell in the market after this Offering will not be lower than the initial offering price or that an active trading market for the Offered Shares or GDSs after the completion of the offering will develop and continue after this Offering. The Stabilizing Manager, on behalf of the Initial Purchasers, has advised the Company that it currently intends to make a market in the GDSs. However, it is not obligated to do so and may discontinue any market-making activities with respect to the GDSs at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, no assurance can be given as to the liquidity of any market for the GDSs.

In connection with the offering, the Stabilizing Manager, on behalf of the Initial Purchasers, may purchase and sell Offered Shares and/or GDSs in the open market to the extent permitted by applicable laws and regulations. These transactions may include covering transactions and stabilizing transactions, to the extent permitted by applicable laws and regulations. Covering transactions involve purchases of the Offered Shares and/or GDSs in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Common Shares or GDSs made for the purpose of preventing or retarding a decline in the market price of the Common Shares or GDSs while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Common Shares or GDSs. They may also cause the price of the Offered Shares or GDSs to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Stabilizing Manager may conduct these transactions in the over-the-counter market or otherwise. If the Stabilizing Manager commences any of these transactions, they may discontinue them at any time, and if commenced must be brought to an end after a limited period. The Initial Purchasers and its affiliates may continue to hold Common Shares and/or GDSs at any time.

In addition, Merrill Lynch International has entered into a share lending agreement with the Company under which Merrill Lynch International and/or its affiliates may borrow up to 226,597,000 Common Shares held by the Company in the form of treasury stock solely for the purpose of facilitating stabilization activities in connection with the offering. Merrill Lynch International and/or its affiliates will re-deliver to the Company such number of Common Shares which are equivalent to the Common Shares in the form of treasury stock (if any) lent under this agreement no later than five business days following the earlier of (i) the exercise of the option described above or (ii) the expiry of such option, or such earlier time as may be agreed between the parties.

As of June 30, 2005, affiliates of Merrill Lynch International owned approximately 352,162 Common Shares.

Substantially all of the proceeds of this offering will be used to repay part of the loan facilities advanced to Encore and its subsidiaries by affiliates of Merrill Lynch International and UOB Kay Hian Private Limited. See ‘‘Principal and Selling Shareholders’’. As of June 30, 2005, US$453.0 million in aggregate was drawn down from these loan facilities.

Certain of the Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company, the Selling Shareholders and affiliates thereof. They have received customary fees and commissions for these transactions.

The representatives of the Initial Purchasers may be contacted at the following addresses: Merrill Lynch International, Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ, United Kingdom; Credit Suisse First Boston (Hong Kong) Limited, 45/F Two Exchange Square, Central, Hong Kong; and UOB Kay Hian Private Limited, 80 Raffles Place, #30-01 UOB Plaza 1, Singapore 048624.

Selling Restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offered Shares or GDSs or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company, Selling Shareholders, Offered Shares or the GDSs in any jurisdiction where action for such purpose is required. Accordingly, neither the Offered Shares nor GDSs may be offered or sold directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Offered Shares nor GDSs may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

The issue and distribution of this Offering Circular and the offering of the Offered Shares and GDSs may be subject to statutory restrictions in other jurisdictions. The Company, Selling Shareholders and the Initial Purchasers request persons into whose possession this Offering Circular may come to inform themselves of and to observe all such restrictions. Neither the Company, Selling Shareholders nor the Initial Purchasers accept any legal liability for any violation of any such restriction by any person, whether or not a prospective purchaser of the Offered Shares or GDSs.

Australia

This Offering Circular does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the ‘‘Australian Corporations Act’’) and will not be lodged with the Australian Securities and Investments Commission. Offered Shares and/or GDSs will be offered to persons who receive offers in Australia only to the extent that such offers of Offered Shares or GDSs do not need disclosure to investors under Part 6D.2 of the Australian Corporations Act. Any offer of Offered Shares or GDSs received in Australia is void to the extent that it needs disclosure to investors under the Australian Corporations Act. In particular, offers for sale of Offered Shares or GDSs will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by Section 708 of the Australian Corporations Act. Any person to whom Offered Shares or GDSs are sold pursuant to an exemption under Section 708 of the Australian Corporations Act must not, within 12 months after the sale, permit offers for sale of those Offered Shares or GDSs to be received in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

Canada

The Offered Shares and GDSs will not be sold in Canada or to residents of Canada other than in compliance with applicable Canadian securities laws (‘‘Canadian Securities Laws’’). Without limiting the foregoing, each Initial Purchaser will only make offers and sales of the Offered Shares and GDSs included in this Offering in Canada or to residents of Canada (i) through an appropriately registered securities dealer or in accordance with an available exemption from the applicable registered securities dealer requirements under the Canadian Securities Laws and (ii) pursuant to an exemption from the prospectus requirements under Canadian Securities Laws.

France

The Offered Shares and GDSs will not be offered or sold, directly or indirectly, to the public in the Republic of France and all offers and sales of the Offered Shares and GDSs will be made in the Republic of France only to qualified investors as defined and in accordance with Articles L.411-1 and L.411-2 of the French Code monétaire et financier and Decree No 98-880 dated October 1, 1998 relating to offers to qualified investors. In addition, neither this Offering Circular nor any offering material relating to the Offered Shares and GDSs has been distributed or caused to be distributed or will be distributed or caused to be distributed in the Republic of France, other than to those investors to whom offers and sales of the Offered Shares and GDSs may be made as described in this paragraph.

Germany

This Offering Circular is not a Securities Selling Prospectus within the meaning of the German Securities Sales Prospectus Act of September 8, 1998 and has not been filed with and approved by the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) or any other competent German governmental authority under the relevant laws. No Offered Shares or GDSs have been offered or sold, no Offered Shares or GDSs may be offered or sold, and no copies of this Offering Circular or any document relating to the Offered Shares or GDSs may be distributed, directly or indirectly, in Germany except to persons falling within the scope of section 2 numbers 1 (persons who as part of their profession, occupation or business, purchase or sell securities for their own account or for the account of third parties), 2 (a restricted circle of persons) and 3 (employees by their employer or related group companies) of the German Securities Sales Prospectus Act of September 8, 1998 and no steps have been, or will be, taken which would constitute a public offering of the Offered Shares or GDSs in Germany.

Hong Kong

The Offered Shares and GDSs will not be offered or sold in Hong Kong by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong. No advertisement, invitation or document relating to the Offered Shares or GDSs, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws in Hong Kong) will be issued other than with respect to the Offered Shares or GDSs which are or are intended to be disposed of only to persons outside Hong Kong or only to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

Indonesia

This Offering Circular may not be distributed directly or indirectly in Indonesia, and the Initial Purchasers may not offer or sell, directly or indirectly, any Offered Shares or GDSs in Indonesia, in either case in a manner constituting a public offering of the Offered Shares or GDSs under the Indonesian Capital Markets Law and the applicable regulations of BAPEPAM.

Italy

The offering has not been registered with the Commissione Nazionale per le Società e la Borsa, or CONSOB, in accordance with Italian securities legislation. Sales of the Offered Shares and GDSs in the Republic of Italy shall be effected in accordance with all Italian securities, tax and other applicable laws and regulations; no Offered Shares or GDSs may be offered sold or delivered, and no copies of this Offering Circular or any other document relating to the Offered Shares or GDSs may be distributed, in the Republic of Italy, unless such offer, sale or delivery of Offered Shares or GDSs or distribution of copies of this Offering Circular or other documents relating to the Offered Shares or GDSs in the Republic of Italy is to qualified investors (operatori qualificati), as defined by Articles 25 and 31(2) of CONSOB Regulation no. 11522 of 1 July 1998 as subsequently modified (Regulation 11522), except for individuals referred to in Article 31(2) of Regulation 11522 who exercise administrative, managerial or supervisory functions at a registered securities dealing firm (a Società di Intermediazione Mobiliare or SIM), management companies (società di gestione del risparmio) authorized to manage individual portfolios on behalf of third parties and fiduciary companies authorized to manage individual portfolios pursuant to Article 60(4) of Legislative Decree no. 415 of 23 July 1996, and may not be reproduced or redistributed or passed on, directly or indirectly, to any other person or published in whole or in part. Any offer, sale or delivery of the Offered Shares or GDSs or distribution of copies of this Offering Circular in Italy must be made solely by entities which are duly authorized to conduct such activities in Italy and must be in full compliance with the provisions contained in Legislative Decree no. 58 of 24 February 1998, Legislative Decree no. 385 of 1 September 1993 and any other applicable laws and regulations and possible requirements or limitations which may be imposed by the Italian competent authorities.

Japan

The Offered Shares and GDSs have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (2) in compliance with any other applicable requirements of Japanese law.

The Netherlands

During the period up to but excluding the date on which the Prospectus Directive is implemented in the Netherlands, the Offered Shares and GDSs may not be offered, sold, transferred or delivered in or from within the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, and neither this Offering Circular nor any other document in respect of the offering may be distributed or circulated in the Netherlands, other than to individuals who or legal entities who or which trade or invest in securities in the conduct of a profession or business within the meaning of Netherlands Securities Transactions Supervision Act 1995 (*Vrijstellingsregeling wetfoezicht effectenverkeer 1995*) and its implementing regulations, which includes banks, brokers, pension funds, insurance companies, securities institutions, investment institutions, other institutional investors and other parties including treasury departments of commercial enterprises and finance companies of groups which are regularly active in the financial markets in a professional manner. The expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

Singapore

This Offering Circular has not been registered as an offering memorandum or information memorandum with the Monetary Authority of Singapore. No advertisement may be made offering or calling attention to an offer or intended offer of the Offered Shares or GDSs to the public in Singapore. No Offered Shares or GDSs may be offered or sold, no Offered Shares or GDSs will be made the subject of an invitation for subscription or purchase, and this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Offered Shares or GDSs may not be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than:

- to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the Securities and Futures Act,
- to a sophisticated investor, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or
- otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

United Arab Emirates

This Offering Circular is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (the "U.A.E."). The Offered Shares and GDSs have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the U.A.E. Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other U.A.E. exchange. The offering, the Offered Shares and GDSs and interests therein have not been approved or licensed by the U.A.E. Central Bank or any other relevant licensing authorities in the U.A.E., and do not constitute a public offer of securities in the U.A.E. in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise. This Offering Circular is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Offered Shares and GDSs may not be offered or sold directly or indirectly to the public in the U.A.E.

United Kingdom

Each initial purchaser has represented and warranted that it (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act (FSMA) received by it in connection with the issue or sale of the Offered Shares and GDSs in circumstances in which section 21(1) of the FSMA does not apply to the Company or the Selling Shareholders; and (ii) has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offered Shares and GDSs in, from or otherwise involving the United Kingdom.

This communication is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations, etc.") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

United States

The Offered Shares and the GDSs (including the Common Shares underlying such GDSs) 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.

Each Initial Purchaser has agreed that, except as permitted by the purchase agreement described above, it will not offer or sell the Offered Shares or GDSs (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 (the ''Distribution Compliance Period''), 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 Offered Shares or GDSs (other than a sale pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Offered Shares or GDSs 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 Offered Shares and GDSs are being offered and sold outside the United States in reliance on Regulation S. The purchase agreement described above provides that each Initial Purchaser, or any person acting on its behalf, will only offer or sell or solicit offers for, the Offered Shares or GDSs as part of their initial distribution only to persons it reasonably believes are QIBs or in offshore transactions within the meaning of Rule 903 under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Offered Shares or GDSs within the United States by a dealer whether or not it is participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each purchaser of Offered Shares or GDSs will be deemed to have made acknowledgments and agreements as described under ''Transfer Restrictions''.

TAXATION

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

Indonesian Taxation

The following is a summary of the principal Indonesian tax consequences of the ownership and disposition of Offered Shares or GDSs for a non-resident individual or non-resident entity (a ‘‘Non-Indonesian Holder’’) that holds Offered Shares or GDSs in an Indonesian company. As used in the preceding sentence, a ‘‘non-resident individual’’ is a foreign national who does not reside in Indonesia or is not physically present in Indonesia for more than 183 days during any twelve month period, during which period such non-resident individual receives income in respect of the ownership or disposition of Common Shares or GDSs, and a ‘‘non-resident entity’’ is a corporation or non corporate body that is established under the laws of a jurisdiction other than Indonesia, is not domiciled in Indonesia and does not have a fixed place of business or permanent establishment in Indonesia during an Indonesian tax year in which such non-Indonesian entity receives income in respect of the ownership or disposition of Common Shares or GDS.

Taxation of Dividends

Dividends declared by the Company out of retained earnings and distributed to a Non-Indonesian Holder in respect of Common Shares or GDSs are subject to Indonesian withholding tax, currently at the rate of 20.0%, on the amount of the distribution (in the case of cash dividends) or on the shareholders’ proportional share of the value of the distribution (normally par value in the case of stock dividends). A lower rate provided under certain double taxation treaties may be applicable provided that, among others, the recipient is the beneficial owner of the dividend and is a resident of a treaty country. The recipient has to provide the Company with the original Certificate of Tax Residence issued by the competent tax authorities or its designee, of the jurisdiction where the recipient Non-Indonesian holder is domiciled. This Certificate is only valid for one year from the date of issuance and must be renewed subsequently. However, if the Certificate is issued in respect of a bank, it will continue to be valid for as long as the bank has not changed its address as stated in the Certificate and a copy of the Certificate is submitted to the appropriate Indonesian tax office that has jurisdiction over the Company.

Tax Treaties

Indonesia has concluded double taxation treaties with a number of countries including Australia, Belgium, Canada, France, Germany, Japan, Luxembourg, The Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America. Under the US-Indonesia tax-treaty, the withholding tax on dividends is generally reduced to 15.0%.

Taxation on the Disposition of Common Shares or GDSs

Under the Indonesian Income Tax Law, the sale of unlisted common shares or GDSs by a Non-Indonesian Holder is subject to final Indonesian withholding tax, currently at the rate of 20.0%, on the estimated net income. In accordance with Decree of the Minister of Finance No. 434/KMK.04/1999, effective August 24, 1999, the estimated net income for the sale of unlisted common shares or GDSs is 25.0% of the sale price resulting in an effective final withholding tax rate of 20.0% multiplied by 25.0%, or 5.0% of the sale price (irrespective of whether or not there is a profit on the sale of the unlisted common shares or GDS). The obligation to pay the final withholding tax lies with the buyer (if it is an Indonesian taxpayer) or the Company (if the buyer is also a Non-Indonesian Holder). Exemption from the 5.0% final withholding tax on the sale of unlisted common shares or GDSs may be available to nonresident sellers of common shares or GDSs depending on the provisions of the applicable double taxation treaties. In order to benefit from the exemption under the relevant double taxation treaty, the non-resident seller must provide a Certificate of Tax Residence issued by the competent authority, or its designee, of the jurisdiction where the non-resident seller is domiciled to the buyer (or the Company if the buyer is a Non Indonesian Holder) and to the Indonesian tax office that has jurisdiction over the buyer (or over the Company if the buyer is a Non-Indonesian Holder).

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 common shares or GDSs that are listed on an Indonesian stock exchange is subject to final withholding tax of 0.1% of the gross amount of the transaction value and should be withheld by the broker handling the transaction. An additional 0.5% final tax (amounting to a total tax of 0.6%) is imposed on the share value for the holding of the founder shares (except for the founder shares of a mutual fund). The imposition of 0.5% 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. The imposition of 0.5% withholding tax on the founder shares is not compulsory. The tax regulations provide an option for the taxpayer to elect to substitute the 0.5% additional final tax with the taxation of actual capital gains (if any) resulting from the sale of the founder shares subject to the normal tax rates (progressive rate with a maximum of 30.0% for corporate taxpayers or 35.0% for individual taxpayers). Currently, the tax regulations for listed shares do not contain any provision in respect of treaty protections. In practice, the 0.1% final withholding tax is applied irrespective of the fact that there may be treaty exemptions. Indonesian tax authorities have a general rule regarding refunds, which may be used in case of an applicable treaty exemption.

Taxation of Rights Issue

The Company's grant of statutory subscription rights for its Common Shares in compliance with Indonesian Law (a ''Rights Issue'') should not be subject to Indonesian tax. Any income from the sale of a Rights Issue by a Non-Indonesian Holder is not subject to Indonesian tax since the relevant implementing regulation has not yet been issued.

Stamp Duty

According to Government Regulation No. 24 of 2000, a document that effects a sale of Indonesian shares is subject to stamp duty. Currently, the nominal amount of the Indonesian stamp duty is Rp.6,000 for transactions having a value greater than Rp.l,000,000 and Rp.3,000 for transactions having a value of up to Rp.l,000,000. Generally, the stamp duty is due at the time the document is executed.

United States Federal Income Taxation

The following is a general discussion of certain anticipated material U.S. federal income tax considerations relating to the ownership of GDSs by U.S. Holders (as defined below) that purchase GDSs in this offering and hold them as capital assets. This discussion is based on the United States Internal Revenue Code of 1986, as amended (the ''Code''), Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion is for general information only and does not address all of the U.S. federal income tax considerations that may be relevant to specific U.S. Holders in light of their particular circumstances or to U.S. Holders subject to special treatment under U.S. federal income tax law (such as financial institutions, insurance companies, tax-exempt entities, broker-dealers, pension plans, traders that elect to mark to market, persons that hold GDSs as a position in a straddle, hedging, conversion or integrated transaction, persons that own, actually or constructively, 10% or more of the Company's voting stock or persons that have a ''functional currency'' other than the U.S. dollar). This discussion does not address any U.S. state or local tax considerations or any U.S. federal estate, gift or alternative minimum tax considerations.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, U.S. HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY U.S. HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON U.S. HOLDERS UNDER THE CODE; (B) SUCH DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND

(C) U.S. HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

As used in this discussion, the term ''U.S. Holder'' means a beneficial owner of GDSs that is, for U.S. federal income tax purposes, (a) an individual who is a citizen or resident of the United States, (b) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) or partnership created or organized in or under the laws of the United States or of any state or political subdivision thereof or therein, (c) an estate the income of which is subject to U.S. federal income tax regardless of the source thereof or (d) a trust with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more U.S. fiduciaries has the authority to control all of its substantial decisions, or certain trusts electing to be treated as U.S. persons. If a partnership (or other entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds GDSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership that acquires GDSs, you should consult your tax advisor.

This discussion assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. In general, for U.S. federal income tax purposes, U.S. Holders of GDSs will be treated as owners of the underlying Common Shares.

EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF AN INVESTMENT IN GDSs.

Distributions

The following rules will generally apply to any distribution made by the Company on the Common Shares underlying the GDSs. The gross amount of such distribution, including any Indonesian taxes withheld, will be treated as a dividend that is includible in the gross income of a U.S. Holder, as ordinary income to the extent of the Company's current and accumulated earnings and profit, (as determined under U.S. federal income tax principles), and will constitute dividends from sources outside the United States. To the extent that the amount of such distribution exceeds the Company's current and accumulated earnings and profits as so computed, it will be treated first as a return of capital to the extent of such U.S. Holder's adjusted tax basis, which will not be subject to tax, and thereafter as capital gain. Provided that certain holding period requirements are met, dividends received by individuals who hold GDSs will generally be eligible for the 15% rate of U.S. federal income taxation applicable to ''qualified dividend income.'' Dividends received by corporations will generally not be eligible for the dividends-received deduction.

Subject to certain limitations, a U.S. Holder will be entitled to claim a foreign tax credit for foreign withholding taxes, if any, imposed on dividends paid to such U.S. Holder. A U.S. Holder that does not elect to claim a U.S. foreign tax credit may instead claim a deduction for Indonesian income tax finally imposed, but only for a taxable year in which the U.S. Holder elects to do so with respect to all foreign income taxes paid or accrued in such taxable year. The rules relating to foreign tax credits are extremely complex, however, and each U.S. Holder should consult its tax advisor with regard to whether and to what extent it is entitled to claim any U.S. foreign tax credit.

The U.S. dollar value of any distribution made by the Company in Rupiah or any other non-U.S. currency should be calculated by reference to the exchange rate in effect on the date of receipt by the depository of such distribution, regardless of whether the distribution proceeds are in fact converted into U.S. dollars. If the non-U.S. currency so received is converted into U.S. dollars on the date of receipt, a U.S. Holder should generally not recognize foreign currency gain or loss on such conversion. If the non-U.S. currency so received is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the non-U.S. currency equal to its U.S. dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the non-U.S. currency generally will be treated as ordinary income or loss to such U.S. Holder.

Sale, Exchange or Other Disposition of the Common Shares

A U.S. Holder will generally recognize gain or loss for U.S. federal income tax purposes upon a sale, exchange or other disposition of GDSs in an amount equal to the difference between the amount realized from such sale, exchange or disposition (including any Indonesian taxes withheld) and the U.S. Holder's adjusted tax basis. Such gain or loss generally will be a capital gain or loss and will be treated as long-term if such GDSs were held by such U.S. Holder for more than one year. The deductibility of capital losses by a U.S. Holder is subject to limitations.

Gain recognized by a U.S. Holder on the sale, exchange or other disposition of GDSs, including gain that is recognized because the U.S. Holder receives a distribution that is not treated as a dividend in excess of its basis in those shares, will generally be treated as U.S. source income for U.S. foreign tax credit purposes. Accordingly, any Indonesian tax imposed on the sale, exchange or other disposition of GDSs by a U.S. Holder will generally not be available as a credit against such U.S. Holder's U.S. federal income tax liability unless such holder has other income from foreign sources, in the appropriate category, for purposes of the foreign tax credit rules. A U.S. Holder that is eligible for but that does not elect to claim a U.S. foreign tax credit may instead claim a deduction for Indonesian income tax withheld, but only for a taxable year in which the U.S. Holder elects to do so with respect to all foreign income taxes paid or accrued in such taxable year. U.S. Holders should consult their tax advisor regarding the application of the foreign tax credit limitation rules to their investment in, and disposition of, GDSs.

Passive Foreign Investment Company Considerations

The foregoing discussion assumes that the Company is not currently, and will not in the future be, classified as a ''passive foreign investment company'' (''PFIC'') within the meaning of the Code. Based on its current and projected income, assets and activities, the Company does not believe it will be classified as a PFIC for its current or any succeeding taxable year. Nevertheless, if during any tax year of the Company, 75% or more of the Company's gross income consists of certain types of ''passive'' income, or if the average value during a taxable year of the Company's ''passive assets'' (generally assets that generate passive income) is 50% or more of the average value of all of the Company's assets, the Company will be classified as a PFIC for such year and in succeeding years. If the Company is classified as a PFIC, U.S. Holders will be subject to increased tax liability in respect of gain realized on the sale of the GDSs or upon the receipt of certain dividends, unless such person makes a valid election to be taxed currently on its pro rata portion of the Company's income, whether or not such income is distributed in the form of dividends or otherwise. U.S. Holders should consult their tax advisors regarding the potential tax consequences should the Company be classified as a PFIC.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN INDONESIA AND IN THE UNITED STATES OF AMERICA

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 accounting principles generally accepted in the United States of America (''U.S. GAAP'').

Certain differences between Indonesian GAAP applicable to the Company and U.S. GAAP are summarized below. The 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 U.S. GAAP 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 U.S. GAAP as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate Indonesian GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between Indonesian GAAP and U.S. GAAP that may affect the Company's consolidated financial statements as a result of transactions or events that may occur in the future.

Changes in Accounting Policies

Except as otherwise required under specific existing accounting standards, Indonesian GAAP requires restatement of comparative balances in preceding periods and prior year opening retained earnings to reflect the effects of a change in accounting principle. However, Indonesian GAAP allows the use of either the cumulative-effect method or prospective method if the amounts of the adjustments necessary to restate the prior periods in order to reflect the retroactive effects of the accounting change cannot be reasonably determined.

U.S. GAAP generally includes effects of a change in accounting principle in the current period operations using the cumulative-effect method.

Revenue Recognition

The Indonesian GAAP, Statement of Financial Accounting Standards (''SFAS'') No. 29, *Accounting for Oil and Gas*, does not include any provisions with respect to the revenue recognition for the oil and gas activities. However, according to the accounting practice in Indonesia, 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 sales of electric power supply is recognized upon delivery to PT Pelayanan Listrik Nasional Batam (''PLN Batam''). Revenue from drilling activity is recognized when the drilling service is rendered. 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. Share of profits of joint ventures is recognized to the extent of the Company/subsidiaries' working interest in the non-Company operated joint ventures. All other income and expenses are recognized when these are earned/incurred.

Under U.S. GAAP revenues associated with sales of crude oil, natural gas, natural gas liquids, petroleum and chemical products are recognized when title passes to the customer, which is when the risk of ownership passes to the purchaser and physical delivery of the good occurs, either immediately or within a fixed delivery schedule that is reasonable and customary in the industry.

Under U.S. GAAP, gas production imbalances, (i.e. gas sold above or below a company's participating interests in production sharing contracts), can be accounted for by either the sales method or the entitlement method. Under the entitlement method, revenue is recorded based on the entitled share of total periodic production. Any differences between volumes sold and entitlement volumes are recognized as an asset or a liability, as appropriate. Under the sales method, revenue is recorded based on actual volumes produced and sold. Assets/liabilities are not recognized for production imbalances, however proved reserves may be adjusted, in certain circumstances.

Under Indonesian GAAP, SFAS No. 23, *Revenue*, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount or the amount that is not probable of recovery is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

Under U.S. GAAP, when the product has been delivered and/or the earnings process is complete, but the ability to collect the selling price is questionable and reliable estimates of the potential losses are not possible the installment method is used to recognize revenue. The installment method recognizes a portion of the gross profit from the sale as cash is collected.

Capitalization of Interest Costs

Under Indonesian GAAP, the capitalization of a parent company's interest expense into a subsidiary's asset is not allowed.

U.S. GAAP allows capitalization of a parent company's interest expense on qualifying assets of a consolidated subsidiary.

Under Indonesian GAAP, where borrowed funds are attributable to an asset, costs eligible for capitalization are the actual costs less any income earned on the temporary investment of such borrowings.

Under U.S. GAAP, income earned on funds temporarily invested is not deducted in arriving at the amount to be capitalized, except in situations involving acquisition of qualifying assets financed with the proceeds of tax-exempt borrowings if those funds are externally restricted to finance acquisition of specified qualifying assets or to service the related debt.

Under Indonesian GAAP, foreign exchange losses (net of foreign exchange gains) on foreign currency borrowings used to finance the construction of assets are capitalized to the extent that they are regarded as an adjustment to interest costs. Capitalization of net foreign exchange losses ceases when the construction is substantially completed and the asset is ready for its intended use.

Under U.S. GAAP, foreign exchange gains and losses are directly credited or charged to current operations.

Leases

Under Indonesian GAAP, SFAS No. 30, *Accounting for Leases*, (which is sourced from the Joint Decree of the Minister of Finance, Minister of Trade, and Minister of Industry of the Republic of Indonesia No. Kep-122/MK/2/1974, No. 32/M/SK/2/1974, and No. 30/Kpb/I/74 dated February 7, 1974 on "License for Leasing Enterprises") leasing is defined as any financing activity engaged by an enterprise to provide capital goods for use by another enterprise for a fixed period based on periodic payments, with an option to purchase such capital goods or to extend the lease term taking into account a mutually agreed residual value. Further, as also noted in SFAS No. 30, the Decree of the Minister of Finance of the Republic of Indonesia No. 1251/KMK.013/1988 dated December 20, 1988 expanded the definition of leasing activities to include operating lease, which is a leasing activity that gives the lessee no option to buy the object of the lease.

Under U.S. GAAP, a lease is defined as an agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time. It includes agreements that, although not nominally identified as leases, meet the above definition, such as a power purchase agreement.

Land Use Rights

In Indonesia, except for ownership rights ("Hak Milik") granted to individuals, the title of the land rests with the Government under the Basic Agrarian Law No. 5 of 1960. Land-use is accomplished through landrights 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. The predominant practice is to capitalize the cost of acquired land rights and not to amortized them.

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.

Under U.S. GAAP, land use rights are considered leases. Any premium paid for such rights represents prepaid lease payments which are amortized over the period the holder is expected to retain the land rights.

Other Comprehensive Income

Under Indonesian GAAP, there is no specific guidance for recognizing and presenting other comprehensive income. 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 stockholders' equity.

U.S. GAAP requires the reporting and display of comprehensive income and its components with the same prominence as other financial statements. Comprehensive income is composed of two subsets: "net income" and "other comprehensive income". Comprehensive income includes charges or credits to equity that are not the result of transactions with owners and consists of, among others, net income, foreign currency translation adjustments, the minimum pension liability in excess of unrecognized prior service costs, gains and losses on foreign currency transactions designated as, and effective as, economic hedges of a net investment in a foreign entity, and gains and losses from derivatives that qualify as cash flow hedges.

Revaluation of Property and Equipment

While Indonesian GAAP does not generally allow companies to recognize an increase in the value of property 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 stockholders' equity.

Under U.S. GAAP, revaluation of property and equipment is not permitted.

Consolidation

Under Indonesian GAAP, control is presumed to exist when the parent enterprise owns, directly or indirectly through subsidiaries, more than 50% of the voting rights of an enterprise. Even when an enterprise owns 50% or less of the voting rights of an enterprise, control exists when one of the following conditions is met:

- Having more than 50% of the voting rights by virtue of an agreement with other investors;
- Having the right to govern the financial and operating policies of the enterprise under the articles of association or an agreement;
- Ability to appoint or remove the majority of the members of management;
- Ability to control the majority of votes at meetings of management.

Under U.S. GAAP, an entity is consolidated based on voting interests (the "majority control model") or on variable interests. Variable interests are defined in Financial Accounting Standards Board Interpretation No. 46 revised December 2003, "Consolidation of Variable Interest Entities", as contractual, ownership, or other interests in an entity that expose their holders to the risks and rewards of the variable interest entity ("VIE"). Variable interests absorb variability in the fair value of an entity's net assets. Variable interests include equity investments, loans, leases, derivatives, guarantees, and other instruments whose values change with changes in the VIE's assets. Any of these instruments may require its holder to consolidate the VIE. Similarly, service and management contracts may also be variable interests and may require the service provider or manager to consolidate the VIE. The party with the majority of the variability in gains and losses of the VIE (with the primary focus on losses) is the VIE's primary beneficiary and is required to consolidate the VIE.

If an entity has sufficient equity and its equity holders have (1) adequate decision-making abilities, (2) the obligation to absorb losses of the entity, and (3) the right to receive an entity's residual returns (profits), then the consolidation determination is based on the voting model. However, an entity not meeting these characteristics would have to be evaluated for consolidation based on the variable interest consolidation model, which focuses on economic risks and rewards (expected losses and expected residual returns).

Employee Benefits

Prior to January 1, 2004, Indonesian GAAP provided the accounting standards for defined benefit and defined contribution pension plan. Current service cost of a defined benefit plan is recognized as expense in the current period, while past service cost, experience adjustments, effects of changes in actuarial assumptions and effects of program adjustments with respect to existing employees are recognized as expense or income systematically over the estimated average remaining working lives of the employees. This standard does not provide for the 10% corridor approach for actuarial gains or losses and limitation in the asset carrying amount which are specifically provided in the revised standard described below.

In 2004, the Indonesian Institute of Accountants (''IAI'') 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 is 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 U.S. GAAP, there are various standards for accounting for employee benefit plans depending on the nature of the plan and the types of benefits provided, i.e. defined benefit or defined contribution retirement plan (e.g., pension plans), postretirement plans (e.g., postretirement health care, life insurance, and other welfare benefits, such as tuition assistance, day care, legal services, and housing subsidies provided after retirement) or postemployment benefit plans (e.g., benefits to former or inactive employees after employment but before retirement such as, salary continuation benefits, supplemental unemployment benefits, severance benefits, and disability-related benefits). The accounting for such plans differs and may result in differences between U.S. GAAP and Indonesian GAAP.

Derivatives

Under U.S. GAAP, 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 U.S. GAAP.

Under U.S. GAAP, a company is required to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position 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 instrument, 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 of the changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), 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 as a component of other comprehensive income 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 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 the accounting standards.

Indonesian GAAP does not contain implementation guidelines for standards on accounting for derivatives, consequently differences between Indonesian GAAP and U.S. GAAP may exist.

Deferred Taxes

Under Indonesian GAAP, deferred tax assets are only recognized if it is probable that future taxable profits will be available against which the deferred tax assets can be utilized. The carrying amount is reviewed periodically and reduced if appropriate.

Under U.S. GAAP, deferred tax assets are recognized to the extent that available evidence supports their realization. The future reversal of taxable temporary differences, taxable income in prior carry back periods (as permitted by tax law), tax planning strategies, and future taxable income exclusive of reversing temporary differences and carry forwards must be evaluated in determining whether or not a valuation allowance is necessary. A valuation allowance is provided if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

Non-current Assets

Under Indonesian GAAP, if indicators of impairment exist and the assets are held and used, carrying values are adjusted to the asset's recoverable amount, which is the higher of net selling price or value in use. Carrying values are increased for subsequent recoveries of fair value not to exceed the original carrying value adjusted for depreciation.

Under Indonesian GAAP, assets held for sale are carried at the lower of carrying amount or net realizable value.

Under U.S. GAAP, assets are reviewed for impairment when ''indicators of impairment'' are present. If such indicators are present, a recoverability test is performed by comparing the sum of the estimated undiscounted future cash flows attributable to the assets in question to their carrying amounts. If the undiscounted cash flows used in the test for recoverability are less than the long-lived asset's carrying amount, an impairment loss is recognized if the carrying amount of the long-lived asset exceeds its fair value. In the absence of a liquid market in the asset, the fair value is the present value of the future cash flows associated with the asset.

Under U.S. GAAP, a long-lived asset classified as ''held for sale'' is initially measured at the lower of its carrying amount or ''fair value less cost to sell.'' A loss should be recognized for any initial adjustment of the long-lived asset's or disposal group's carrying amount to its ''fair value less cost to sell'' in the period the ''held for sale'' criteria are met. The ''fair value less cost to sell'' of the long-lived asset should be assessed each reporting period it remains classified as ''held for sale.'' Subsequent changes in the long-lived asset's ''fair value less cost to sell'' (increase or decrease) are reported as an adjustment to its carrying amount, except that the adjusted carrying amount should not exceed the carrying amount of the long-lived asset at the time it was initially classified as ''held for sale.''

Under U.S. GAAP, a long-lived asset that is to be abandoned is considered disposed of when it ceases to be used. A long-lived asset that has been temporarily idled is not accounted for as if abandoned.

Inventory

Under Indonesian GAAP, inventories are measured at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The provision to write down inventories to their net realizable value cannot be reversed when they are no longer required.

Under U.S. GAAP, inventories are measured at the lower of cost or market. Market is defined as replacement costs, which cannot exceed net realizable value or fall below net realizable value reduced by an approximately normal profit margin. Once adjusted, inventories are not recorded at amounts above the new cost.

Exploration, evaluation and development

Under U.S. GAAP, there are two methods of accounting for exploration, evaluation and development costs of mineral interests, the successful efforts method and the full cost method. The successful efforts method is based on the view that the discovery of reserves is the important event. Costs incurred in oil and gas exploration which do not result in acquisition of an asset are charged to expense. Examples include geological and geophysical costs, the costs of carrying and retaining undeveloped properties, and the costs of drilling those exploratory wells and exploratory-type stratigraphic test wells that do not find proved reserves. The full cost method allows for the accumulation and carry-forward of all exploration, evaluation and development expenditures on a country-by-country cost pool basis, as described below.

Under U.S. GAAP — successful efforts method, costs incurred to purchase, lease, or otherwise acquire a property (whether unproved or proved) are capitalized when incurred. These costs are capitalized initially, and then written off unless commercial reserves are established. The costs of drilling exploratory wells and the costs of drilling exploratory-type stratigraphic test wells are capitalized as part of the enterprise's uncompleted wells, equipment and facilities, pending determination of whether proved reserves are found at the well. If proved reserves are found at the well, the capitalized costs of drilling the well become part of the enterprise's wells and related equipment and facilities (even though the well may not be completed as a producing well); if, however, proved reserves are not found at the well, the capitalized costs of drilling the well, net of any salvage value, is charged to expense. Development costs are capitalized as part of the cost of an enterprise's wells and related equipment and facilities. The cost of acquiring or constructing support equipment and facilities used in oil and gas producing activities are capitalized. Unproved properties are assessed periodically to determine whether they have been impaired. If the results of the assessment indicate impairment, a loss is recognized by providing a valuation allowance.

Under the U.S. GAAP — full cost method, all costs of acquisition, exploration and development are regarded as costs incurred for the ultimate production of the reserves found and are capitalized. Oil and gas companies that apply the full cost method of accounting recognize an impairment loss when the carrying amount of a cost center (i.e., a country) exceeds the present value of estimated future net revenues using current price levels and a ten percent discount factor for that cost center.

Under the U.S. GAAP — successful efforts method, costs are accumulated on a property-by-property basis, or on the basis of a reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a reservoir or field.

Under the U.S. GAAP — full cost method, the costs are accumulated in cost pools defined by geographical area. The geographical area is normally no smaller than a country, but a company may opt to treat their worldwide operations as their defined geographical area.

The U.S. GAAP — successful efforts method requires that the acquisition cost of proved properties and capitalized exploratory drilling and development cost be depreciated or amortized by using the unit-of-production method so that each unit produced is assigned a pro rata portion of unamortized acquisition costs. The unit costs for the acquisition cost of proved properties is to be computed on the basis of total estimated units of proved oil and gas reserves, and the unit costs for exploratory drilling and development costs is to be computed on the basis of total estimated units of proved developed oil and gas reserves. Capitalized costs of exploratory wells and exploratory type stratigraphic test wells at which proved reserves are found and capitalized development costs are amortized (depreciated) by the unit of production method, so that each unit produced is assigned a pro rata portion of the unamortized costs. If more appropriate, depreciation of assets such as natural gas cycling and processing plants is conducted using a method other than the unit-of-production method. If significant development costs are incurred in connection with a planned group of development wells before all of the planned wells have been drilled, a portion of those development costs are excluded in determining the unit-of-production amortization rate until the additional development wells are drilled. Similarly, those proved developed reserves that will be produced only after significant additional development costs are incurred, such as for improved recovery systems, are also excluded in computing the amortization rate. Future anticipated development costs are not considered in computing the amortization rate.

Under the U.S. GAAP — full cost method, the cost pool for amortization includes capitalized costs, estimated future expenditures to develop proved reserves and estimated dismantlement and abandonment costs, net of salvage values. Cost of investments in unproved properties and major development projects may be excluded from the cost pool to be amortized in a limited number of circumstances. However, once proved reserves are established, excluded costs and the related proved reserves are transferred into the cost pool. Amortization of the cost pool is calculated on a production output basis, which allows for both proved developed and proved undeveloped reserves in the calculation.

Under Indonesian GAAP (SFAS No. 29), there are two main accounting methods applied and generally accepted in the oil and gas industry: the full cost method and the successful efforts method. Under the full cost method, all costs incurred in obtaining mining rights, exploration and development activities are capitalized as they occur and will be amortized after the reserves produce oil and gas, with a limitation that capitalized costs do not exceed the value of the oil and gas reserves found. While under the successful efforts method, all exploration costs for oil and gas reserves are temporarily capitalized until a certain point when it is decided that oil and gas exploration efforts have failed or produce no commercial value. If the exploration finds commercial oil reserves, all costs incurred and related development costs will be capitalized. If the exploration fails or is non-commercial, all costs incurred will be treated as expenses.

Under Indonesian GAAP, SFAS No. 29 states that under the successful effort method, amortization of proved reserves costs is calculated per asset or per reserves. However, this SFAS does not discuss how the amortization or depreciation rate is computed. Consequently, differences between Indonesian GAAP and U.S. GAAP may exist.

Notes Payable Issuance Costs

Under Indonesian GAAP, notes payable issuance costs are deducted directly from the proceeds of the related notes payable to determine the net proceeds.

Under U.S. GAAP, such issuance costs would generally be separately presented as deferred charges on the balance sheet, to be amortized using the effective interest method over the term of the notes.

Intangible Assets

Under Indonesian GAAP, intangible assets acquired in a business combination are not recognized separately from goodwill. Intangible assets are amortized on a straight-line basis over a period not exceeding 20 years. 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.

Under U.S. GAAP, intangible assets that arise from contractual or other legal rights or capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged should be accounted for separate from goodwill. Intangible assets (including goodwill) with indefinite useful lives are not amortized but rather tested for impairment at least annually by comparing the fair values of those assets with their recorded amounts. Intangible assets with finite useful lives are amortized over their useful lives and are required to be reviewed and assessed for impairment as described in "Non-Current Assets". Once an impairment loss is recorded, it is not reversed.

Cash Flows

Under Indonesian GAAP, companies which present their cash flows using the direct method are not required to present a reconciliation of net income to net cash flow from operating activities.

Under U.S. GAAP, companies which present their cash flows using the direct method are required to present, in a separate schedule, a reconciliation of the net income to cash flows from operating activities. Such reconciliation should show: (a) the effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables, and (b) the effects of all items which cash effects are investing or financing cash flows, such as depreciation, amortization of goodwill, and gains or losses on sales of property and equipment and discontinued operations, and gains or losses on extinguishments of debt.

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 U.S. GAAP, certain guarantees are recorded and measured initially at fair value.

Remediation Liabilities

Under Indonesian GAAP, there is no accounting standard which specifically addresses the accounting for environmental remediation liabilities.

Under U.S. GAAP, an entity is required to accrue at least the minimum amount that can reasonably be estimated as an environmental remediation liability if litigation, a claim, or an assessment has been asserted, or is probable of assertion, and if the entity is associated with the site (e.g., by virtue of being a current or past owner or operator of a site). In estimating its allocable share of costs, an entity should include incremental direct costs of the remediation effort and post remediation monitoring costs that are expected to be incurred after the remediation is complete. An entity should also include in its estimate, costs of compensation and related benefit costs for employees who are expected to devote a significant amount of their time directly to the remediation effort (including internal legal staff).

Restoration and Rehabilitation Costs

Indonesian GAAP does not provide any separate guidelines for the accounting for restoration and rehabilitation costs for oil and gas companies.

Under U.S. GAAP, a provision for restoration and rehabilitation is recorded when there is a legal obligation for the retirement of tangible long-lived assets that result from the acquisition, construction, development or the normal operations of a long-lived asset. In situations in which no law, statute, ordinance or contract exists, but a company makes a promise to a third-party about its intention to perform retirement activities, determination of whether a legal obligation exists is made within the framework of the doctrine of promissory estoppel. 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. When a quoted market price in an active market is not available to determine fair value, U.S. GAAP requires that the liability be calculated using a probability-weighted expected cash flow approach, using a credit-adjusted risk-free interest rate. The capitalized cost is amortized over the life of the related asset and the provision is accreted periodically as the discount unwinds. Under U.S. GAAP, a "make good" clause would generally require a provision for restoration and rehabilitation.

Debt

Indonesian GAAP does not have a specific standard addressing debt modifications and extinguishments other than those involving a troubled debt restructuring which involves modification of terms and conditions of the debt where total future cash payments specified by the new terms of the debt, including payments designated as interest and as face amount, are less than the carrying amount of the debt, the debtor shall reduce the carrying amount of the debt to an amount equal to the total future cash payments specified by the new terms and shall recognize a gain on restructuring of the debt equal to the amount of the reduction. Modification of terms and conditions of debt include:

(a) Reduction of interest rate for the remaining term of the loan.
(b) Extension of maturity date with interest rate lower than those prevailing in the market for debt with the same risk.
(c) Reduction of principal or amount that should be repaid at maturity date.

Under U.S. GAAP, substantial modifications of existing debt and replacements of existing debt with new debt are considered to be extinguishments of the old debt (with gains or losses recognized in current earnings) while minor modifications (as defined) of existing debt are accounted for prospectively as yield adjustments.

Under U.S. GAAP, when the interest rate on debt increases at a specified amount at periodic intervals over the life of the debt, the periodic interest cost is determined using the interest method on the estimated outstanding term of the debt. Debt issue costs are amortized over the same period used in the interest cost determination.

Functional Currency and Foreign Currency Translation

Under U.S. GAAP, the assets, liabilities and operations of an entity are required to be measured using the functional currency of that entity. The functional currency is the currency of the primary economic environment in which the entity operates; normally, it will be the currency of the economic environment in which cash is generated and expended by the entity. The functional currency can be the U.S. dollar or another currency.

The economic factors relevant in determining a company's functional currency under U.S. GAAP include:

- Cash flows related to the entity's individual assets and liabilities.
- Determination of sales prices for the entity's products.
- The sales market for the entity's products.
- Location of primary expenses, i.e., labor, materials, and other costs for the entity's products or services.
- Currency in which financing is primarily denominated.

Under Indonesian GAAP, prior to the issuance of SFAS No. 52 in 1998, Accounting for Reporting Currency, there was no accounting standard dealing with functional currency or reporting currency. SFAS No. 52 was effective for periods commencing 1 January 2000. The application of SFAS No. 52 may result in differences between Indonesian GAAP and U.S. GAAP.

Exit or Disposal Activities

Indonesian GAAP does not provide any separate guidelines for the accounting for exit or disposal activities.

Under U.S. GAAP, a one-time termination benefit which requires employees to render service until they are terminated and that service period extends beyond a specified time is recognized as a liability ratably over the future service period, even if the benefit formula used to calculate the termination benefit is based on past service. In addition, costs to terminate a contract before the end of its term and costs that will continue to be incurred under the contract for its remaining term without economic benefit to the entity are recognized and measured at fair value in the period in which the liability is incurred (generally when the entity terminates the contract pursuant to the contractual terms or ceases to use the rights conveyed under the contract). A liability (expense) for other costs associated with exit or disposal activities such as costs to consolidate or close a facility are recognized in the period in which the liability is incurred (generally upon receipt of the goods or services e.g., security services incurred during the closing of the facility).

Non-monetary Transactions

Indonesian GAAP does not provide any separate guidelines for the accounting for non-monetary transactions. However, accounting for exchange of non-monetary asset with another non-monetary asset follows the accounting guidelines for exchange of assets, whereby the fair value of the asset received should be used to measure the costs if it is more clearly evident than the fair value of the asset surrendered. No gain or loss should be recognized on the exchange.

Under U.S. GAAP, non-monetary transactions should be based on fair values of the assets involved. Thus, the cost of a non-monetary asset acquired in exchange for another non-monetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered. If a gain is recognized in an exchange of assets for an ownership interest in an investment accounted for under the equity method, the gain is reduced by the portion represented by the economic interest retained.

Gain Contingencies

Under Indonesian GAAP, contingent gains are not recognized until realization is virtually certain.

Under U.S. GAAP, contingent gains are not recognized until they are realized, generally when cash is received.

Business Combinations

Indonesian GAAP permits the accounting for business combination using pooling of interests method and purchase method. Assets and liabilities requiring recognition at the date of acquisition may also include those arising as a result of the acquisition but not 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 separately from goodwill at the acquisition date when it is probable that any associated future economic benefits will flow to or from the acquirer and a reliable measure of the costs or fair values of the intangible assets is available. 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 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 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 stockholders' equity. In July 2004, the IAI revised the existing SFAS No. 38, Accounting for Restructuring of Entities Under Common Control, which provides for the realization of the restructuring difference to gain or loss if the conditions therein are fulfilled. The SFAS No. 38 (Revised 2004) is effective for the financial statements covering periods beginning on or after January 1, 2005.

Under U.S. GAAP, business combinations are accounted for using the purchase method of accounting; the pooling of interests method is not permitted. The cost is allocated to the assets acquired and the liabilities assumed based on their estimated fair value on the date of the combination. If the acquiree has preacquisition contingencies, an allocation period not longer than one year from the date the combination is completed may be used to determine the current fair value of the preacquisition contingency. The allocation period ends when the acquiring entity is no longer waiting for information that it has arranged to obtain and that is known to be available or obtainable. Goodwill is not amortized but is tested at least annually for impairment.

Under U.S. GAAP, to the extent that negative goodwill exists, after reassessing whether all assets acquired and liabilities assumed have been identified and properly valued, an extraordinary gain should be recognized in the period in which the business combination is initially recognized.

Under U.S. GAAP, a plan to exit an activity of an acquired company exists if all of the following conditions are met: (1) at date of acquisition, management with appropriate level of authority, develops a plan to exit, (2) outside of extenuating circumstances, finalization of the plan to exit will occur within one year of the acquisition date, (3) the plan specifically identifies all significant actions to complete the plan, activities of the acquired entity that will not be continued, and the plan's expected completion date; and (4) significant changes to the plan are not likely. The cost associated with a plan to exit an activity of an acquired company should be recognized as a liability at the date of acquisition only if the cost is not associated with or is not incurred to generate revenues of the combined entity, and it meets either of the following criteria: (1) the cost has no future economic benefit to the combined company, is incremental to other costs incurred by either the acquired or acquiring entity prior to consummation date, and will be incurred as a direct result of the plan to exit; or (2) the cost represents an amount to be incurred by the combined company under a contractual obligation that existed prior to the consummation date.

Under U.S. GAAP, a long-lived asset acquired in a business combination is classified as "held for sale" at the acquisition date if 1) the sale of the newly acquired long-lived asset is expected to qualify for recognition as a completed sale within one year, and 2) actions required to meet the other "held for sale" criteria are probable of being met within a short time following the acquisition (i.e., usually within three months).

Under U.S. GAAP, restructuring transactions among entities under common control are accounted for using a method similar to pooling-of-interests method. Any excess of the outstanding shares of the combined entities at par or stated amounts over the total capital stock of the separate combining entities is deducted first from the combined other contributed capital and the remaining balance is deducted from the combined retained earnings.

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. 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 where this account will be changed or realized in profit or loss. The revised standard is effective for reporting period 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 and IAS 38 (issued in 1998), the estimated useful life of an intangible asset is always finite and cannot exceed twenty years from the date it is available for use. The recoverable amount of an intangible asset that was amortized over a period exceeding twenty years from the date it was available for use 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 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 economic.

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 was 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 are 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.

LEGAL MATTERS

Certain legal matters in connection with the GDSs will be passed upon for the Company by Skadden, Arps, Slate, Meagher & Flom LLP with respect to matters of New York and U.S. law and by Ery Yunasri & Partners with respect to matters of Indonesian law, for the Selling Shareholders by Clifford Chance LLP with respect to matters of New York and U.S. law and by Ery Yunasri & Partners with respect to matters of Indonesian law, and for the Initial Purchasers by Latham & Watkins LLP with respect to matters of New York and U.S. law and by Makes & Partners Law Firm with respect to matters of Indonesian law. In rendering such opinions, Skadden, Arps, Slate, Meagher & Flom LLP, Clifford Chance LLP and Latham & Watkins LLP may rely upon the opinion of Ery Yunasri & Partners and Makes & Partners Law Firm as to all matters of Indonesian law.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as of and for the years ended December 31, 2002 and 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 year ended December 31, 2004, included in this Offering Circular, have been audited by 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.

GENERAL INFORMATION

The following information is furnished for purposes of the application to list the GDSs on the Luxembourg Stock Exchange.

1. The creation and issue of the GDSs have been authorized by a resolution of the Board of Directors of the Company dated July 12, 2005.

2. Copies of the Articles of Incorporation of the Company, as well as the Purchase Agreement and the Regulation S Deposit Agreement, may be inspected from the specified offices of the Depositary. In addition, such documents will be available free of charge from the principal office of The Bank of New York (Luxembourg) S.A. located at Aerogolf Center, 1A, Hoehenhof, L-1736, Senningerberg, Luxembourg, during normal business hours on any weekday for so long as the Regulation S GDSs are listed on the Luxembourg Stock Exchange and the rules of the stock exchange so require.

3. The Company prepares audited and consolidated annual financial statements, audited and non-consolidated annual financial statements and unaudited and non-consolidated semi-annual financial statements and unaudited and non-consolidated quarterly summary financial information in accordance with accounting principles and reporting practices generally accepted in Indonesia. English translations of these financial statements and information will be available free of charge at the aforementioned address of The Bank of New York (Luxembourg) S.A.

4. Except as disclosed in this Offering Circular, there has been no material adverse change in the financial condition of the Company since the date of the last audited financial statements included herein. In addition, except as disclosed in this Offering Circular, since such date, there has been no material change in the long-term liabilities and fund reserves of the Company in the context of the issue of the GDSs.

5. Except as disclosed in this Offering Circular, the Company is not involved in any litigation or arbitration proceedings which may have, or have had, a material adverse effect on the financial position of the Company nor is the Company aware that any such proceedings are pending or threatened.

6. All consents, approvals, authorizations or other orders of all regulatory authorities required by the Company under the laws of Indonesia have been given for the issuance of the GDSs.

7. For so long as the Regulation S GDSs are listed on the Luxembourg Stock Exchange, the Company will publish all notices to holders of the Regulation S GDSs in the d'Wort or via an official information dissemination system managed by the Luxembourg Stock Exchange.

8. For so long as the Regulation S GDSs are listed on the Luxembourg Stock Exchange, The Bank of New York (Luxembourg) S.A. will act as intermediary between the Company and the holders of the Regulation S GDSs.

9. The Regulation S GDSs shall be freely transferable on the Luxembourg Stock Exchange and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled. The trading will be done in accordance with the rules and regulation of the Luxembourg Stock Exchange.

10. The Company's corporation registration number in Indonesia is 09.03.1.51.17133.

11. Pursuant to Article 3 of the Deed No. 10 dated July 5, 2000, drawn before Mrs. Poerbaningsih Adi Warsito SH, Notary in Jakarta, the Company is engaged in the mining field, exploration and production, service company in relation to oil and gas mining, in the other mining and energy industry, general trade, agency and/or construction.

12. Professional fees related to audit and other related services and reserve certifications amount to approximately US$1.9 million.

13. The Deposit Agreements and the Purchase Agreement are governed by the laws of the State of New York.

14. The GDSs have been accepted for clearance through the facilities of DTC (and its participants, including Euroclear and Clearstream, with respect to the Regulation S GDSs). Relevant trading information is set forth below:

GDSs	ISIN	Common Code	CUSIP	SEDOL
Regulation S GDS	US69367K2069	022482696	69367K206	B0D50Y5
Rule 144A GDS	US69367K1079	022482432	69367K107	B0D4ZX6

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 New 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 New 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.).
"CSFB"	means Credit Suisse First Boston (Hong Kong) Limited.
"Cue"	means Cue Sampang Pty. Ltd.
"Encore"	means Encore Int'l 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 Depositary).
"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.
"ML"	means Merrill Lynch Capital Services, Inc.
"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.
"New Oil and Gas Law"	refers to the new oil and gas law enacted on November 23, 2001 by the Government.
"Novus"	means Novus Petroleum Limited.
"OECD"	means the Organization for Economic Cooperation and Development.
"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.
"exploration well" or "wild cat well"	means a well that is designed to test the validity of a seismic interpretation and to confirm the presence of hydrocarbons in 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.
"lifting cost" or "production cost"	means, for a given period, cost incurred to operate and maintain wells and related equipment and facilities.
"Net production" or "net entitlement"	represents the Company's share of gross production after deducting the share payable to the Government pursuant to the 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.
"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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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Deloitte

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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

/s/ Restiawan Adimuryanto, SE, BAP
Izin/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.

ERNST & YOUNG

Independent Auditors' Report

Report No. RPC-4404

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

We have audited the accompanying consolidated balance sheet of PT Medco Energi Internasional Tbk (the "Company") and Subsidiaries as of December 31, 2004, and the related consolidated statements of income, changes in equity and cash flows for the year 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 audit. The 2004 financial statements of Mesa Drilling Inc. (Mesa) and Probe Technology Services, Inc. (Probe), associated entities wherein the Company has 50% and 36.9% indirect ownership, 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. The consolidated financial statements of the Company and Subsidiaries for the years ended December 31, 2003 and 2002 were audited by other independent auditors who have reissued their report dated April 22, 2004 under report No. 220404 MEI RES SAR dated April 22, 2004 (June 24, 2005 as to Notes 42 and 45). The reissued report of the other independent auditors on the 2003 and 2002 consolidated financial statements of the Company and Subsidiaries expressed an unqualified opinion on those statements, and included an explanatory paragraph that discussed the restatements as described in Note 42 to the accompanying consolidated financial statements. The reissued report of the other independent auditors included reference to the other auditors' reports on the December 31, 2003 and 2002 financial statements of associated companies and December 31, 2002 financial statements of subsidiaries.

We conducted our audit 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 audit and the reports of other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit 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, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Indonesia.

We have previously issued an independent auditors' report with report No. RPC-3925 dated April 28, 2005 on the consolidated financial statements of PT Medco Energi Internasional Tbk and Subsidiaries for the year ended December 31, 2004. In connection with the planned offering of the Company's existing common shares in the overseas markets, as disclosed in Note 45 to the consolidated financial statements, the Company reissued and restated its consolidated financial statements for the year ended December 31, 2004 which included the effects of the restatements on the December 31, 2003 and 2002 consolidated financial statements as described in Note 42b, and additional disclosures in the notes to the consolidated financial statements.

Prasetio, Sarwoko & Sandjaja

/s/ Drs. Iman Sarwoko

Drs. Iman Sarwoko
Public Accountant License No. 98.1.0359

June 27, 2005

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, 2004
With Comparative Figures For December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	1b,2f,3,42	215,302,034	134,369,657	73,609,610
Short-term investments	1b,2g,4	30,412,574	51,832,844	3,042,200
Trade receivables — net of allowance for doubtful accounts of US$2,924,039 in 2004, US$2,900,194 in 2003 and US$1,359,799 in 2002	2i,5,20,42	76,478,080	66,948,774	75,188,121
Other receivables — third parties — net of allowance for doubtful accounts of US$133,565 in 2004	2i,6,17,37e,42	44,253,336	45,728,139	38,134,308
Inventories — net of allowance for decline in value of US$688,261 in 2004, US$1,373,576 in 2003 and US$914,928 in 2002	1b,2j,7	31,670,910	38,218,893	34,064,683
Prepaid taxes	8,42	17,568,590	23,067,561	16,501,292
Prepaid expenses	2k	3,230,901	5,352,512	3,081,166
Restricted cash in banks	2h,9,19,20,37,42	17,675,582	15,814,420	703,750
Other current assets	1b,2c,14,37b,41	195,498,144	—	—
Total Current Assets		632,090,151	381,332,800	244,325,130
NON-CURRENT ASSETS				
Other receivables — third parties	6,37e	1,439,996	—	—
Restricted cash in banks	2h,9,19,20,37,42	22,361,685	22,135,929	4,621,902
Accounts receivable from related parties — net	2e,2i,10,34,42	10,103,361	1,401,366	1,195,788
Deferred tax assets — net	2t,30,42	37,194,340	31,224,193	1,342,671
Investments in shares of stock	2g,2p,11,37,42	8,014,286	1,722,750	1,763,588
Property and equipment — net of accumulated depreciation of US$203,809,991 in 2004, US$178,561,509 in 2003 and US$158,815,210 in 2002	1b,2c,2l,2v, 2y,12,20,21,42	271,996,260	252,260,611	205,596,778
Oil and gas properties — net of accumulated depreciation and amortization of US$356,836,054 in 2004, US$216,298,430 in 2003 and US$164,969,111 in 2002	1b,2c,2m,2x 2y,13,37b	480,582,713	312,290,831	286,028,109
Swap assets	2u,19,20,21	2,601,764	—	—
Other assets — net	1b,2c,2n,14,37	5,862,512	6,014,403	8,139,794
Total Non-current Assets		840,156,917	627,050,083	508,688,630
TOTAL ASSETS		**1,472,247,068**	**1,008,382,883**	**753,013,760**

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, 2004
With Comparative Figures For December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans	20	150,000,000	—	—
Trade payables				
Related parties	2e,15	788,337	633,408	334,712
Third parties	15,42	49,400,766	44,172,684	49,726,626
Other payables	16,42	29,958,565	14,573,501	9,869,367
Taxes payable	2t,17,18,42	17,638,321	30,503,487	26,624,062
Accrued expenses	17,18,40,42	20,684,860	11,882,603	40,057,303
Current maturities of long-term bank loans	19,20	30,863,132	24,975,720	2,499,920
Deferred income		1,260,668	—	—
Swap liabilities	2u,9,19,20,21,41	1,045,515	—	—
Total Current Liabilities		301,640,164	126,741,403	129,111,990
NON-CURRENT LIABILITIES				
Deferred tax liabilities — net	2t,30,42	106,367,170	80,044,100	74,972,229
Employee benefits obligation	2s,33	4,790,101	4,527,712	3,068,813
Long-term liabilities — net of current maturities				
Bank loans	2o,2u,20,41,42	100,043,338	50,269,711	—
Taxes payable	2t,17	—	1,890,396	3,578,430
Other long-term obligations	1b,2o,2u,9,19,21,42			
Notes payable		274,229,190	257,872,137	96,227,644
Rupiah bonds		144,162,589	—	—
Swap liabilities	2u,9,19,20,21,42	3,989,103	3,249,775	—
Other payables		34,962	996,565	—
Total Non-current Liabilities		633,616,453	398,850,396	177,847,116
NEGATIVE GOODWILL — Net	2c,22	1,798,778	7,007,239	6,415,668
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES	2b,23	36,390,200	30,908,471	34,499,000

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, 2004
With Comparative Figures For December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
EQUITY				
Capital stock — Rp100 par value per share				
Authorized — 4,000,000,000 shares				
Issued and fully paid — 3,332,451,450 shares	2q,24,41	101,154,464	101,154,464	101,154,464
Treasury stock — 226,597,000 shares in 2004 and 2003 and 228,198,500 shares in 2002	2q,24	(3,190,236)	(3,190,236)	(3,238,849)
Additional paid-in capital	25	122,055,889	122,055,889	121,862,995
Revaluation increment in property and equipment	2l	99,597	99,597	99,597
Effects of changes in the equity transactions of subsidiaries/associated companies	26	27,836,821	27,836,821	27,788,327
Translation adjustment	2d	(740,901)	—	8,592
Retained earnings				
Appropriated		6,492,210	6,492,210	6,492,210
Unappropriated		245,093,629	190,426,629	150,972,650
Equity — Net		498,801,473	444,875,374	405,139,986
TOTAL LIABILITIES AND EQUITY		**1,472,247,068**	**1,008,382,883**	**753,013,760**

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Year Ended December 31, 2004
With Comparative Figures For The Years Ended December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Sales and Other Operating Revenues	1b,2r, 2w,27,35,42			
Net oil and gas sales		362,333,746	309,968,424	318,981,296
Drilling operations and related services		94,438,585	79,482,699	44,599,071
Net methanol sales		55,490,344	55,113,629	30,775,577
Share of profit of joint ventures		19,733,452	9,317,473	5,911,729
Electric power sales		1,534,484	—	—
Other contracts		11,550,952	9,676,376	8,296,808
Total Sales and Other Operating Revenues		545,081,563	463,558,601	408,564,481
Production and Lifting Costs	2r,28,42	77,774,235	66,133,851	40,260,842
Depreciation and Amortization	2l,2m,12,28,42	74,623,615	69,233,287	51,115,938
Drilling Operations Costs	2r,28,42	72,803,378	63,100,073	39,849,151
Cost of Methanol Sales	2r,28,42	42,666,135	32,689,267	25,126,628
Exploration Expenses	2r,28,42	23,847,061	21,307,817	29,392,497
Cost of Power Sales	2r,28	72,940	—	—
Gross Profit		253,294,199	211,094,306	222,819,425
Operating Expenses	2r,2s,12,29,42	74,264,350	62,187,548	61,664,708
Income from Operations		179,029,849	148,906,758	161,154,717
Other Income (Charges)	2r			
Gain (loss) on sale of marketable securities — net	2g	1,082,081	(4,196,931)	—
Gain on exchange of non-monetary assets	2p,11	1,059,566	—	—
Equity in net loss of associated entities — net	2g,11	(764,932)	(40,838)	(1,061,548)
Gain (loss) on foreign exchange — net	2d	(6,884,008)	48,752	1,688,147
Financing charges — net	20	(10,218,408)	—	—
Interest expense — net	2u,19,20,42	(35,821,757)	(18,440,094)	(6,812,407)
Others — net	2e,2l,10, 11,12,14,20,42	3,458,767	(3,523,052)	5,925,091
Other Charges — Net		(48,088,691)	(26,152,163)	(260,717)
Income Before Tax Expense		130,941,158	122,754,595	160,894,000
Tax Benefit (Expense)	2t,30,42			
Current tax		(66,148,681)	(67,748,579)	(75,760,303)
Deferred tax		11,080,177	24,809,651	(13,115,789)
Tax Expense — net		(55,068,504)	(42,938,928)	(88,876,092)

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (continued)
Year Ended December 31, 2004
With Comparative Figures For The Years Ended December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Income Before Minority Interest in Net Loss (Income) of Consolidated Subsidiaries		75,872,654	79,815,667	72,017,908
Minority Interest in Net Loss (Income) of Consolidated Subsidiaries	2b,23	(1,328,186)	(816,696)	220,395
NET INCOME		**74,544,468**	**78,998,971**	**72,238,303**
BASIC EARNINGS PER SHARE	2aa,31	**0.0240**	**0.0254**	**0.0231**

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
Year Ended December 31, 2004
With Comparative Figures For The Years Ended December 31, 2003 And 2002
(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 Company	Translation Adjustment	Revaluation Increment in Property and Equipment	Retained Earnings		Net
							Appropriated	Unappropriated	
Balance, January 1, 2002		98,493,295	125,187,395	28,860,954	(32,057)	99,597	6,492,210	119,025,180	378,126,574
Treasury stock		(577,680)	—	—	—	—	—	—	(577,680)
Additional paid-in capital		—	(3,324,400)	—	—	—	—	—	(3,324,400)
Difference due to changes in equity of subsidiaries		—	—	(1,072,627)	—	—	—	—	(1,072,627)
Translation adjustment		—	—	—	40,649	—	—	—	40,649
Net income (As Restated, Note 42)		—	—	—	—	—		72,238,303	72,238,303
Difference due to remeasurement		—	—	—	—	—	—	(6,420)	(6,420)
Excess of reacquisition cost over original issuance price of treasury stock		—	—	—	—	—	—	(3,856,813)	(3,856,813)
Cash dividends	32	—	—	—	—	—	—	(36,427,600)	(36,427,600)
Balance, December 31, 2002 (As Restated, Note 42)		**97,915,615**	**121,862,995**	**27,788,327**	**8,592**	**99,597**	**6,492,210**	**150,972,650**	**405,139,986**
Treasury stock	2q	48,613	—	—	—	—	—	—	48,613
Additional paid-in capital	25	—	192,894	—	—	—	—	—	192,894
Difference due to change in equity of subsidiaries		—	—	48,494	—	—	—	—	48,494
Translation adjustment		—	—	—	(8,592)	—	—	—	(8,592)
Net income (As Restated, Note 42)		—	—	—	—	—	—	78,998,971	78,998,971
Cash dividends	32	—	—	—	—	—	—	(39,544,992)	(39,544,992)
Balance, December 31, 2003 (As Restated, Note 42)		**97,964,228**	**122,055,889**	**27,836,821**	**—**	**99,597**	**6,492,210**	**190,426,629**	**444,875,374**
Translation adjustment of subsidiaries' financial statements	2d	—	—	—	(740,901)	—	—	—	(740,901)
Net income		—	—	—	—	—	—	74,544,468	74,544,468
Cash dividends	32	—	—	—	—	—	—	(19,877,468)	(19,877,468)
Balance, December 31, 2004		**97,964,228**	**122,055,889**	**27,836,821**	**(740,901)**	**99,597**	**6,492,210**	**245,093,629**	**498,801,473**

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended December 31, 2004
With Comparative Figures For The Years Ended December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers		537,410,601	485,015,819	411,443,089
Cash paid to suppliers and employees		(267,941,767)	(289,432,386)	(144,435,598)
Cash generated from operations		269,468,834	195,583,433	267,007,491
Interest and financing charges paid		(52,123,659)	(17,837,093)	(5,121,736)
Income tax paid		(81,071,321)	(69,395,738)	(78,949,996)
Net Cash Provided by Operating Activities		**136,273,854**	**108,350,602**	**182,935,759**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to (deductions of) short-term investments	4	22,502,351	(48,149,344)	(1,593,885)
Additions to other payables		15,079,344	—	—
Interest received		8,668,343	5,524,195	1,572,178
Acquisitions of subsidiaries, net of cash acquired	1b,2c,14, 37b,41	(120,244,097)	(3,054,694)	(33,299,318)
Additions to (deductions of) other assets		(473,065)	1,890,822	(5,271,757)
Proceeds from disposal of property and equipment		406,377	4,117,202	1,215,139
Additions to oil and gas properties	13	(188,157,553)	(77,592,041)	(84,239,926)
Acquisitions of property and equipment	12	(45,563,715)	(101,628,110)	(81,694,606)
Deductions of related parties accounts		(8,701,990)	(205,578)	(455,320)
Advances for investments in shares of stock	1b,11	(6,000,000)	—	(260,035)
Refund of security deposits		—	234,569	36,040
Insurance claims received		—	15,198,750	—
Placement of restricted cash in banks		—	(32,624,697)	(4,236,394)
Net Cash Used in Investing Activities		**(322,484,005)**	**(236,288,926)**	**(208,227,884)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term obligations	20	145,445,875	245,727,783	96,227,644
Proceeds (payments) of bank loans	20	128,661,039	(2,499,920)	(2,166,119)
Proceeds from bank loans		—	75,245,431	—
Proceeds from sale (acquisition) of treasury notes		15,000,000	(90,701,231)	—
Placement of restricted cash in banks	9	(2,086,918)	—	—
Dividends paid		(19,877,468)	(39,544,992)	(36,427,600)
Dividends paid to minority interests		—	(236,805)	—
Proceeds from sale (acquisition) of treasury stock	24	—	241,507	(7,767,376)
Payment of syndicated loan		—	—	(6,288,840)
Increase in swap liabilities		—	466,598	—

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)
Year Ended December 31, 2004
With Comparative Figures For The Years Ended December 31, 2003 And 2002
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Net Cash Provided by Financing Activities		**267,142,528**	**188,698,371**	**43,577,709**
NET INCREASE IN CASH AND CASH EQUIVALENTS		80,932,377	60,760,047	18,285,584
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		134,369,657	73,609,610	55,324,026
CASH AND CASH EQUIVALENTS AT END OF YEAR		**215,302,034**	**134,369,657**	**73,609,610**
SUPPLEMENTAL DISCLOSURES				
Non-cash investing and financing activities:				
Investment in associated company through conversion of receivable		—	—	273,003
Acquisitions of property and equipment through incurrence of accrued expenses		—	—	29,966,932
Property and equipment written off		—	—	653,784

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
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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 its decision letter No. Y.A.5/192/4 dated April 7, 1981 and was published in State Gazette No. 102, Supplement No. 1020 dated December 22, 1981.

The Company's articles of association have been amended several times, the latest 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 its 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, 16th 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 1,930; 1,872 and 2,274 employees in 2004, 2003 and 2002, respectively.

The Company's Boards of Commissioners and Directors are as follows:

	December 31, 2004	December 31, 2003	December 31, 2002
President Commissioner:	Ir. John Sadrak Karamoy	Ir. John Sadrak Karamoy	Ir. John Sadrak Karamoy
Independent Commissioners:	Gustiaman Deru	Gustiaman Deru	Gustiaman Deru
	Ir. Sudono N. Suryohudoyo	Ir. Sudono N. Suryohudoyo	Ir. Wijarso (rip)
Commissioners:	Ir. Yani Yuhani Rodyat	Ir. Yani Yuhani Rodyat	Ir. Yani Yuhani Rodyat
	Ir. Retno Dewi Arifin	Ir. Retno Dewi Arifin	Chitrapongse Kwangsukstith
	Suwit Pitrchart	Chitrapongse Kwangsukstith	Maroot Mrigadat
	Maroot Mrigadat	Maroot Mrigadat	Andrew Purcell
	Andrew Purcell	Andrew Purcell	
President Director:	Ir. Hilmi Panigoro, MSc	Ir. Hilmi Panigoro, MSc	Ir. Hilmi Panigoro, MSc
Directors:	Sugiharto, SE, MBA	Sugiharto, SE, MBA	Sugiharto, SE, MBA
	Yongyos Krongphanich	Peerachat Pinprayong	Peerachat Pinprayong
	Rashid Irawan Mangunkusumo, BSc, MEng	Rashid Irawan Mangunkusumo, BSc, MEng	Rashid Irawan Mangunkusumo, BSc, MEng

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 have appointed Ir. Darmoyo Doyoatmojo, MBA, MSc as his replacement through the Stockholders' Extraordinary General Meeting held on March 10, 2005 (Note 41d).

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2004
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1. GENERAL (continued)

a. General Information (continued)

On January 23, 2004, the Company's stockholders, in their Extraordinary Stockholders' meeting, approved the resignation of Mr. Chitrapongse Kwangsukstith as Commissioner and the appointment of Mr. Suwit Pitrchart as his replacement.

In September 2004, the Company's stockholders, in their Extraordinary General Meeting, have approved the resignation of Mr. Peerachat Pinprayong as Director and the appointment of Mr. Yongyos Krongphanich as his replacement.

Salaries and other fringe benefits paid to the commissioners and directors amounted to US$6,214,682, US$5,253,673 and US$5,758,166 for the years ended December 31, 2004, 2003, and 2002, respectively.

b. Subsidiaries

As of December 31, 2004, the Company has an ownership interest 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 as of December 31, 2004
1. Exploration for and production of oil and gas				
PT Medco E&P Tarakan (MEPT) (formerly known as PT Exspan Tarakan) Indonesia	Production Sharing Contract (PSC) with BP Migas until 2022.	100.00% (99.99% — Company; 0.01% — MEPI)	May 1, 1992	22,376,126
PT Medco E&P Kalimantan (MEPK) (formerly known as PT Exspan Kalimantan) Indonesia	Technical Assistance Contract (TAC) with PERTAMINA until 2008.	100.00% (99.99% — Company; 0.01% — MEPI)	May 1, 1992	61,028,387
PT Medco E&P Indonesia (MEPI) (formerly known as PT Exspan Nusantara) Indonesia	PSC with BP Migas until 2013.	100.00% (99.95% — Company; 0.05% — MEPK)	November 3, 1995	135,434,240
Exspan Airsenda, Inc. (EAS) Delaware USA	PSC with BP Migas until 2023.	100.00%	November 3, 1995	182,393,007
Exspan Airlimau, Inc. (EAL) Delaware USA	PSC with BP Migas until 2023.	100.00%	November 3, 1995	182,393,007
PT Exspan Pasemah Indonesia	Has not started commercial operations	95.00%	—	—

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2004
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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 as of December 31, 2004
Exspan Exploration and Production Int'l (M), Ltd., (EEPI) Mauritius	Has not started commercial operations	100.00%	—	—
Exspan Exploration and Production Pasemah, Ltd., (EEP) Bahamas	PSC with BP Migas until 2023. The Company has proposed the relinquishment of the PSC and BP Migas has approved through its letter no. 421/BP00000/2003-SI.	100.00%	November 3, 1995	—
Exspan Pasemah, Inc. (EP) Delaware USA	The Company has already relinquished the PSC with BP Migas as approved by BP Migas letter No. EXP-331/01 dated February 26, 2003	100.00%	November 3, 1995	—
Ensearch Far East Limited Cayman Island	Participating interest in Tuban PSC — Joint Operating Body (JOB) with PERTAMINA (until 2018) has been transferred to PT Medco E&P Tuban (formerly known as PT Exspan Tuban Indonesia) in 2003.	100.00%	February 29, 1988	5,674,666
Exspan Cumi-Cumi (L), Inc. Malaysia	PSC with BP Migas until 2021. The Company has already relinquished the PSC based on BP Migas approval letter No. 445/BP00000/2002-SI dated August 20, 2002.	100.00% through MEPK	In liquidation process	64,448
Senoro Toili (Ind) Ltd., Bahamas	Participating interest in PSC — JOB with PERTAMINA has been transferred to PT Medco E&P Tomori Sulawesi (formerly known as PT Exspan Tomori Sulawesi) on October 9, 2000.	100.00%	Closed operations starting October 2000.	2
PT Medco E&P Tomori Sulawesi (formerly known as PT Medco Tomori Sulawesi) Indonesia	PSC — JOB with PERTAMINA until 2027	100.00% (95% — Company, 5% — MEPI)	Has not started commercial operations	33,377,982

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2004
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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 as of December 31, 2004
Medco Simenggaris Pty. Ltd., Australia	PSC — JOB with PERTAMINA until 2028.	60.00%	Has not started commercial operations	8,787,223
Medco Madura Pty. Ltd., Australia	PSC — JOB with PERTAMINA until 2027.	51.00%	Has not started commercial operations	23,951,026
Exspan Myanmar (L), Inc. Malaysia	PSC with Myanmar Oil and Gas Enterprise (MOGE) which has been already relinquished based on MOGE's approval letter No. MD-3/23 (2338) 2002 dated October 25, 2002.	100.00%	Has not started commercial operations	—
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 Medco International Venture Ltd.	Has not started commercial operations	—
Medco Lematang Limited Malaysia	PSC Lematang with BP Migas (until 2007) was transferred to PT Medco E&P Lematang in 2003.	100.00% through Medco International Venture Ltd.	October 1, 2002	—
PT Petroner Bengara Energi Indonesia	PSC Bengara with BP Migas until 2029.	95.00%	Has not started commercial operations	1,159,009
PT Medco E&P Lematang (MEPL) (formerly known as PT Exspan Lematang) Indonesia	PSC with BP Migas until 2017.	100.00% (99.99% — Company; 0.01% — MEPI)	2003	31,332,426
PT Medco E&P Yapen (formerly known as PT Exspan Yapen) Indonesia	PSC with BP Migas until 2029.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	1,654,235
PT Medco Sarana Balaraja (formerly known as PT Exspan Rombebai) Indonesia	PSC Rombebai with BP Migas (until 2028) was transferred to Ramu Rombebai LLC.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	113,492
Exspan International (Kakap) Ltd., Mauritius	Has not started commercial operations.	100.00% through EEP	—	1
PT Medco E&P Brantas (formerly known as PT Medco Power Batara)	Has not started commercial operations.	100.00% (99.99% — Company; 0.01% — MEPI)	—	26,911

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 as of December 31, 2004
PT Medco E&P Tuban (formerly known as PT Exspan Tuban) Indonesia	PSC — JOB with PERTAMINA until 2018.	99.99%	September 1, 2003	51,097,705
PT Medco E&P Merangin (formerly known as PT Exspan Merangin) Indonesia	Merangin PSC with BP Migas until 2033.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	2,444,505
PT Medco E&P Sampang (formerly known as PT Medco Sampang) Indonesia	Participating interest with Santos Sampang Pty. Ltd., to operate Jeruk well in Sampang PSC under Sole Risk Agreement.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	27,987,757
PT Medco E&P Kakap (formerly known as PT Exspan Kakap) Indonesia	Has not started commercial operations.	100.00% (99.99% — Company; 0.01% — MEPI)	—	107,643
PT Medco E&P Asahan (formerly known as PT Exspan Asahan) Indonesia	Has not started commercial operations.	99.99%	—	26,911
PT Medco E&P Rimau (formerly known as PT Exspan Rimau) Indonesia	Assignee of working interest of Exspan Airsenda Ltd. and Exspan Airlimau Ltd.	99.99%	Has not started commercial operations	14,891
PT Medco E&P Nunukan (formerly known as PT Medco Power Krakatau) Indonesia	PSC with BP Migas until 2034 (from December 12, 2004).	100.00% (99.99% — Company; 0.01% — MEPI)	—	—
Medco International (Sampang) Ltd., (formerly known as Exspan International (South Jambi) 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%	Has not started commercial operations	1
Medco Energi (Australia) Pty., Ltd., (MEAPL) Australia	Holding Company of Novus Petroleum Limited.	100.00%	Has not started commercial operations	460,763,633

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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 as of December 31, 2004
2. Drilling and other support services for oil and gas activities				
PT Apexindo Pratama Duta Tbk (Apexindo) Indonesia	Onshore and offshore drilling operations, and related services for companies involved in the oil and gas industry.	77.53%	1992	297,186,717
PT Antareja Jasatama Indonesia	Clear fields for mining activities and services related to drilling operations (ceased operations starting April 2004).	77.20% through Apexindo	June 18, 1999	126,785
PT Exspan Energi Nusantara (EEN) Indonesia	Generation and distribution of electricity.	100.00% (99% — MEPK, 1% — MEPI)	Has not started commercial Operations	35,006
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	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	18,621,029
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	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	15,343
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	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.	80.00% through EPI	March 1, 2004	1,838,184

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
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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 as of December 31, 2004
3. Methanol gas production				
PT Medco Methanol Bunyu (MMB) Indonesia	Production of methanol under the Refinery Agreement with PERTAMINA until 2017.	99.99%	November 3, 1995	24,075,144
4. Power Plant				
PT Medco Power Sengkang Indonesia	Holds an investments 5% shares in Sengkang Power Plant.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	107,643
PT Medco Energi Menamas Indonesia	Holding company of MEB.	99.99%	Has not started commercial operations	5,279,284
PT Medco Power Indonesia Indonesia	To engage in power plant operations.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	107,643
PT Mitra Energi Batam (MEB) Indonesia	Electricity power supply to PLN Batam until 2011.	53.99%	October 29, 2004	30,208,902
PT Medco Geothermal Indonesia (formerly PT Medco Power Batara) Indonesia	To engage in electrical power plant operations.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	107,643
5. Others				
Medco Energi Finance Overseas, B.V. (MEFO) The Netherlands	Raise funds through issuance debt securities.	100.00%	October 14, 1999	70,166,248
MEI Euro Finance Limited (MEFL) Mauritius	Raise funds through issuance debt securities.	100.00%	March 19, 2002	282,909,400
Medco International Venture Ltd., (MIV) Malaysia	Acquire interests involving exploration and production of oil and natural gas.	100.00%	Has not started commercial operations	4,738,698
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	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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
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1. GENERAL (continued)

b. Subsidiaries (continued)

On December 22, 2003, MEAPL has announced an unsolicited off-market take over bid for all the issued share capital of Novus Petroleum Limited (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 their Extraordinary General Stockholders' Meeting, have approved MEAPL's plan to acquire/take over the shares issued by NPL. MEAPL has started its on-market purchases of the 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 July 1, 2004.

As of December 31, 2004, the Novus companies (Novus) included in the consolidation are as follows:

Subsidiary	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets as of December 31, 2004
Parent Company				
Novus Petroleum Limited (NPL)	Holding Company	100% (through MEAPL)	Australia	290,742,069
Controlled Entities				
Novus Management Services Pty. Ltd.	Management Services	100% (through NPL)	Australia	1,601,841
Novus Australia Holdings Pty. Ltd. (NAH)	Holding Company	100% (through NPL)	Australia	167,454,199
Novus Finance Pty. Ltd. (NF)	Finance Company	100% (through NPL)	Australia	360,063,559
Controlled Entities Held Directly and Indirectly by Novus Australia Holdings, Pty. Ltd.				
Novus Pakistan Pty. Ltd. (NPP) (Note 41)	Exploration and Production	100% (through NPL)	Australia	1,049,371
Novus Oman Limited (NOL)	Exploration and Production	100% (through NAH)	Bermuda	72,354,508
Novus Petroleum Canada (Kakap) Limited (NPCL)	Exploration and Production	100% (through NPL)	Canada	39,513,279
Novus Lematang Company (NLC)	Exploration and Production	100% (through NPL)	Canada	6,174,871
Novus Indonesia Brantas Company (NIBC)	Exploration and Production	100% (through NPL)	Cayman Island	61,542,746
Novus Al Khaleej Limited (NAKL)	Exploration and Production	100% (through NPL)	Guernsey	1,798,546
Novus UK (Kakap) Limited (NUKL)	Exploration and Production	100% (through NPL)	United Kingdom	82,037,139

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1. GENERAL (continued)

b. Subsidiaries (continued)

Subsidiary	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets as of December 31, 2004
Novus Nevada Petroleum LLC (NNPL)	Exploration and Production	100% (through NPL)	USA	105,561,847
Novus Oil & Gas Texas LLC (NOGTL)	Exploration and Production	100% (through NPL)	USA	2,041,868
Novus Louisiana LLC (NLL)	Exploration and Production	100% (through NPL)	USA	112,316,905
Novus Oil & Gas LP (NOGL)	Exploration and Production	100% (through NPL)	USA	58,199,137
Novus Overseas Holdings Limited (NOHL)	Holding Company	100% (through NPL)	Guernsey	92,910,823
Novus Middle East Limited (NMEL)	Holding Company	100% (through NPL)	Guernsey	25,133,234
Novus Group Holdings (Malaysia) Sdn Bdh (NGHSB)	Holding Company	100% (through NPL)	Malaysia	2
Novus Petroleum Canada (Indonesia) Holdings (NPCH)	Holding Company	100% (through NPL)	Canada	5,871,138
Novus Exploration Holdings Pty. Ltd. (NEHPL)	Holding Company	100% (through NPL)	Australia	210,346,572
Novus Australia Energy Company Pty. Ltd. (NAECPL)	Holding Company	100% (through NPL)	Australia	174,899,634
Novus UK (Indonesian Holding Limited) (NUKIHL)	Holding Company	100% (through NPL)	United Kingdom	32,838,335
Novus US Holding Inc.	Holding Company	100% (through NPL)	USA	112,120,450
Novus US Finance LLC (NUFL)	Financing Company	100% (through NPL)	USA	5,551,738
Novus West Asia Limited (NWAL)	Management Services	100% (through NPL)	Guernsey	560,530
Novus Petroleum Canada (Malacca Strait) Limited (NPCL)	Dormant Company	100% (through NPL)	Canada	19,204,390
Novus UK (Malacca Strait) Limited (NUMSL)	Paper Company	100% (through NPL)	United Kingdom	26,219
Subsidiaries That Have Not Started Commercial Operations				
CIBC Nominees Pty. Ltd. (CNPL)	Holding Company	100% (through NPL)	Australia	—
Novus Nominees Pty. Ltd, (NMPL)	Dormant 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	—

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1. GENERAL (continued)

b. Subsidiaries (continued)

Subsidiary	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets as of December 31, 2004
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	—
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	—

As of December 31, 2004, Novus has the following petroleum joint venture operations in Asia, the Middle East and the United States of America:

Joint Venture	Country	Ownership Interest (%)
Brantas PSC	Indonesia	32
Kakap PSC	Indonesia	18.75
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
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
Sorrento Dome — NUL 14 lease	USA	63.167
Sorrento Dome — NUL 11 lease	USA	100
Sorrento Dome — NUL 13 lease	USA	100
EC 317/318 (East Cameron) lease	USA	50-100
MP 64/65 (Main Pass) lease	USA	79.375

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 consolidated financial

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1. GENERAL (continued)

b. Subsidiaries (continued)

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 and Silk Route and other third parties (with respect to Novus US assets) (''Novus Assets Disposals'') (Notes 37b and 41o). Accordingly, the values of the assets and liabilities acquired and the goodwill on acquisition (currently allocated to Oil and Gas Properties and Other Assets (Notes 13 and 14) in the consolidated balance sheet) as stated below, may 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 (Note 2c).

The fair value of the net assets acquired at the acquisition date is 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
Total	**253,277,523**

The purchase consideration is as follows:

Cash	**253,277,523**

From June 30 to December 31, 2004, in connection with the acquisition of Novus, the Company entered into several agreements with Santos and Silk Route whereby the Company and its Novus subsidiaries have agreed to dispose of several of its subsidiaries and working interests in Indonesia, Australia, Pakistan and the Middle East. As of December 31, 2004, the Company and its Novus subsidiaries have completed the sale and transfers of their interests in Novus Kakap 2 Limited and Novus Australia Resources NL (Note 37b).

Furthermore, 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 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 effective date on September 16, 2002, for US$1,443,338 as consideration.

Subsequently on December 27, 2004, Apache Corporation (Apache) also exercised its preferential right to purchase Novus's interest in certain properties in the Stratton Field pursuant to the Operating Agreement dated November 26, 2001 between Apache and Novus Oil & Gas LLP (with 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).

As also discussed in Note 41, Darcy has exercised its option on Merit/Novus assets as defined in the Scouting Agreement dated September 16, 2000 between Darcy and Novus US Holding Inc. for a consideration of US$1,222,955.

(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

b. Subsidiaries (continued)

As of December 31, 2004, the financial impact of the acquisition of the Novus group is 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

The Company and Subsidiaries have several new and potential acquisitions and transfers of working interests under Production Sharing Contracts (PSC) (Note 36).

Refer to Notes 36 and 37 for further discussion of the nature of PSC, PSC-JOB and TAC.

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 his 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 its letter No. S-2244/PM/1999. A total of 321,730,290 new shares were issued in this offering, which were listed on the JSE on November 19, 1999.

Subsequently, the Company had a 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.

As of December 31, 2004, all of the Company's shares totaling 3,332,451,450 are listed on the JSE.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 basis 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 Dollars (US dollars) (Note 2d).

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its Subsidiaries (Medco 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 Medco Group and cease to be consolidated from the date on which control is transferred out of Medco 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 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 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 are recognized as goodwill/negative goodwill. Goodwill of the acquired oil and gas companies is reported under Oil and Gas Properties account and is amortized over the life of the Production Sharing Contracts (PSC) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Methanol Bunyu (MMB), PT Exspan Petrogas Internusa (EPI), PT Antareja Jasatama (AJT), PT Mitra Energi Batam (MEB), PT Medco Energi Menamas (MEM) 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.

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 and MEM maintain their books/accounts in Indonesian Rupiah. For consolidation purposes, assets and liabilities of MEB and MEM are translated into US 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. The books/accounts of Apexindo, MMB, EPI and AJT are maintained in Rupiah currency, MEFO in Euro and MEAPL and Novus Australian Entities in Australian Dollars, but their functional currency is 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, 2004, 2003 and 2002, the rates of exchange used are as follows:

	2004	2003	2002
Rupiah/US$1	9,290	8,465	8,940
Euro/US$1	1.3619	1.2573	1.0481
Australian Dollars/US$1	0.7796	0.7498	0.5666
Singapore Dollars/US$1	0.6121	0.5878	0.5765
Oman Riyal/US$1	0.3846	0.3846	0.3846
Japanese Yen 100/US$1	0.9723	0.9353	0.8433
Arab Emirates Dirham/US$1	3.67	3.67	3.67
British Pound sterling/US$1	1.9256	1.7810	1.6035

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Transactions with Related Parties (continued)

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 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 period 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 the Statement of Financial Accounting Standards (PSAK) No. 50, "Accounting for Investments in Certain Securities", which classifies marketable securities into three categories:

a) 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 recorded 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.

b) Held-to-maturity

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Investments (continued)

1) Marketable securities in the form of debt and equity securities (continued)

c) Available-for-sale

Investments which do not meet the classification of trading and held-to-maturity categories are recorded 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 Stockholders' Equity section of the consolidated balance sheet.

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 period of greater than three months but not more than one year from the time of placement are stated at cost.

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 adjustment arising from financial statements translation, amortization of deferred gain on exchange of non-monetary assets and straight-line amortization over a five (5) year period of the difference between the cost of such investment 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 company are reflected as additions to or reductions of Stockholders' Equity under the account ''Effects of Changes in the Equity Transactions of Subsidiaries/Associated Companies'' in the consolidated balance sheets. Gain or loss is recognized when the investments are disposed.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

k. Prepaid Expenses

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

l. 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.

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

	Years		
	2004	**2003**	**2002**
Building and improvements	20	20	20
Offshore drilling rigs	20 – 21	17 – 21	17 – 21
Onshore drilling rigs	4 – 8	4 – 8	4 – 8
Rig equipment	4 – 10	4 – 5	5 – 8
Vehicles	3 – 5	3 – 5	3 – 5
Leasehold improvements	3 – 8	3 – 8	3 – 8
Office and other equipment	3 – 5	3 – 5	3 – 5

Land is stated at cost and is not depreciated.

In 2004, the estimated useful lives of certain off shore drilling rigs and offshore drill pipes which are classified under rig equipment have been changed, to reflect a more realistic assumption of the economic benefits over the utilization of such assets. The effect of the change is charged to current operations (Note 12).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Property and Equipment (continued)

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.

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 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.

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 asset 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Issuance Costs (continued)

2) Shares Issuance and Loan Transactions Costs

Transaction costs of bank loans, which consist 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 non-monetary assets which represents the economic interest retained in the associated company, was 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. 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 PT Pelayanan Listrik Nasional Batam (PLN Batam).

Revenue from drilling activity is recognized when the drilling service is rendered. 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.

Share of profits of joint ventures is recognized to the extent of the Company's/Subsidiaries' working interest in the non-Company operated joint ventures.

All other income and expenses are recognized when these are earned/incurred (accrual method).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Pension and Other Employee Benefits (continued)

1. Pension Plan (continued)

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.

2. Other Employee Benefits

The Company and Subsidiaries recognize employee benefits liability in accordance with requirements of Labor Law No. 13 Year 2003 (Law No. 13/2003) dated March 25, 2003 issued by the President of the Republic of Indonesia.

The Company and Subsidiaries use the Projected-Unit-Credit Method with long-term actuarial assumptions in recognizing the employees' 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 period 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 arising from the addition of the new labor law is amortized over four and 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 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 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 MEPT 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Income Tax (continued)

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/Subsidiaries, when the result of the appeal is decided by the court.

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 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. 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 2l).

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. 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,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Use of Estimates (continued)

actual results could differ from these estimates as future confirming events occur, particularly in respect of oil and gas reserves.

y. 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.

z. Revised Statement of Financial Accounting Standards (PSAK)

PSAK No. 24, "Accounting for Employees Benefits"

In July 2004, the 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 24 ''Accounting for Pension Benefits Cost'', which was issued in 1994.

The Revised PSAK 24 will be 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 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.

As of the date of this report, the Company and Subsidiaries are still in the process of evaluating the effects of the Revised PSAK No. 24.

PSAK No. 38, "Accounting for Restructuring of Entities Under Common Control"

In July 2004, IAI revised PSAK No. 38, ''Accounting for Restructuring of Entities Under Common Control'', which provides for the realization of the restructuring difference to gain or loss if the conditions therein are fulfilled. This PSAK No. 38 (Revised 2004) will be effective for the financial statements covering periods beginning on or after January 1, 2005. As of the date of this report, the Company and Subsidiaries are still in the process of evaluating the effects of PSAK No. 38 (revised 2004).

aa. 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 dilution.

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3. CASH AND CASH EQUIVALENTS

This account consists of:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Cash on hand	139,355	42,228	16,406
Banks			
Related party			
Rupiah			
PT Bank Himpunan Saudara 1906	1,334,355	1,450,112	2,873,316
Third parties			
Rupiah			
Citibank, NA	4,343,406	500,226	63,343
PT Bank Mandiri (Persero) Tbk	1,515,674	1,140,659	1,424,618
PT Bank Central Asia Tbk	806,627	—	—
PT Bank Niaga Tbk	330,985	489,915	972,980
PT Bank Internasional Indonesia Tbk	157,347	213,533	104,748
PT Bank Negara Indonesia (Persero) Tbk	145,600	172,734	—
PT Bank Rakyat Indonesia (Persero) Tbk	113,787	108,288	64,503
PT Bank Lippo Tbk	—	—	23,956
Others (each below US$5,000)	2,944	2,499	1,033
United States Dollars			
United Overseas Bank Ltd. (including cash in transit amounting to US$97,956,309)	105,323,895	—	—
Citibank, NA	79,468,680	32,416,695	66,760,585
ANZ Bank Brisbane	5,155,488	—	—
Merrill Lynch Capital Service, Inc.	2,485,403	648,198	—
Standard Chartered Bank	1,542,513	15,889,392	512,319
PT Bank Central Asia Tbk	1,004,465	299,980	—
Fortis Bank S.A./N.V., Singapore	899,377	1,843,435	—
PT Bank Mandiri (Persero) Tbk	126,744	35,861,318	168,437
PT Bank Niaga Tbk	23,764	38,744	458,017
Others (each below U$100,000)	33,143	77,095	79,273
Australian Dollars			
Australia New Zealand (ANZ) Bank	2,265,961	—	—
AED Dirham			
Citibank, NA	62,960	46,624	55,317
Euro			
ABN Amro	459	—	—
Singapore Dollars			
Citibank, NA	—	25,586,500	—
Sub-total	207,143,577	116,785,947	73,562,445

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3. CASH AND CASH EQUIVALENTS (continued)

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Time deposits			
Related party			
Rupiah			
PT Bank Himpunan Saudara 1906	1,442,412	32,486	30,759
Third parties			
Rupiah			
PT Bank Mega Tbk	2,583,262	4,319,312	—
United States Dollars			
PT Bank Niaga Tbk	3,938,650	5,044,289	—
Standard Chartered Bank	54,778	—	—
PT Bank Bumiputera Indonesia Tbk	—	5,043,195	—
Union Bank of Switzerland	—	3,102,200	—
Sub-total	8,019,102	17,541,482	30,759
Total	**215,302,034**	**134,369,657**	**73,609,610**
Interest rate per annum on time deposits			
Rupiah	5.75%-7.50%	6.50%-6.75%	6.92%-13.00%
United States Dollars	0.68%-2.20%	0.78%-2.25%	—

4. SHORT-TERM INVESTMENTS

This account consists of:

	2004	2003	2002
Marketable Securities			
Money Market			
PT Danatama Makmur	5,419,579	—	—
PT Andalan Artha Advisindo Sekuritas	5,000,000	—	—
PT Kresna Graha Sekurindo Tbk	2,162,988	—	—
BNI Investment	1,453,175	—	—
Medium Term Bond (MTB)			
PT Bank Mandiri (Persero) Tbk	8,327,800	8,565,535	—
PT Bank Rakyat Indonesia (Persero) Tbk	334,230	10,493,437	—
Dana Ganesa Abadi	238,334	—	—
Indofood International Finance Ltd	—	9,343,937	—
PT Freeport McMoran	—	9,260,000	—
Government Bond	—	6,163,615	—
PT Bank Negara Indonesia (Persero) Tbk	—	1,044,800	—

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4. SHORT-TERM INVESTMENTS (continued)

	2004	2003	2002
Shares of Stock			
PT Indopremier Securities	6,737,696	2,423,688	—
PT Niaga Aset Manajemen	738,772	241,238	—
PT Bumi Resources Tbk (56,395,000 shares in 2003)	—	3,331,069	—
Sub-total	30,412,574	50,867,319	—
Time deposits with maturity of more than 3 months			
Third parties			
United States Dollars			
PT Bank Bumiputera Indonesia Tbk	—	—	2,500,000
Rupiah			
PT Bank Niaga Tbk	—	188,325	—
Time deposits used as collateral			
United States Dollars			
The Hong Kong and Shanghai Banking Corporation Ltd.	—	474,500	474,500
PT Bank Mandiri (Persero) Tbk	—	235,000	—
PT Bank Niaga Tbk	—	67,700	67,700
Sub-total	—	965,525	3,042,200
Total	30,412,574	51,832,844	3,042,200
Interest rate per annum			
Bonds	7%-13.5%	7%-14%	—
Time deposits			
United States Dollars	—	1%-1.5%	2%-3%
Rupiah	—	5.8%	—

Certain time deposits are used as collateral for the issuance of short-term bank guarantee certificates, letters of credit, performance bond and bid bonds.

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5. TRADE RECEIVABLES — NET

The details of this account are as follows:

a. By debtor:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Related parties			
Mesa Drilling Inc.	774,184	774,184	774,184
Medco Moeco Langsa Ltd.	91,478	—	—
Sub-total	865,662	774,184	774,184
Allowance for doubtful accounts	(774,184)	(774,184)	—
Net	91,478	—	774,184
Third parties			
Local debtors	55,628,974	44,225,748	37,732,448
Foreign debtors	19,207,850	24,849,036	38,041,288
Joint Venture receivables	3,699,633	—	—
Sub-total	78,536,457	69,074,784	75,773,736
Allowance for doubtful accounts	(2,149,855)	(2,126,010)	(1,359,799)
Net	76,386,602	66,948,774	74,413,937
Total	**76,478,080**	**66,948,774**	**75,188,121**

b. By age category:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Not yet due	62,130,859	21,906,031	46,716,170
1 — 30 days past due	8,942,293	24,115,647	18,744,585
31 — 60 days past due	2,503,607	16,297,312	5,804,081
61 — 90 days past due	168,485	2,698,944	2,371,345
91 — 120 days past due	969,217	197,996	391,556
More than 120 days past due	4,687,658	4,633,038	2,520,183
Total	79,402,119	69,848,968	76,547,920
Allowance for doubtful accounts	(2,924,039)	(2,900,194)	(1,359,799)
Net	**76,478,080**	**66,948,774**	**75,188,121**

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5. TRADE RECEIVABLES — NET (continued)

c. By currency:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
United States Dollars	76,687,899	69,016,583	75,879,144
Rupiah	2,714,220	818,922	662,231
Singapore Dollars	—	13,463	4,690
AED Dirham	—	—	1,855
Total	79,402,119	69,848,968	76,547,920
Allowance for doubtful accounts	(2,924,039)	(2,900,194)	(1,359,799)
Net	**76,478,080**	**66,948,774**	**75,188,121**

The changes in the allowance for doubtful accounts are as follows:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Beginning balance	2,900,194	1,359,799	1,629,766
Additional	23,845	1,540,395	473,405
Write-off	—	—	(743,372)
Ending balance	2,924,039	2,900,194	1,359,799

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, 2004 and 2003, trade receivables totalling US$13,738,327 and US$10,453,610, respectively, were used as security for loans received from Fortis Bank and PT Bank Central Asia Tbk (Note 20).

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6. OTHER RECEIVABLES — NET

This account consists of:

	2004	2003 (As Restated, Note 42)	2002
BP Migas	19,433,858	29,228,157	11,657,327
Joint Venture receivables	7,905,941	—	—
Loans to employees	2,746,000	3,235,106	5,482,684
PT Pelayanan Listrik Nasional Batam (PLN Batam)	1,542,064	—	—
Tax office (Note 17)	1,432,577	—	—
Pertamina Doh Sumbagteng	1,058,274	—	—
PT Investindo Nusantara Sekuritas	862,927	—	—
JOB Pertamina Lirik	531,891	—	—
Interest receivable	—	481,767	—
Fortune Oil Ltd.	—	1,000,031	—
PT Tugu Pratama Indonesia (TPI)	—	—	16,679,129
Others	10,313,365	11,783,078	4,315,168
Total	45,826,897	45,728,139	38,134,308
Long-term portion	(1,439,996)	—	—
Current portion	44,386,901	45,728,139	38,134,308
Allowance for doubtful accounts	(133,565)	—	—
Net	**44,253,336**	**45,728,139**	**38,134,308**

Accounts receivable from BP Migas represent Value Added Tax (VAT) that have 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.

Receivables from PLN Batam represent the costs advanced by a subsidiary to install Gas Turbin Genset Dual Fuel on behalf of PLN Batam which will be repaid back by PLN Batam on installment based on a fixed price per production output of electric energy as stated in the agreement (Note 37e).

Accounts receivable from 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.

(Expressed in United States Dollars, unless otherwise stated)

7. INVENTORIES — NET

Inventories consist of:

	2004	2003	2002
Spare parts, well supplies and others	19,742,974	36,729,931	31,261,874
Materials in transit	11,467,617	1,530,928	2,905,118
Methanol	1,148,580	1,331,610	812,619
Total	32,359,171	39,592,469	34,979,611
Allowance for decline in value	(688,261)	(1,373,576)	(914,928)
Net	**31,670,910**	**38,218,893**	**34,064,683**

The changes in the allowance for decline in value of inventories are as follows:

	2004	2003	2002
Beginning balance	1,373,576	914,928	933,998
Additions	67,022	458,648	—
Write-off	(752,337)	—	(19,070)
Ending balance	**688,261**	**1,373,576**	**914,928**

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 certain insurance companies as of December 31, 2004, 2003 and 2002.

8. PREPAID TAXES

The details of this account are as follows:

	2004	2003 (As Restated, Note 42)	2002
Company			
Corporate income tax overpayment	1,039,490	801,950	1,210,952
Value added tax	—	273,456	122,091
Sub-total	1,039,490	1,075,406	1,333,043
Subsidiaries			
Corporate income tax overpayment	11,944,854	9,866,093	7,111,306
Value added tax	4,584,246	12,126,062	8,056,943
Sub-total	16,529,100	21,992,155	15,168,249
Total	**17,568,590**	**23,067,561**	**16,501,292**

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9. RESTRICTED CASH IN BANKS

The details of this account are as follows:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Current			
Third parties			
United States Dollars			
Fortis Bank S.A./N.V., Singapore	15,563,740	11,372,118	—
PT Bank Central Asia Tbk	2,111,842	4,442,302	—
PT Bank Negara Indonesia (Persero) Tbk	—	—	703,750
Total	**17,675,582**	**15,814,420**	**703,750**
Non-current			
Related party			
Rupiah			
PT Bank Himpunan Saudara 1906	6,225,212	4,755,550	1,079,754
Third parties			
Rupiah			
PT Bank Niaga Tbk	4,235,414	3,640,874	—
PT Bank Negara Indonesia (Persero) Tbk	1,378,902	4,614,294	—
PT Bank Mandiri (Persero) Tbk	269,107	295,334	279,642
United States Dollars			
Morgan Stanley & Co. Int’l Ltd. (Note 19)	6,253,050	6,800,000	1,250,000
Standard Chartered Bank	4,000,000	2,029,877	2,012,506
Total	**22,361,685**	**22,135,929**	**4,621,902**

Current 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 (Note 20).

Non-current restricted cash in banks (Rupiah) in PT Bank Himpunan Saudara 1906, PT Bank Niaga Tbk and PT Bank Negara Indonesia (Persero) Tbk represent Subsidiaries’ time deposits and current account used for employees’ loans collateral.

Current account in Morgan Stanley & Co. Int’l Ltd. (Morgan Stanley) represents eligible collateral in connection with the interest rate swap transaction between a subsidiary and Morgan Stanley. This collateral shall be held by Morgan Stanley until the termination date of the swap contract (Note 19).

Current account placed in PT Bank Central Asia Tbk (BCA) represents escrow account in relation to bank loan obtained by a Subsidiary from the same bank (Note 20).

Current account with Standard Chartered Bank (SCB) represents eligible collateral in connection with the bank guarantee facilities obtained by the Company and Subsidiaries from SCB (Notes 19 and 37).

Current account with PT Bank Negara Indonesia (Persero) Tbk represents fund placements by a Subsidiary in connection with the issuance of bank guarantee certificates by the said bank to TotalFinaElf Indonesie (TOTAL). The bank guarantee was terminated in 2003.

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10. ACCOUNTS RECEIVABLE FROM RELATED PARTIES — NET

This account consists of the following:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Medco Moeco Langsa Limited (MML)	9,752,836	—	—
Mesa Drilling Inc.	268,546	1,287,382	1,177,964
Consortium CPA-Exspan	81,979	96,160	—
Probe Technology Service Inc.	—	17,824	17,824
Medco Central Asia Ltd. (MCA)	—	—	53,068,518
PT Medco Duta (Duta)	—	—	29,395,496
PT Medco Inti Dinamika (Inti)	—	—	4,623,095
Total	10,103,361	1,401,366	88,282,897
Allowance for doubtful accounts	—	—	(87,087,109)
Net	**10,103,361**	**1,401,366**	**1,195,788**

The changes in allowance for doubtful accounts is as follows:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Beginning balance	—	87,087,109	87,087,109
Addition		—	—
Deduction	—	(87,087,109)	—
Ending balance	**—**	**—**	**87,087,109**

Receivables from MML mainly represent unsecured revolving credit facility provided by MEFL, a subsidiary to MML. The loan bears interest of 1% above the cost of fund of MEFL (Note 34).

The beginning balance of the allowance for doubtful accounts in 2003 represents allowance for the receivables from MCA, Duta and Inti, which have been outstanding since 1999. These receivables were identified as transactions that maybe construed as conflict of interest transactions in accordance with the existing decrees of BAPEPAM and hence, required the approval from the independent stockholders. Accordingly, the Independent Stockholders, in their Extraordinary General Meeting held on August 30, 2002, have approved on the rescheduling of the repayment of the receivables from Duta and Inti up to nine (9) years from the date of the said 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.

On June 30, 2003, the receivables from MCA, Duta and Inti were sold to PT JAIC Indonesia through tender process for US$1,910,383 (recorded under Other Income).

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11. INVESTMENTS IN SHARES OF STOCK

This account consists of the following:

	December 31, 2004				
	Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings (Losses) — Net	Others	Net
At Equity					
Probe Technology Services Inc. (Probe)	36.89	1,408,038	(406,724)	—	1,001,314
Consortium CPA — Exspan	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)
At Cost					
Mesa Drilling Inc. (MESA)	50.00	2,023,416	—	—	2,023,416
		3,501,455	(1,417,169)	(70,000)	2,014,286
Advances for investments					6,000,000
Total					**8,014,286**

	December 31, 2003				
	Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings (Losses) — Net	Others	Net
At Equity					
MESA	50.00	3,000,000	(976,584)	(1,059,566)	963,850
Probe	37.10	1,408,038	(649,138)	—	758,900
Consortium CPA — Exspan	50.00	70,000	—	(70,000)	—
Total		**4,478,038**	**(1,625,722)**	**(1,129,566)**	**1,722,750**

	December 31, 2002				
	Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings (Losses) — Net	Others	Net
At Equity					
MESA	50.00	3,000,000	(860,833)	(1,252,215)	886,952
Probe	37.10	1,408,038	(531,402)	—	876,636
Consortium CPA — Exspan	50.00	70,000	—	(70,000)	—
Total		**4,478,038**	**(1,392,235)**	**(1,322,215)**	**1,763,588**

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11. INVESTMENTS IN SHARES OF STOCK (continued)

The equity in net earnings (losses) of associated entities for the years ended December 31, 2004, 2003 and 2002 are as follows:

	December 31,		
	2004	2003	2002
Probe	242,414	(117,736)	(372,742)
Consortium CPA-Exspan	3,099	—	—
MML	(1,010,445)	—	—
MESA	—	76,898	(688,806)
Net	**(764,932)**	**(40,838)**	**(1,061,548)**

MESA and Probe were entities incorporated and currently operate in USA, while MML was incorporated in Mauritius and operate in Indonesia.

On June 15, 2001, Apexindo transferred one unit of rig to MESA 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 statement 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. 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 one unit of rig that 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 release all of its shares and assets in MESA. Accordingly, the outstanding balance of the deferred gain on exchange of non-monetary asset amounting to US$1,059,566 was recognized as income at the time of the sale of such rig.

As discussed in Note 41, Apexindo has signed a Stock Purchase Agreement with MESA to transfer its 50% ownership interest to MESA for US$2 million.

MML is engaged in the exploration of crude oil and gas in Langsa contract area of East Aceh, Sumatera under a TAC (Note 37). MML is the operator of the Langsa Block TAC where it also has 70% undivided interest in the TAC and the LOA. It started its commercial production on November 7, 2004 until its commercial lifting took place on January 6, 2005.

Advances for investments in 2004 consists of US$5 million for investment in Bawean PSC and US$1 million for investment in shares of stock of PT Energy Sengkang (Note 37).

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12. PROPERTY AND EQUIPMENT — NET

	2004				
	Beginning Balance	Additions	Deductions	Reclassifications	Ending Balance
Carrying Value					
Land	741,665	—	—	292,722	1,034,387
Buildings and land improvements	3,436,570	1,941,023	—	1,452,701	6,830,294
Onshore and offshore drilling rigs and equipment	393,533,867	36,860,375	93,386	18,124,811	448,425,667
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
Total Carrying Value	430,822,120	45,412,354	428,223	—	475,806,251
Accumulated Depreciation					
Buildings and land improvements	1,432,414	145,783	—	—	1,578,197
Onshore and offshore drilling rigs and equipment	165,040,681	23,557,951	52,833	—	188,545,799
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
Total Accumulated Depreciation	178,561,509	25,521,946	273,464	—	203,809,991
Net Book Value	**252,260,611**				**271,996,260**

	2003 (As Restated, Note 42)				
	Beginning Balance	Additions	Deductions	Reclassifications	Ending Balance
Carrying Value					
Land	741,665	—	—	—	741,665
Buildings and land 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 improvement	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 Carrying Value	364,411,988	71,661,178	5,251,046	—	430,822,120
Accumulated Depreciation					
Buildings and land 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 improvement	2,045,065	1,136,680	643,553	(773,555)	1,764,637
Total Accumulated Depreciation	158,815,210	22,570,067	2,823,768	—	178,561,509
Net Book Value	**205,596,778**				**252,260,611**

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12. PROPERTY AND EQUIPMENT — NET (continued)

	2002				
	Beginning Balance	Additions	Deductions	Reclassifications	Ending Balance
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
Total	269,468,298	111,661,538	16,717,848	—	364,411,988
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
Total	146,712,934	15,924,596	3,822,320	—	158,815,210
Net Book Value	**122,755,364**				**205,596,778**

Allocation of depreciation expense is as follows:

	2004	2003 (As Restated, Note 42)	2002
Depreciation and amortization	24,631,057	21,600,190	14,942,911
Operating expenses	890,889	969,877	981,685
Total	**25,521,946**	**22,570,067**	**15,924,596**

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^2 of land in Bojonegara. As of the date of this report, Apexindo is still in the process of transferring the landright certificate in Bojonegara to be under its name.

As of December 31, 2004, construction in progress mainly represents the construction of an offshore jack-up drilling rig and drilling equipment.

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 for a gain of US$2,458,879 (presented under Other Income, net of final tax of US$474,316).

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12. PROPERTY AND EQUIPMENT — NET (continued)

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 over the utilization of such assets. The details of the change in useful lives are as follows:

	Years	
	Before	After
Offshore drilling rigs		
Rig Raniworo	18	20
Rig Raisis	17	20
Rig equipment	4-5	4-10

The change in estimated useful lives has decreased the direct cost by US$2,422,823 and increased the net income by US$1,314,890 in 2004.

Interest and other borrowing costs capitalized as part of the property and equipment amounted to US$2,438,891 as of December 31, 2004 and 2003, and US$1,004,565 as of December 31, 2002.

Certain property and equipment are used as collateral for the loan facilities obtained from several banks and to the bonds payable (Notes 20 and 21).

All property and equipment, except land, and inventories were insured against fire, theft and other possible risks for US$769,716,903 and Rp24,829,100 thousand as of December 31, 2004, US$242,741,694 and Rp25,323,292 thousand as of December 31, 2003, and US$174,649,005 and Rp19,965,182 thousand as of December 31, 2002. Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

13. OIL AND GAS PROPERTIES — NET

This account consists of the following:

	2004	2003	2002
Operated acreage	44,996,947	26,237,474	22,378,474
Unoperated acreage	4,704,065	4,089,652	1,409,000
Wells and related equipment and facilities	525,565,485	346,764,600	307,555,991
Office equipment	9,556,821	9,187,311	4,967,309
Vehicles	3,237,636	3,237,635	2,806,376
Uncompleted wells, equipment and facilities	135,728,868	82,137,573	55,586,933
Fair value adjustments	113,628,945	56,935,016	56,293,137
Total	837,418,767	528,589,261	450,997,220
Accumulated depreciation and amortization	(356,836,054)	(216,298,430)	(164,969,111)
Net Book Value	**480,582,713**	**312,290,831**	**286,028,109**

As of December 31, 2004, 2003 and 2002, all wells and related equipment and facilities of subsidiaries involved in oil and gas exploration and production were insured for US$207,476,083, US$296,449,614 and US$297,323,345, respectively.

This account includes oil and gas properties of Medco Madura Pty. Ltd. (Medco Madura) amounting to US$20,678,939 in respect of the Madura Block PSC which exploration license is due to expire on May 15,

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13. OIL AND GAS PROPERTIES — NET (continued)

2005. Medco Madura has submitted a request for the extension of this license in its letter dated March 22, 2005 to BP Migas. On 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.

Oil and gas properties include US$132,808,653 including (US$56,693,929 fair value adjustment) from newly acquired Novus subsidiaries in 2004 (Notes 1b, 2c and 37b).

14. OTHER ASSETS — NET

This account consists of the following:

	2004	2003	2002
Current			
Assets for sale	194,873,189	—	—
Advances	624,955	—	—
Total	**195,498,144**	**—**	**—**
Non-current			
Advance payment for property and equipment	3,095,626	3,116,843	3,095,626
Security deposits	1,851,711	805,867	1,040,436
SAP Software costs — net	1,785,900	3,950,135	3,532,154
Deferred charges	728,387	—	—
Notes receivable — Asia Finance, Ltd.	—	5,170,350	5,170,350
Others	1,496,514	1,237,184	3,567,204
Total	8,958,138	14,280,379	16,405,770
Allowance for possible losses on notes receivable and advance payment for property and equipment	(3,095,626)	(8,265,976)	(8,265,976)
Net	**5,862,512**	**6,014,403**	**8,139,794**

Assets for sale represent the net assets and working interest of Novus subsidiaries which are for disposal or the Company intends to dispose/sell or transfer in accordance with existing agreements signed by the Company or its subsidiaries with several third parties (Notes 37b and 41). Assets for sale include US$127,481,273 (including US$68,891,867 fair value adjustment) representing oil and gas properties of these subsidiaries.

Notes receivable from Kredit Asia Finance, Ltd., Hong Kong, with 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. The Company has written off the receivables in 2004 based on 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.

Advance 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, which amounting to US$3,095,626. The developer has stopped the construction of the project since 1999. Management has made a 100% provision for possible losses on this account.

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15. TRADE PAYABLES

This account consists of the following:

a. By creditor:

	2004	2003 (As Restated, Note 42)	2002
Related parties			
PT Andrawina Praja Sarana	788,337	612,535	334,712
PT Multifabrindo Gemilang	—	20,873	—
Sub-total	788,337	633,408	334,712
Third parties			
Local suppliers	45,844,696	40,955,231	36,999,152
Foreign suppliers	3,556,070	3,217,453	12,727,474
Sub-total	49,400,766	44,172,684	49,726,626
Total	**50,189,103**	**44,806,092**	**50,061,338**

b. By age category:

	2004	2003 (As Restated, Note 42)	2002
Up to 1 month	41,383,295	28,024,143	38,697,664
1 - 3 months	4,412,730	14,708,081	7,516,513
3 - 6 months	3,012,520	1,020,895	2,880,541
6 months - 1 year	446,066	276,437	526,590
More than 1 year	934,492	776,536	440,030
Total	**50,189,103**	**44,806,092**	**50,061,338**

c. By currency:

	2004	2003 (As Restated, Note 42)	2002
United States Dollars	40,994,530	36,904,106	41,149,766
Rupiah	8,626,086	7,415,158	7,962,208
Singapore Dollars	442,461	421,610	659,349
Euro	126,026	65,218	233,845
British Poundsterling	—	—	56,170
Total	**50,189,103**	**44,806,092**	**50,061,338**

Purchases of materials and services, both from local and foreign suppliers, have credit terms of 30 to 60 days.

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16. OTHER PAYABLES

This account consists of the following:

	2004	2003	2002
Joint Venture payables	11,632,966	1,746,963	—
Beyond Petroleum (BP)	4,536,217	4,536,217	4,536,217
Falcon Oil Ltd.	4,980,529	3,559,879	—
BP Migas	2,206,734	2,276,261	2,308,497
Others	6,602,119	2,454,181	3,024,653
Total	**29,958,565**	**14,573,501**	**9,869,367**

Payable to BP 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 certain volume as provided in the agreement.

17. TAXES PAYABLE

This account consists of:

	2004	2003 (As Restated, Note 42)	2002
Company			
Income tax			
Article 21	336,619	556,873	2,567,416
Article 23	56,089	52,032	5,101
Article 26	1,023,094	333,001	17,813
Value added tax	258,742	—	174,843
Sub-total	1,674,544	941,906	2,765,173
Subsidiaries			
United States of America tax liabilities	—	12,012,854	10,225,748
Corporate income tax	7,975,026	10,509,238	7,526,255
Income tax			
Article 4 (2)	4,483	—	—
Article 15	2,325	—	—
Article 21	1,853,609	60,031	798,449
Article 23	1,098,359	1,120,708	1,414,287
Article 25	36,167	67,582	—
Article 26	6,952	762,645	112,199
Tax on revaluation of fixed assets — current portion	1,722,519	1,890,396	1,789,955
Value added tax	3,264,337	3,138,127	1,991,996
Sub-total	15,963,777	29,561,581	23,858,889
Total	**17,638,321**	**30,503,487**	**26,624,062**

US Tax Obligation

The Secretary of 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

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17. TAXES PAYABLE (continued)

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 void and any actions taken while the companies were void have been validated.

As of December 31, 2003 and 2002, the Company has provided for US$15.3 million and US$13.5 million provision for its US tax obligations, respectively, consisting of US$12 million in 2003 and US$10.2 million in 2002 for the principal amount (presented under Taxes Payable) and US$3.3 million in 2003 and 2002 for interest charges (included in Accrued Expenses) (Note 18).

The Company and Subsidiaries have made it a top priority to become compliant with their 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, 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 advise by 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. On the letter of the Territory Manager of the IRS in September 2004 to the Director of the Philadelphia Service Center, it had indicated that any applicable penalties related to the Subsidiaries delinquent filing of the returns should be waived.

In 2004, tax obligations settled by the Subsidiaries with the IRS with respect to their 1995 - 2003 tax obligations amounted to about US$9.9 million including interest amounting to about 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

In 2002, Apexindo received various tax assessment letters for tax underpayments 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 and on June 27, 2003 has obtained an approval for such objection. Apexindo received tax refund amounting to Rp11,237,576 thousand and interest amounting to Rp6,069,870 thousand.

In 2003, Apexindo and its subsidiary (Apexindo) received several assessment letters from the Tax Office for their over and underpayment of the 2001 corporate income tax. As required under the Indonesian taxation, Apexindo has fully settled the underpayment in 2003 for a total amount of approximately US$842,646 (Rp7,828,183 thousand). At the same time, Apexindo submitted its objection letter for the said assessments in 2003. On September 9, 2004, Apexindo received approval letters from the Tax Office for the tax objections and has been granted tax refund of approximately US$705,805 (Rp6,556,931 thousand). As of December 31, 2004, Apexindo has not yet received the said tax refund and has recognized interest receivable totaling US$8,712.

On June 28, 2004, Apexindo received assessment from the Tax Office for deficiency taxes (including penalties) totaling US$365,406 and adjusted Apexindo's tax income in 2002 from Rp21,436,992 thousand to Rp25,781,644 thousand. The Tax Office also approved the claim of Apexindo for income tax refund for the

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17. TAXES PAYABLE (continued)

2002 fiscal year (except claim for some prepaid tax Article 23) amounting to US$3,888,929, net of tax deficiencies and penalties and was refunded on July 9, 2004. On September 9, 2004, Apexindo submitted its objection letter for claim of prepaid tax Article 23 amounting to US$686,945 to the Director General of Taxation. In March 2004, Apexindo has received approval for its claims for tax refund totaling US$4,159,084 thousand, which were collected in March and April 2004.

In 2004, EPI received assessment from the Tax Office for deficiency taxes (including penalties) totaling US$944,619 for fiscal years 1999 and 2002. EPI has only paid US$723,603 in 2004. On May 12, 2004, EPI submitted its objection for the above tax assessment to the Tax Office. As of the date of this report, the Tax Office has not yet completed its review.

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.

18. ACCRUED EXPENSES

	2004	2003 (As Restated, Note 42)	2002
Interest	8,708,369	2,719,706	—
Severance	1,962,471	735,788	—
Abandonment and site restoration (Note 40)	1,204,689	—	—
Labor supply	280,595	610,842	—
Interest on US tax liabilities (Note 17)	—	3,331,666	3,285,033
Penalty for late delivery of rig Yani	—	858,964	—
Rig construction	—	—	29,966,932
Others	8,528,736	3,625,637	6,805,338
Total	**20,684,860**	**11,882,603**	**40,057,303**

19. DERIVATIVES

i. On June 19, 2003 as amended by the 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’’) of US$2 million. As of December 31, 2003, the collateral has been increased to US$6.8 million (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). As of December 31, 2004, the collateral amount was increased to US$5,884,652 to cover the fluctuations on the interest rate swap based on mark to market statement from MS. The fair value of the swap payable amounted to US$3,557,398 and US$3,038,378 as of December 31, 2004 and 2003, respectively, while net gain on settlement of the interest rate payment amounted to US$2,749,347 for the year ended December 31, 2004. As discussed in Note 41, the Company has unwind the agreement effective on April 29, 2005.

19. DERIVATIVES (continued)

ii. On July 13 and July 15, 2004, the Company entered into a cross-currency interest rate swap (CCIRS) agreements with Merril Lynch Capital Services, Inc. (ML) for a notional amount of US$25 million each. Under the agreements, the Company will receive a fixed rate of 13.125% per year, and pays a floating rate equivalent to US$-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. The fair value of the swap receivables amounted to US$1,723,340 as of December 31, 2004, while net gain on settlement of the interest rate payment amounted to US$1,099,700 for the year ended December 31, 2004.

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% and pays 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 swap receivables amounted to US$669,750, while net gain on settlement of the interest rate payment amounted to US$394,561 for the year ended December 31, 2004. 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 a fixed rate of 7.23% per annum (Note 41).

iv. On October 19, 2004, the Company entered into a CCIRS agreement with Citibank NA 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 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% and pays 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$431,704 as of December 31, 2004.

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 pays 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. As discussed in Note 41, the Company has unwind the foreign exchange swap contracts on May 9, 2005.

(Expressed in United States Dollars, unless otherwise stated)

19. DERIVATIVES (continued)

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$17,972 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, while the fair value of interest rate swap payable amounted to US$211,397 as of December 31, 2003.

vii. On December 22, 2003, MEFL entered into a European Compound Option Currency (USD)/AUD) contract with UBS AG, of which MEFL paid a premium of AUD1,346,000 for the option. The contract has a call currency and call currency amount of AUD300 million, and put currency and out 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.

20. BANK LOANS

This account consists of:

	2004	2003	2002
SHORT-TERM BANK LOAN			
United Overseas Bank Ltd.	150,000,000	—	—
LONG-TERM BANK LOANS			
United Overseas Bank Ltd.	50,000,000	—	—
Fortis Bank S.A./N.V., Singapore	40,744,546	52,376,090	—
PT Bank Central Asia Tbk	40,161,924	22,869,341	—
PT Bank Mandiri (Persero) Tbk	—	—	2,499,920
Total	130,906,470	75,245,431	2,499,920
Less current portion	30,863,132	24,975,720	2,499,920
Long-term portion	100,043,338	50,269,711	—
Interest rate per annum	2.15% - 7.375%	2.15% - 5.53%	5.19% - 5.53%

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$120,000,000 bridging loan facility. The proceeds of the facility was used to part-finance the acquisition of NPL and to refinance the Novus notes obligation. The loan bears interest at SIBOR plus margin of 5 (five) % per annum. The loan shall be repaid in full on 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;

20. BANK LOANS (continued)

a. Syndicated Loan (continued)

- Ensure that its obligation under this agreement at all times rank 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 distribution 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 transaction 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 guarantee to the Company's subsidiaries.

On June 30, 2004, the Company has entered into an Amendment and Restatement Agreement to Bridging Loan Facility with UOB and Overseas-Chinese Banking Corporation Limited (OCBC) as arrangers and UOB as agent, of which the amount of facility has increased to US$200,000,000. The loan which shall be available from August 24, 2004, bears interest at SIBOR plus margin of 4% per annum. All the terms and conditions of the previous agreement dated May 24, 2004 remain the same.

Subsequently on December 30, 2004, the Company signed another loan agreement with the arrangers, lenders and the facility agent. Under the agreement, the US$105,000,000 of the US$200,000,000 Bridging loan facility was converted into US$105,000,000 Transferrable Loan Facility, with interest at SIBOR plus a margin ranging from 3%-6.50% as specified in the agreement. The facility which shall be available beginning 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.

As of the date of this report, the Company has paid US$150,000,000 of the bank loan (Note 41).

b. PT Bank Central Asia Tbk (BCA)

The BCA loans consisted of US$19,171,612 obtained by Apexindo and US$20,990,312 (equivalent to Rp195 billion) obtained by MEB in 2004 and US$22,869,341 obtained by Apexindo in 2003.

20. BANK LOANS (continued)

b. PT Bank Central Asia Tbk (BCA) (continued)

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 (KI) amounting to US$20,000,000, with 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 (KL) amounting to US$5,000,000, with 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$5,000,000 for 3 (three) years.

The above facilities are collateralized by Apexindo's Maera drilling rig and cash flow waterfall retained from rigs Maera and Raisis, which should 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):

- 1st — 3rd installments: 5% each of the principal amount
- 4th — 7th installments: 6.5% each of the principal amount
- 8th — 11th installments: 8% each of the principal amount
- 12th — 15th 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 (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 investment or establish new business, which value exceeds 10% of Apexindo revenue or 20% of its total equity.
- Sale, 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 Rp10,000,000 thousand which will mature on August 25, 2005.

As of December 31, 2004, the bank guarantee facilities that have been utilized by Apexindo amounted to US$3,708,952.

20. BANK LOANS (continued)

b. PT Bank Central Asia Tbk (BCA) (continued)

ii. MEB

The Rp195 billion loan of 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. The loan is collateralized by all of MEB's property and equipment, rights over receivables on Panaran Project, shares of stock of MEB, advance payment guarantee for Roll Royce, performance bonds (Note 5), rights on project insurance, and all BCA accounts related to the project (Note 12). The loan is payable monthly for 84 equal installments from August 10, 2004.

c. 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 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 over four years with 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.

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 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 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 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.

20. BANK LOANS (continued)

c. Fortis Bank (continued)

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 dividend and/or other portion 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).

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 buy back the Raissa rig from AAP.
- Sale and Purchase Agreement dated June 4, 2003, whereby Apexindo agreed to sell and transfer all its rights and obligations on the Yani rig to AAP.
- Conditional Installment Asset Sale Agreement dated June 4, 2003, whereby Apexindo agreed to buy back the Yani rig from AAP.

As discussed in Note 41, the Fortis Bank loans have been fully settled based on the confirmation letter of the Bank to Apexindo dated June 7, 2005.

d. PT Bank Mandiri (Persero) Tbk

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 loan from BDN Bank AG, Germany has been taken over by PT Bank Mandiri (Persero) Tbk. 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 of B.R.Ay. Mahyastoeti Notonagoro, S.H., dated May 23, 2001.

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. The loan from PT Bank Mandiri (Persero) Tbk was fully paid on October 31, 2003.

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21. OTHER LONG-TERM OBLIGATIONS

	2004	2003 (As Restated, Note 42)	2002
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	100,000,000
Treasury notes	(70,863,000)	(85,863,000)	—
Net	282,048,000	267,048,000	100,000,000
Less unamortized discounts	7,818,810	9,175,863	3,772,356
Net	**274,229,190**	**257,872,137**	**96,227,644**
Rupiah Bonds			
Rupiah Bonds due in 2009	145,445,875	—	—
Less unamortized discounts	1,283,286	—	—
Net	**144,162,589**	**—**	**—**
Interest rate per annum	8.75% — 13.125%	8.75% — 10.00%	10.00%

Long-Term Rupiah Bonds Due in 2009

On June 29, 2004, the Company issued Rupiah Bonds (IDR Bonds) at 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 first payment due on October 12, 2004.

Under the terms and conditions of the IDR Bonds, the Company is restricted from performing the following actions, among others, without prior approval from designated trustee:

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 pledge before the trustee agreement or loan, loans to employees, employees' welfare organization/program.
5. Pledge the Company's assets including the Company's rights on income on those assets, except those pledged for:

   — payment of outstanding payable based on bond and trustee agreement.
   — those existing before the trustee agreement.
   — those in connection with the 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) those transfer of assets without any income, and (b) those transfer of assets in connection with asset securitization.
7. Issue bonds or obtaining 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.

21. OTHER LONG-TERM OBLIGATIONS (continued)

Long-Term Rupiah Bonds Due in 2009 (continued)

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 bond holders 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).

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.

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) 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 ratio, 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 Subsidiaries to merge unless certain conditions have been met.

On May 22, 2003, MEFL has issued another US$250 million 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 to issue any notes or other similar instruments that are senior to the notes, not sell, lease, transfer or otherwise dispose of its fixed assets other than due to impairment and not 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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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 total face value of US$85,863,000 for US$87,750,948. The difference between the carrying value of the notes and the repurchase price amounting to US$4,838,231 was charged to the 2003 consolidated statement of income. In 2004, the Company has sold its buy-back notes with total face value of US$15,000,000 for US$15,562,305. As of December 31, 2004, the outstanding balance of the buy-back notes amounted to US$68,898,567 (net of unamortized discount of US$1,964,433), with market value amounting to US$72,047,212.

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. As of December 31, 2004, the notes have market value of US$286,779,402.

MEFL has entered into several swap transactions in relation to these notes (Note 19).

22. NEGATIVE GOODWILL

Negative goodwill arose from the acquisition of the following subsidiaries:

	2004	2003	2002
Exspan Exploration and Production Pasemah, Ltd.	3,104,411	3,104,411	3,104,411
Exspan E&P Pasemah, Inc.	3,104,411	3,104,411	3,104,411
Ensearch Far East, Ltd.	1,337,421	1,337,421	1,337,421
PT Medco E&P Kalimantan	1,012,044	1,012,044	34,909
Exspan Airsenda, Inc.	729,857	729,857	729,857
Exspan Airlimau, Inc.	729,857	729,857	729,857
PT Apexindo Pratama Duta Tbk	339,215	339,215	339,215
PT Medco Sarana Balaraja	213,445	213,445	—
PT Medco E&P Tarakan	79,555	79,555	—
Total	10,650,216	10,650,216	9,380,081
Less accumulated amortization	8,851,438	3,642,977	2,964,413
Net book value	**1,798,778**	**7,007,239**	**6,415,668**

Negative goodwill of non-active or non-operating Subsidiaries totaling US$1,329,798 was fully amortized in 2004 (credited to ''Other Income'').

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23. MINORITY INTERESTS

a. Minority interests in net assets of subsidiaries:

	2004	2003	2002
PT Apexindo Pratama Duta Tbk	31,858,168	30,903,306	30,487,726
PT Medco Energi Menamas	4,356,082	—	—
PT Exspan Petrogas Intranusa	174,434	462	—
PT Medco Methanol Bunyu	1,516	1,057	496
PT Medco E&P Indonesia	—	3,536	1,335
PT Medco E&P Lematang	—	110	—
PT Medco E&P Kalimantan	—	—	2,597,185
PT Medco E&P Tarakan	—	—	1,390,558
PT Petroner Bengara Energi Indonesia	—	—	21,700
Total	**36,390,200**	**30,908,471**	**34,499,000**

b. Minority interests in net loss (income) of subsidiaries:

	2004	2003	2002
PT Exspan Petrogas Intranusa	60,072	(117)	—
PT Medco E&P Indonesia	3,524	(1,236)	(1,093)
PT Medco E&P Lematang	110	—	—
PT Apexindo Pratama Duta Tbk	(1,327,520)	(652,385)	(743,145)
PT Medco Energi Menamas	(63,912)	—	—
PT Medco Methanol Bunyu	(460)	(1,218)	(27)
PT Medco E&P Kalimantan	—	(212,870)	(415,763)
PT Medco E&P Tarakan	—	51,130	(138,877)
Medco Simenggaris Pty., Ltd.	—	—	309,805
Medco Madura Pty., Ltd.	—	—	1,209,495
Total	**(1,328,186)**	**(816,696)**	**220,395**

On October 1, 2003, the Company and its Subsidiary (MEPI) have entered into Share Purchase and Sale Agreements with PT Bina Usaha Jasa Mandiri, holder of 320,000 shares in PT Medco E&P Tarakan (MEPT), and PT Bina Usaha Jasa Triputra, holder of 1,080,000 shares in PT Medco E&P Kalimantan (MEPK), for the purchase of such shares for US$1,259,874 and US$1,794,820, respectively. These purchases increased the Company's direct ownership interest in both MEPT and MEPK to 99.99%.

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24. CAPITAL STOCK

	2004			
Stockholder	**Number of Shares**	**Ownership Percentage**	**Amount**	
			Rp000	US$
New Links Energy Resources Limited (Note 41a)	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
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)
Net	**3,105,854,450**	**100.00%**	**310,585,446**	**97,964,228**

	2003			
Stockholder	**Number of Shares**	**Ownership Percentage**	**Amount**	
			Rp000	US$
New Links Energy Resources Limited	2,849,414,565	85.51%	284,941,457	86,497,182
PT Medco Duta	78,360,000	2.35%	7,836,000	2,377,130
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%)	399,791,885	11.99%	39,979,189	12,128,420
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)
Net	**3,105,854,450**	**100.00%**	**310,585,446**	**97,964,228**

	2002			
Stockholder	**Number of Shares**	**Ownership Percentage**	**Amount**	
			Rp000	US$
New Links Energy Resources Limited	2,849,414,565	85.51%	284,941,457	86,497,182
PT Medco Duta	78,360,000	2.35%	7,836,000	2,377,130
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%)	399,791,885	11.99%	39,979,189	12,128,420
Total	3,332,451,450	100.00%	333,245,146	101,154,464
Less treasury stock	(228,198,500)	—	(22,819,850)	(3,238,849)
Total	**3,104,252,950**	**100.00%**	**310,425,296**	**97,915,615**

Based on the Extraordinary Stockholders' Meeting as stated in notarial deed No. 63 of Ny. Poerbaningsih Adi Warsito, S.H., dated June 23, 2000, 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 Rp86 billion or an average maximum price of Rp2,000 per share within 12 months since it was approved at the Extraordinary Stockholders' Meeting.

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24. CAPITAL STOCK (continued)

Based on the General Meeting of Stockholders, as stated in deed No. 76 dated June 25, 2001 of Ny. Poerbaningsih Adi Warsito, S.H., the stockholders also agreed to repurchase additional shares at a maximum cost of Rp264 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 stockownership 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, S.H., replacement on Ny. Poerbaningsih Adi Warsito, S.H., notary public in Jakarta.

Changes in the shares outstanding in 2004, 2003 and 2002 are as follows:

	Number of Shares		
	2004	**2003**	**2002**
Number of shares after stock split on May 31, 2000	3,332,451,450	3,332,451,450	3,332,451,450
Less acquisition of treasury shares:			
2000	(13,361,500)	(13,361,500)	(13,361,500)
2001	(175,121,500)	(175,121,500)	(175,121,500)
2002	(39,715,500)	(39,715,500)	(39,715,500)
Balance	3,104,252,950	3,104,252,950	3,104,252,950
Sale of treasury shares — 2003	1,601,500	1,601,500	—
Balance of 2004	**3,105,854,450**	**3,105,854,450**	**3,104,252,950**

The Company sold 1,601,500 of its 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.

25. ADDITIONAL PAID-IN CAPITAL

This account consists of:

	2004	**2003**	**2002**
Issuance of 321,730,290 shares through rights offering I to stockholders in 1999	139,908,988	139,908,988	139,908,988
Sale of 22,000,000 shares through public offering in 1994	33,500,000	33,500,000	33,500,000
Resale of shares	192,894	192,894	—
Distribution of bonus shares in 1998	(32,254,579)	(32,254,579)	(32,254,579)
Additional paid — in capital on treasury shares	(19,291,414)	(19,291,414)	(19,291,414)
Total	**122,055,889**	**122,055,889**	**121,862,995**

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

This account consists of:

	2004	2003	2002
Revaluation increment converted into capital stock	28,753,083	28,753,083	28,753,083
Conversion of additional paid-in capital into common stock by a subsidiary	1,697,294	1,697,294	1,697,294
Donated capital	107,870	107,870	107,870
Effect of new shares issued by a subsidiary	48,494	48,494	—
Effect of new shares issued in relation to initial public offering of a subsidiary	(2,769,920)	(2,769,920)	(2,769,920)
Total	**27,836,821**	**27,836,821**	**27,788,327**

27. NET SALES AND OTHER OPERATING REVENUES

Net sales and other operating revenues were derived from the following:

	2004	2003 (As Restated, Notes 42 and 44)	2002 (As Restated, Notes 42 and 44)
Net oil and gas sales	362,333,746	309,968,424	318,981,296
Drilling operations and related services	94,438,585	79,482,699	44,599,071
Net methanol sales	55,490,344	55,113,629	30,775,577
Share of profit of joint ventures	19,733,452	9,317,473	5,911,729
Electric power sales	1,534,484	—	—
Other contracts	11,550,952	9,676,376	8,296,808
Total	**545,081,563**	**463,558,601**	**408,564,481**

Details of net oil and gas sales in 2004, 2003 and 2002 which represent a significant portion of the net sales and operating revenues, are as follows:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
PTT Public Company Ltd. (Note 37g)	113,041,449	112,688,379	66,160,161
Mitsui Oil (Asia) Hong Kong Ltd.	99,819,325	43,747,206	54,651,057
PT Pertamina (Persero)	59,365,215	—	—
Novus overseas customers	35,024,228	—	—
BP Migas	25,384,723	81,661,632	76,139,834
Itochu Petroleum Co. (s) Pte. Ltd.	14,768,868	71,871,207	100,492,479
PT Perusahaan Listrik Negara (Persero)	13,170,647	—	—
BP Oil	—	—	21,537,765
Others	1,759,291	—	—
Total	**362,333,746**	**309,968,424**	**318,981,296**

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28. COST OF SALES

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:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Field operations overhead	34,639,816	25,475,103	19,112,931
Operations and maintenance	26,101,025	20,817,684	11,538,567
Operational supports	9,405,239	11,066,067	2,707,657
Pipeline and transportation fees	7,628,155	8,774,997	6,901,687
Total	**77,774,235**	**66,133,851**	**40,260,842**

b. Exploration Expenses

This account consists of:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Dry hole costs	13,420,527	10,768,368	20,520,695
Geological and geophysical	5,424,356	5,271,618	2,144,773
Seismic	2,795,632	3,969,239	6,448,963
Exploration overhead	2,206,546	1,298,592	278,066
Total	**23,847,061**	**21,307,817**	**29,392,497**

c. Depreciation and Amortization

This account represents depreciation and amortization for the following:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Oil and gas operations	51,717,870	47,514,167	36,173,027
Drilling	21,358,295	20,426,603	13,782,027
Methanol	1,343,083	1,292,517	1,160,884
Electric power	204,367	—	—
Total	**74,623,615**	**69,233,287**	**51,115,938**

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28. COST OF SALES (continued)

d. Drilling Operations Costs

This account consists of:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Labor	21,274,583	19,908,206	13,127,077
Repairs and maintenance	13,807,999	14,345,794	7,428,078
Drilling equipment	10,001,684	1,973,633	2,060,354
Rental	9,855,563	8,368,568	3,178,631
Insurance	5,309,635	6,796,005	2,226,909
Catering	4,815,056	4,689,165	4,086,416
Rigs movement	2,665,343	649,297	1,765,511
Transportation	1,946,667	2,038,407	1,391,150
Others	3,126,848	4,330,998	4,585,025
Total	**72,803,378**	**63,100,073**	**39,849,151**

e. Cost of Methanol Sales

This account consists of:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Rental	22,975,810	15,684,091	7,673,755
Feed gas	12,473,147	13,745,999	12,389,839
Refinery plant operational costs	4,830,389	1,803,702	3,016,093
Salaries and other allowances	1,603,134	1,437,076	1,069,255
Contract labor	279,397	298,575	258,334
Fuel consumption	277,421	238,735	159,657
Others	43,807	—	—
Total production costs	42,483,105	33,208,178	24,566,933
Inventories			
At beginning of year	1,331,610	812,699	1,372,394
At end of year	(1,148,580)	(1,331,610)	(812,699)
Total	**42,666,135**	**32,689,267**	**25,126,628**

f. Cost of Power Sales

For the year ended December 31, 2004, this account consists of the following:

Maintenance costs	68,178
Salaries	4,762
Total	**72,940**

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28. COST OF SALES (continued)

Purchases of raw materials of methanol, spare parts and catering services in 2004, 2003 and 2002 included purchases from the following suppliers which individually represent more than 10% of the total purchases for the respective years:

	2004	2003	2002
PT Andrawina Praja Sarana	3,771,232	3,535,253	2,795,907
Oil Service and Trading Inc.	2,498,481	13,303,418	7,717,483
PT Pertamina (Persero)	847,295	—	—
Midcontinent Tubular Pte.Ltd.	71,759	9,059,300	4,406,017
BP Migas	—	1,563,338	12,389,838
PT Panji Adi Samudera	—	9,260,920	—
MTQ Engineering Pte.,Ltd.	—	3,149,468	2,032,122
CV Tiga Putra	—	2,762,561	1,730,530
Keppel Fels Ltd.	—	—	7,426,594
PT Makmur Mandiri Manfaat	—	—	2,366,454
Total	**7,188,767**	**42,634,258**	**40,864,945**

29. OPERATING EXPENSES

This account consists of:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
General and administrative			
Salaries, wages and other employees' benefits	26,383,799	21,493,600	21,498,989
Contract charges	8,437,660	4,285,340	1,567,604
Professional fees	6,835,553	6,489,461	6,726,977
Office supplies and equipment	2,807,023	2,621,677	1,115,531
Rental	1,122,128	926,403	1,282,194
Depreciation	890,889	969,877	981,685
Insurance	443,785	304,881	943,582
Repairs and maintenance	276,524	63,042	171,144
Provision for doubtful accounts	133,565	1,540,397	473,405
Donation	—	—	1,734,116
Others (each below US$100,000)	8,948,237	6,730,621	6,508,119
Total	56,279,163	45,425,299	43,003,346
Selling			
Export expenses	15,506,328	16,381,054	17,532,908
Business travelling	1,858,885	—	887,402
Entertainment	534,872	46,106	85,692
Advertising and promotion	85,102	335,089	155,360
Total	17,985,187	16,762,249	18,661,362
Total Operating Expenses	**74,264,350**	**62,187,548**	**61,664,708**

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30. INCOME TAX

Tax expense of the Company and Subsidiaries consists of the following:

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Current tax			
Subsidiaries	(66,148,681)	(67,748,579)	(75,760,303)
Deferred tax			
Company	4,139,080	2,125,260	(125,370)
Subsidiaries	6,941,097	22,684,391	(12,990,419)
Sub-total	11,080,177	24,809,651	(13,115,789)
Total	**(55,068,504)**	**(42,938,928)**	**(88,876,092)**

Current Tax

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

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Income before tax expense per consolidated statements of income	130,941,158	122,754,595	160,894,000
Less income before tax expense of Subsidiaries	68,298,254	122,543,081	164,028,594
Income (loss) before tax expense of the Company	62,642,904	211,514	(3,134,594)
Temporary differences			
Other employee benefits	289,439	—	—
Depreciation and amortization	(200,279)	(224,505)	(417,902)
Permanent differences			
Non-deductible expenses	585,813	2,282,287	760,367
Net income from Ensearch Far Eastern Ltd., Cayman Island	—	5,911,729	—
Income already subjected to final income tax	(1,083,376)	(699,664)	(269,254)
Taxable income (fiscal loss) before loss carryforwards	62,234,501	7,481,361	(3,061,383)
Prior year fiscal loss compensation	(84,542,434)	(92,879,025)	(92,593,648)
Adjustment on fiscal loss compensation based on Income Tax Return for fiscal year 2003	—	855,230	—
Adjustment on fiscal loss compensation based on Tax Assessment Letter for fiscal year 2002	—	—	2,776,006
Expired fiscal loss carryforwards	1,821,920	—	—
Fiscal loss carry forward, end of year	(20,486,013)	(84,542,434)	(92,879,025)

No provision for current income tax was made for the years ended December 31, 2004, 2003 and 2002 since the Company is still in fiscal loss position.

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30. INCOME TAX (continued)

Deferred Tax

The details of deferred tax assets and liabilities are as follows:

		As Restated (Note 42)					
	January 1, 2002	Charged (Credited) to Statement of Income	December 31, 2002	Charged (Credited) to Statement of Income	December 31, 2003	Charged (Credited) to Statement of Income	December 31, 2004
Company							
Fiscal loss	—	—	—	(2,034,033)	2,034,033	(4,111,771)	6,145,804
Depreciation of property and equipment	49,270	49,270	—	(15,127)	15,127	59,523	(44,396)
Deferred charges	—	—	—	—	—	(86,832)	86,832
Sub-total	49,270	49,270	—	(2,049,160)	2,049,160	(4,139,080)	6,188,240
Subsidiaries	729,321	(613,350)	1,342,671	(27,832,362)	29,175,033	(1,831,067)	31,006,100
Deferred Tax Assets — Net	778,591	(564,080)	1,342,671	(29,881,522)	31,224,193	(5,970,147)	37,194,340
Company							
Depreciation of property and equipment	—	76,100	(76,100)	(76,100)	—	—	—
Subsidiaries	(61,292,360)	13,603,769	(74,896,129)	5,147,971	(80,044,100)	(5,110,030)	(74,934,070)
New subsidiaries acquired	—	—	—	—	—	—	(31,433,100)
Deferred Tax Liabilities — Net	(61,292,360)	13,679,869	(74,972,229)	5,071,871	(80,044,100)	(5,110,030)	(106,367,170)
Deferred Tax Expense (Income)		13,115,789		(24,809,651)		(11,080,177)	

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

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Income before tax expense per consolidated statements of income	130,941,158	122,754,595	160,894,000
Less income before tax of Subsidiaries	68,298,254	122,543,081	164,028,594
Income before tax of the Company	62,642,904	211,514	(3,134,594)
Tax expense using statutory tax rates	(18,792,871)	(63,454)	940,378
Tax effects of permanent differences:			
Income already subjected to final income tax	325,013	209,899	80,776
Non-deductible expenses	(175,744)	(684,686)	(228,110)
Net income from Ensearch Far Eastern Ltd., Cayman Island	—	(1,773,519)	—
Total	149,269	(2,248,306)	(147,334)
Utilization of fiscal loss carryforward	18,670,350	2,244,408	(918,414)
Deferred tax adjustment of fiscal loss	4,112,332	2,192,612	—
Tax benefit (expense):			
Company	4,139,080	2,125,260	(125,370)
Subsidiaries	(59,207,584)	(45,064,188)	(88,750,722)
Tax Expense — Net	**(55,068,504)**	**(42,938,928)**	**(88,876,092)**

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31. EARNINGS PER SHARE

a. Earnings per share

The computation of basic earnings per share is based on 3,105,854 thousand, 3,105,650 thousand and 3,123,478 thousand shares, representing the weighted average number of shares in 2004, 2003 and 2002, respectively.

	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Earnings per share			
Net income for the current year	74,544,468	78,998,971	72,238,303
Basic earnings per share	0.0240	0.0254	0.0231

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no dilutive potential ordinary shares in the three years presented.

32. CASH DIVIDENDS

On May 12, 2004, the Company's stockholders, in their Annual General Meeting of Stockholders, approved to distribute cash dividends amounting to US$0.0064 per share or equivalent to US$19,877,468.

On June 11, 2003, the Company distributed cash dividends of Rp344,749,844 thousand (equivalent to US$39,544,992) or Rp111 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 Rp345,825,310 thousand equivalent to US$36,427,600 or Rp110 per share based on the stockholders' vote in their annual stockholders' meeting on May 7, 2002.

33. 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 at 6% of gross salaries and their employees at 2% of gross salaries.

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33. PENSION AND OTHER EMPLOYEE BENEFITS (continued)

The reconciliation of pension liability is as follows:

	2004	2003	2002
Beginning balance	53,074	43,005	30,699
Pension cost for the year	399,618	627,302	485,595
Pension contribution paid during the year	(398,489)	(617,233)	(473,289)
Loss on foreign exchange	(20,642)	—	—
Ending Balance	**33,561**	**53,074**	**43,005**

Other Employee Benefits

The Company and Subsidiaries also recognize employee benefits obligations for their qualifying employees in accordance with applicable regulations. The post retirement benefits of the employees in oil and gas operations 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 1,902 in 2004 and 1,721 in 2003 and 2002, respectively.

a. An analysis of employee benefits obligations recognized in the consolidated balance sheets is as follows:

	2004	2003	2002
Present value of employee benefits obligations	43,760,894	46,133,413	37,596,150
Fair value of plan assets	(31,859,736)	(24,775,546)	(16,225,253)
Unfunded employee benefits obligations	11,901,158	21,357,867	21,370,897
Unrecognized past service cost-non-vested	(27,380)	—	—
Unrecognized transitional liability	(6,436,941)	(9,836,971)	(12,444,126)
Unrecognized actuarial gain	(646,736)	(6,993,184)	(5,857,958)
Employee benefits obligations	**4,790,101**	**4,527,712**	**3,068,813**

b. An analysis of the employee benefits costs in the consolidated statements of income is as follows:

	2004	2003	2002
Current service cost	2,814,852	2,728,459	3,158,816
Interest expense	3,555,824	3,338,626	3,321,007
Expected return on assets	(1,436,287)	3,470,071	(1,216,896)
Amortization of transitional liability	5,971,813	2,607,155	3,102,097
Amortization of actuarial loss	5,478,660	(984,226)	—
Total	**16,384,862**	**11,160,085**	**8,365,024**

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33. PENSION AND OTHER EMPLOYEE BENEFITS (continued)

c. An analysis of the movements of employee benefits obligations in the consolidated balance sheet is as follows:

	2004	2003	2002
Balance at beginning of year	4,527,712	3,068,813	2,221,826
Employee benefits cost	16,384,862	11,160,085	8,365,024
Gain on foreign exchange	99,430	—	—
Benefits paid to employees	(1,151,178)	(772,258)	(85,555)
Contribution for the year	(15,070,725)	(8,928,928)	(7,432,482)
Balance at the end of year	**4,790,101**	**4,527,712**	**3,068,813**

The present value of the employee benefits obligations was calculated by independent actuaries, using the following assumptions:

	2004	2003	2002
Discount rates	8%-11%	12%	12%
Expected rate of return on assets:			
— IDR Portfolio	8%	9.60%	9.60%
— USD Portfolio	—	7.40%	7.40%
Salary increment rate	6%-9%	10%	10%
Mortality rate	and CSO 1980	100% TMI2	100% TMI2
Morbidity rate (disability)	10% mortality rate	5% mortality rate	5% mortality rate
Resignation rate:			
— Oil and gas subsidiaries	0-1% per year	0.5% per year	0.5% per year
— Others	1% per year up to age 25 then decreasing linearly into 0.05% at age 49-54	1% per year up to age 25 then decreasing linearly into 0.05% at age 44	1% per year up to age 25 then decreasing linearly into 0.05% at age 44
Proportion of early retirement	0.15%	0.15%	1%
Proportion of normal retirement	100%	100%	100%
Other termination rate	Nil	Nil	Nil

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

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

b. Companies which have partly the same key members of management as the Company:

- PT Andrawina Praja Sarana (APS)
- PT Multifabrindo Gemilang

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 (Note 41a).

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

e. INTI is the major stockholder of PT Bank Himpunan Saudara 1906.

f. Mesa Drilling Inc. is an associated company of Apexindo

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 deposit and current account in PT Bank Himpunan Saudara 1906.

b. Engaging APS to render catering services, which according to management, were made at normal prices and conditions as those with third parties. Catering services from related party for the years ended December 31, 2004, 2003 and 2002 amounted to US$3,771,232, US$3,535,253 and US$2,777,723, respectively. As of balance sheet date, outstanding liabilities for these services were presented as Trade Payables which constituted 1.4%, 1.4% and 2.3%, of the total trade payable as of December 31, 2004, 2003 and 2002, respectively.

c. Rental of office building from INTI at an annual rental fee of US$114,376, US$243,954 and US$237,509 in 2004, 2003 and 2002, respectively.

d. MBE has appointed PT Multifabrindo Gemilang as provider of fabrication services.

e. On May 1, 2003, the Company entered into a secondment agreement with PTTEP, which ended in February 2005.

f. The Company has a crude oil sale agreement with PTT Public Company since June 2003 which has been extended in June 2004 for another seven months (Notes 27 and 37g).

g. The Company appointed CSFB as the Sole Lead Manager in 2002 and as the Joint Lead Manager in 2003 in the issuance of MEFL bonds (Note 21).

Conflict of Interest

The transactions below represent transactions which are construed as conflict 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. Working Capital loan provided by the Company to Apexindo on May 15, 2002 with maximum amounts of US$5,116,355 and Rp49,492,193 thousand to finance Apexindo's drilling operations. The

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

Conflict of Interest (continued)

loan bears annual interest at 1% above cost of fund of the Company for US dollar portion and 2% above 3 months time deposits for the Rupiah portion. The loan agreement contained several restrictions stipulated therein and will mature within 3 years from the date of the agreement.

The Company's independent stockholders, in their Extraordinary Stockholders' Meeting held on September 15, 2003, did not approve the working capital loan. Accordingly, Apexindo has repaid the loan on December 23, 2003, as acknowledged in the Extraordinary General Meeting of the Company's Stockholders on January 23, 2004.

2. Sale and Purchase Agreement between MEFO and Apexindo dated May 15, 2002 and its amendments on September 16, 2002 and April 4, 2003, with regards to the financing arrangement on the repair of Maera rig, with Apexindo's insurance claim as security, on a recourse basis and with buy back provision. 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.

3. Joint Financing Arrangements between Apexindo and MEFO to finance the construction of Raissa and Yani rigs based on MEFO's Joint Financing Letters (JFS) dated May 16, 2002 and August 27, 2002 and Reconfirmation on the Participation of Joint Financing (Reconfirmations) dated November 17, 2002. Under the JFS and Reconfirmations, MEFO has agreed to participate in the joint financing of Raissa and Yani rigs. Furthermore, based on the above documents, Apexindo or through its wholly owned subsidiary may take over the rights and obligations of MEFO by paying MEFO a certain sum of money, as specified in the above documents or such other amount to be mutually determined by both parties. 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.

4. The plan for compensation payment by AAP, a wholly-owned subsidiary of Apexindo, to MEFO for its share in the construction cost of Submersible Swamp Barge Raissa and Yani Rigs. This was approved by the Company's independent stockholders in their Third Extraordinary Stockholders' Meeting held on April 21, 2004 and on Apexindo's General Independent Stockholders' Meeting held on April 28, 2003.

5. 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 (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.

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

Conflict of Interest (continued)

6. 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 fund of MEFL, which is 9.5% as of December 31, 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, 2004, the outstanding balance of the loan amounted to US$19,334,550 and 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:

a. Exploration and production of oil and gas
b. Drilling and other related services
c. Methanol production
d. Electric Power
e. Others

Segment information of the Company and Subsidiaries are as follows:

2004	Exploration and production of oil and gas	Drilling services	Methanol production	Electric power	Others	Elimination	Consolidated
SALES AND OTHER OPERATING REVENUES							
External sales	382,067,198	105,989,537	55,490,344	1,534,484	—	—	545,081,563
Inter-segment sales	224,296,189	17,816,795	—	—	5,734,888	(247,847,872)	—
Total	606,363,387	123,806,332	55,490,344	1,534,484	5,734,888	(247,847,872)	545,081,563
RESULT							
Segment results	178,935,181	17,970,393	6,695,494	486,633	2,226,371	(27,284,223)	179,029,849
Income from operations							179,029,849
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)	(11,090,142)	19,052	(430,182)	(19,809,949)	24,554	(35,821,757)
Equity in net income (loss) of associated entities – net	—	245,513	—	—	(1,010,445)	—	(764,932)
Gain on sale of marketable securities — net	—	—	—	—	1,082,081	—	1,082,081

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35. SEGMENT INFORMATION (continued)

2004	Exploration and production of oil and gas	Drilling services	Methanol production	Electric power	Others	Elimination	Consolidated
Gain on exchange of non-monetary assets	—	1,059,566	—	—	—	—	1,059,566
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							130,941,158
Tax income (expense)	(58,855,495)	1,883,348	(2,481,023)	(46,230)	4,430,896	—	(55,068,504)
Minority interests in net income (loss) of consolidated subsidiaries	(12)	59,833	—	(63,467)	—	(1,324,540)	(1,328,186)
NET INCOME							**74,544,468**
OTHER INFORMATION							
ASSETS							
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 associated companies	10,245	3,024,730	—	—	498,736,052	(493,756,741)	8,014,286
CONSOLIDATED TOTAL ASSETS							**1,472,247,068**
LIABILITIES							
Segment liabilities	316,416,527	174,414,583	8,911,215	25,924,881	1,281,572,761	(833,794,372)	973,445,595
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

2003 (As Restated, Note 42)	Exploration and production of oil and gas	Drilling services	Methanol production	Others	Elimination	Consolidated
SALES AND OTHER OPERATING REVENUES						
External sales	319,285,897	89,159,075	55,113,629	—	—	463,558,601
Inter-segment sales	224,646,833	19,131,793	—	3,813,779	(247,592,405)	—
Total	543,932,730	108,290,868	55,113,629	3,813,779	(247,592,405)	463,558,601
RESULT						
Segment results	138,341,369	15,663,212	16,901,593	(16,455,317)	(5,544,099)	148,906,758
Income from operations						148,906,758
Gain 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	—	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 entities	—	(40,838)	—	—	—	(40,838)
Loss on repurchases of notes	—	—	—	(4,838,231)	—	(4,838,231)
Loss on swap transaction	—	(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)
Income before tax						122,754,595
Tax income (expense)	(36,629,990)	(3,587,075)	(4,847,123)	2,125,260	—	(42,938,928)
Minority interest in net income of subsidiaries	—	—	—	—	—	(816,696)
NET INCOME						**78,998,971**
OTHER INFORMATION						
ASSETS						
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
Consolidated total assets						1,008,382,883
LIABILITIES						
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

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35. SEGMENT INFORMATION (continued)

2003 (As Restated, Note 42)	Exploration and production of oil and gas	Drilling services	Methanol production	Others	Elimination	Consolidated
Non-cash expenses other than depreciation and amortization	2,566,198	6,080,873	642,840	2,592,692	—	11,882,603

2002 (As Restated, Note 42)	Exploration and production of oil and gas	Drilling services	Methanol production	Others	Elimination	Consolidated
SALES AND OTHER OPERATING REVENUES						
External sales	325,263,025	52,525,879	30,775,577	—	—	408,564,481
Inter-segment sales	239,504,989	20,518,341	—	—	(260,023,330)	—
Total	564,768,014	73,044,220	30,775,577	—	(260,023,330)	408,564,481
RESULT						
Segment results	163,609,566	8,204,414	1,065,801	(9,583,572)	(2,141,492)	161,154,717
Income from operations						161,154,717
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
Income before tax						160,894,000
Tax expense	(81,946,401)	(5,935,135)	(863,813)	(130,743)	—	(88,876,092)
Minority interest in net loss of subsidiaries	—	—	—	—	—	220,395
NET INCOME						**72,238,303**
OTHER INFORMATION						
ASSETS						
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
Consolidated total assets						753,013,760
LIABILITIES						
Segment liabilities	246,943,459	111,986,259	22,378,142	475,145,291	(508,579,377)	347,873,774
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

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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:

Geographical Segment	2004	2003 (As Restated, Note 42)	2002 (As Restated, Note 42)
Indonesia	247,077,827	223,074,594	151,066,883
Overseas			
Asia	227,629,642	228,306,792	242,841,462
Middle East	27,918,244	12,177,215	14,656,136
United States of America	25,986,661	—	—
Australia	16,469,189	—	—
Total	**545,081,563**	**463,558,601**	**408,564,481**

As a result of the acquisition of Novus, the Company and Subsidiaries' activities have been concentrated into five major geographic locations (Asia, USA, Middle East, Australia and Others) in 2004. 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 different production sharing arrangements with BP Migas. A general description of those arrangements is as follows:

a. Production Sharing Contract (PSC)

PSC 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 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 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, dividends 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.

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

36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW (continued)

a. Production Sharing Contract (PSC) (continued)

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.

PSC in Indonesia is 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 oil profit. 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 historic production of the field) at the time the TAC is signed and accrues to PERTAMINA. 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 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). The New Oil and Gas Law creates an overall statutory framework for a fundamental restructuring of the oil and gas regime.

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36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW (continued)

c. Joint Operating Body (JOB) (continued)

New Oil and Gas Law (continued)

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 BP Migas which 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 BP Migas, all rights and obligations of PERTAMINA under PSC were transferred to BP Migas. Further regulation will be implemented and to formally amend with respect to such PSCs.

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 BP Migas, and all funding and risks are to be assumed by investors (the Government through BP Migas 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.

37. COMMITMENTS

a. Production Sharing Arrangements

The Subsidiaries have entered into PSC, PSC-JOB 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 are 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 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.

b. Acquisitions and Transfers

i. On December 12, 2004, PT Medco E&P Nunukan, subsidiary, entered into a Production Sharing Contract with BP Migas to develop Nunukan block located in East Kalimantan. The term of this contract shall be thirty (30) years.

ii. As discussed in Note 1b to the consolidated financial statements, MEAPL has completed its take over 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 subsequently after the take over are as follows:

(a) Sale of Cooper Basin, Patchawarra, Kakap and Brantas Assets

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's interest in the Indonesian assets — Kakap and Brantas. As stated in the agreement, the sale and transfers are effective on January 1, 2004. The excerpts of the heads of agreements are as follows:

(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

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

Buyers agree to purchase, the shares of Novus Australia Resources NL (NAR) (owner of the 4.75% working interest in Copper Basin and 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 about US$87.2 million.

(ii) Purchase Agreement for Kakap 6.25% (dated September 24, 2004)

The agreement was signed between SL and SIHPL (herewith referred to as ''Buyers''), Novus UK (Indonesian Holdings) Limited (herewith referred to as ''Vendor''), NPL and the Company. Under the agreement, the Vendor agrees to sell the shares of Novus UK (Kakap 2) Limited (herewith referred to as ''Novus Kakap 2'') (owner of the 6.25% working interest in Kakap) 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 of a 2.75% Interest in the Kakap Production Sharing Contract 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 agrees to sell and transfer to NNPL its 2.75% interest in the Kakap Production Sharing Contract and Related Contracts on the terms and subject to the conditions of the agreement. As of the date of this report, the sale and transfer has not been consummated pending receipt of the approval from BP Migas.

(b) Sale of Pakistan and Middle East Assets and Participation on the Profit from Sale of US Assets.

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 agrees 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 on 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 has been satisfied or waived. On January 5, 2005, Silk Route has indicated its intention to exercise the option in the Middle

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

East assets. As of the reporting date of this report, the Company and Silk Route are still in process of discussion.

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.

Subsequently in 2005, 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 (Note 41).

The above sales, transfers or providing of rights or other options to purchase the Company's interests (directly or indirectly, through its subsidiaries), of Novus or its subsidiaries' interest and ownerships in the oil and gas blocks in Indonesia, Australia, Pakistan, Middle East and the USA, to Santos and Silk Route Investments and/or other third parties, were approved by the Company's stockholders in their Extraordinary General Meeting of Stockholders on September 15, 2004.

In connection with the above mentioned agreements, the accounts of NPPL, the 2.75% of the Novus Kakap Canada assets, the Middle East assets and the US assets are presented under "Other Current Assets".

iii. On February 27, 2004, the Company entered into a Stockholder Agreement with PT Menamas whereby both parties agreed to establish PT Medco Energi Menamas for the purpose of acquiring 54% 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 are PT PLN Batam and YPK PLN respectively. MEB now owns and operates 2 x 27.5 MW Simple Cycle Gas Turbine located in Panaran, Batam, Indonesia (Note 2b). On March 29, 2004, PT Menamas has relocated its 52% ownership in MEB and has been replaced by PT Medco Energi Menamas.

iv. On January 14, 2004, the Company through PT Medco E&P Lematang (MEPL), subsidiary, has 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. As of December 31, 2004, MEPL's working interest in Lematang PSC totaled 74.1176%.

v. 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

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37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

(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 of crude oil and gas in the Langsa contract area in East Aceh, Sumatra under the said JOA and TAC.

vi. 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 drilling at Jeruk Well. Santos Sampang has the right to explore Sampang Block and Santos proposed to drill Jeruk Well on a sole-risk basis because Coastal Indonesia Sampang Ltd. (Coastal) and Cue Sampang Pty., Ltd. (Cue), 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 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 Coastal and Cue decide to back-in and participate in the sole-risk drilling, Coastal and Cue shall be obliged to pay a premium as stipulated in the Joint Operating Agreement for Sampang PSC.

As discussed in Note 41, on April 29, 2005, Singapore Petroleum Company (SPC) and Cue have announced their intention to reinstate their rights on the Jeruk Oil Discovery under the Sole-Risk Agreement. The Company shall be entitled to reimbursement for all the paid cash calls upon the announcement of the reinstallment which is scheduled on May 30, 2005.

vii. On October 1, 2003, the Company has entered into a Conditional Share Sale and Purchase Agreement with PT Trihasra Sarana Jaya Purnama to purchase its 5% (five percent) share in PT Energi Sengkang (ES) 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 the power plant located in Sengkang, South Sulawesi. As of December 31, 2004, the Company's advances for this purchase transaction is recorded as "Advances for Investments" (Note 11). The Company completed the purchase of the 5% ownership in ES.

viii. On September 2, 2003, Exspan Airsenda Inc. and Exspan Airlimau Inc. 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 5% 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 Medco E&P Indonesia.

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37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

ix. On January 16, 2004, MEPI has entered into a Sale and Purchase Agreement with PT Krakatau Steel (KS) (Persero), whereby the Company agreed to supply KS' 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 (PGN), and is estimated to be completed by July 2006.

x. On January 16, 2004, MEPI entered into a Liquified Petroleum Gas (LPG) Sales And Purchase Agreement with PT Pertamina (Persero), whereby MEPI will deliver and sell LPG pursuant to the conditions setforth 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 has 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 PT Medco E&P Indonesia have signed Head of Agreement 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 would supply 24 BBTUD for a total of 90 BCF to PLN Keramasan for 10 years from 2006. Meanwhile, the agreement on the gas sales agreement with PLN Gunung Belah was made for the purpose of changing the existing sales point from Gunung Belah to Kampung Satu, Tarakan.

xiii. On October 14, 2003, the Company through PT Exspan Merangin (now known as PT Medco E&P Merangin), has signed a Production Sharing Contract with BP Migas for Merangin Block I located in Jambi province, Indonesia. The PSC is valid for 30 years with exploration period of 4 years. Merangin Block 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.

xiv. 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

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

Continental-Geopetro (Yapen) Ltd. and Maraja (Yapen) Energy Ltd. (Maraja) as stipulated in a Deed of Assignment dated June 29, 2004.

xv. On October 2, 2002, MIV entered into a Farm-In Agreement on behalf of PT Exspan Rombebai (now known as PT Medco Sarana Balaraja — MSB) with Ramu Rombebai LLC (Ramu) in accordance with the terms of a Memorandum of Agreement dated October 2, 2002 between the said parties. Based on the Agreement, MSB acquired a 60% participating interest in the Rombebai Block PSC from Ramu. As part of the consideration for the interest acquired, MSB has committed to:

- Drill one well with a total depth of 6,000 feet with costs not to exceed US$5,000,000. If MSB agrees, the said subsidiary will also acquire another 20% participating interest in consideration for drilling another well of similar depth and within the time frame set forth in the annual Work Program And Budget approved by BP Migas.
- Assume all exploration costs, thereby carrying Ramu's participating interests, until the Plan of Development (POD) is approved by BP Migas. If requested by Ramu, and MSB agrees to carry Ramu's participating interests after the POD is approved, MSB 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, MSB has reassigned its working interest in the Rombebai PSC to Ramu.

xvi. On July 9, 2004, PT Medco E&P Indonesia (MEPI, formerly PT Exspan Nusantara) has entered into a Sale and Supply of Gas Agreement with Conocophillips (Grissik) Ltd., whereby MEPI agrees to supply gas at 0.8 BBTU/day. The term of agreement is five years commencing at the date after all conditions set forth in the agreement are met.

xvii. 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 with total quantity of 20,559.58 BBTU. Gas price is agreed to be US$2.685/MMBTU to US$2.75/MMBTU. The term of the agreement will be commencing on January 1, 2009 until May 31, 2013 or up to the time total quantity is met, whichever comes first.

xviii. On December 12, 2004, MEPI has entered into a Sale and Supply of Gas Head of Agreement with PT Meta Epsi and PT Pembangkitan Jawa-bali, whereby MEPI agrees to supply gas with total quantity of 37,187.9 BBTU. Average gas price is agreed to be US$2.4084/MMBTU. The term of the agreement is twenty years commencing on February 1, 2006.

xix. On December 12, 2004, MEPI has entered into an Amendment of Sale and Supply of Gas with PT Pertamina (Persero), whereby MEPI agrees to supply gas with total quantity of 54.7 trillion BTU. Gas price is agreed to be US$1.4/MMBTU to US$1.55/MMBTU. The agreement shall be effective on September 1, 2004 and terminates on December 31, 2007.

xx. 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

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37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

both companies agreed to supply gas with quantity of 350 MMSCFD, commencing in 2008 for twenty years.

c. Drilling Contract

i. Apexindo has the following outstanding drilling contracts:

Company	Date of Agreement/Terms	Consideration
Statoil SP Gas AS	May 14, 2003 (for two years)	Daily operating rate of US$50,280 for two years
Total E&P Indonesie	October 9, 2002, August 8, 2002, July 29, 2004, June 16, 2004 renewal/ Raisa — for five years; Yani for three years.	US$231.44 million

ii. On October 8, 2004, Apexindo and PPL Shipyard Pte., Ltd. (PPL) entered into a Rig Construction Agreement (the Agreement) whereby PPL agreed to design, construct, launch, equip, test and deliver one unit of an Offshore Jack-up Drilling Rig (the rig) for a contract price of US$123,500,000, payable in installments as stated in the Agreement. The Jack-up financing plan was approved by Apexindo's Board of Commissioners on April 19, 2004 (Note 41).

d. Banking Facilities

As of December 31, 2004, the Company and Subsidiaries have the following outstanding bank facilities:

Bank	Facility	Maximum Facility Limit/Amount	Unused Portion of the Facility as of December 31, 2004
Standard Chartered Bank	General Banking Facility	US$15,000,000	US$9,403,767
Standard Chartered Bank	Revolving Loan Facility	Rp10 billion	Rp10 billion
PT Bank Central Asia Tbk	Spot Line Facility Agreement — Foreign currency facility	US$1,500,000	US$1,500,000
PT Bank Mandiri (Persero) Tbk	Bank Guarantee Facility — Revolving Bank Guarantee Facility	US$10 million	US$4,234,252
PT Bank Central Asia Tbk	Credit loan	Rp195 billion	Nil
United Overseas Bank Ltd.	Transferable loan facility	US$150 million	Nil

37. COMMITMENTS (continued)

e. Gas Supply and Transfer of Power Purchase Agreement

i. On July 9, 2004, the Company through its subsidiary, Medco Madura Pty. Ltd., and together with PERTAMINA, have entered into a Memorandum of Understanding (MOU) with PT Pembangkitan Jawa-Bali to provide a gas supply of about 20 (twenty) million metric standard cubic feet per day (MMSCFD) to Pembangkitan 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.

At the same date, the Company through its subsidiary, PT Medco E&P Lematang, has entered into a Memorandum of Understanding (MOU) with PT Perusahaan Gas Negara (Persero) Tbk (PGN) to provide a gas supply 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.

ii. 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 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 wherein the commercial operation date is on 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 date to become August 30 for unit 1 and September 30, 2004 for unit 2. PLN Batam will purchase the electricity at a minimum of 408,391,200 kwh/year at the price of Rp190/kwh for 12 years. The parties further agreed that the costs incurred by MEB to install the Gas Turbin Genset Dual Fuel shall be repaid by PLN Batam on installment at Rp7/kWh for every production at a maximum of 408,391,200 kWh/year over 12 years (Note 6). MEB started its commercial operation on October 29, 2004.

iii. On December 30, 2003, MEPI entered into a Sale and Supply of Gas Agreement with PT PLN (Persero), whereby MEPI agrees to sell and supply gas from working area of MEPI 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 (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 Directorat Technic Oil and Gas, Directorat General 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 commencement date of delivery. After the 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.

37. COMMITMENTS (continued)

e. Gas Supply and Transfer of Power Purchase Agreement (continued)

iv. 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 sell and 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 date of delivery. After the 365 days, the gas price will be calculated based on the contract.

v. 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 Agreements

i. Methanol Bunyu Refinery Operations Agreement

On April 29, 1997, PT Medco Methanol Bunyu (MMB), subsidiary, 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 lor and Platt's Petrochemical Scan), as adjusted based on the formula as specified in the addendum.

ii. Agency Agreement

On August 9, 2004, MMB entered into an agency agreement with Nitracom International Pte. Ltd. (Nitracom) and PT Unitrada Komutama (Trada), cancelling 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 of 150,000 metric tons to Nitracom and 120,000 metric tons to Trada per year and the later shall sell methanol at a price as stated in the agreement. 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.

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37. COMMITMENTS (continued)

g. Crude Oil Transaction

The Company has 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 (Notes 27 and 34).

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 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.

b. 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.

c. 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 Subsidiaries are in compliance with current applicable environmental laws and regulations.

38. CONTINGENT LIABILITIES (continued)

d. From time to time, the Company and Subsidiaries may be a party to various legal proceedings. Management believes that 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, person injury claims and other damage to properties of the Company and Subsidiaries. Additionally, certain of the Company and 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 Subsidiaries maintain insurance coverage against some, but not all, potential losses. The Company and 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 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.

40. ABANDONMENT AND SITE RESTORATION OBLIGATIONS

Under the Renewal and Extension of Production Sharing Contracts signed by Exspan Airsenda Inc. and Exspan 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 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 and shall be adjusted each year as required.

41. SUBSEQUENT EVENTS

a. On January 29, 2005, Encore International Ltd. (Encore) has signed a Conditional Shares Purchase Agreement (''Conditional SPA'') with PTTEP Offshore Investment Limited (PTTEPO) and Cumin Limited (Cumin), to purchase 40% and 19.9% share ownership of PTTEPO and Cumin in New Links Energy Resources Limited (New Links), respectively, the Company's majority stockholder. The Purchase Agreement was completed on February 17, 2005. Accordingly, Encore becomes the solely stockholder of New Links or the only indirect controlling stockholder of the Company. The change in

41. SUBSEQUENT EVENTS (continued)

the composition of New Link's stockholder has resulted to a change in the Company's management as reflected in the resolution of Extraordinary Stockholders Meeting convened on March 10, 2005. Subsequently, on March 31, 2005, the Company received a letter from New Links whereby New Links advised the Company of its transfer of the 33.032% (representing 1,100,767,216 shares) ownership in the Company to Aman Energy Resources Pty. Limited (Aman) effective March 18, 2005. Aman is another wholly-owned subsidiary of Encore.

On April 19, 2005, Aman advised the Company of its transfer of the 3.775% (representing 125,810,559 shares) ownership interest in the Company to Tamwin Limited, one of the Encore's creditors, the indirect controlling shareholder of the Company.

On May 17, 2005, New Links also transferred all of its 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 or indirectly own by Panigoro Family, and recorded on the Register of Company's stockholders on May 16, 2005 (Note 24).

b. On January 29, 2005, the Company has been awarded the right to explore Block 47, with a 6,812 kilometer area in the Ghadames basin in Northwest Libya. The award has been followed by further 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) a 50% interest each, the right to explore for oil and gas for a five-year period and to exploit any commercial discoveries over 25 years.

c. On February 3, 2005, the Company has 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 fix premium per barrel as stated in the agreement. Subsequently, on June 1, 2005, the Company entered into a prepayment agreement with Itochu for US$50 million which should be 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;
- 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 of 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.

d. On March 10, 2005, the Company has convened an Extraordinary General Meeting of Stockholders, which have adopted the following resolutions:

— To approve the resignation of Mr. Maroot Mrigadat, Suwit Pitrchart and Andrew Purcell as the Company's commissioners effectively February 28, 2005 and the resignation of Mr. Yongyos

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41. SUBSEQUENT EVENTS (continued)

Krongphanich and Mr. Sugiharto as the Company's directors, effectively since February 28 and February 14, 2005, respectively.

— To provide the release (acquit et de charge) to the former resigned members of the Company's Board of Directors and Board of Commissioners from all responsibility with regard to the management and supervisory activities since the beginning of 2004 up to the effective date of their resignations.

— To appoint Mr. Darmoyo Doyoatmojo as the Company's Finance Director to replace Mr. Sugiharto effectively to the remaining period of the replacement (Note 1a).

— To approve the new Company's management as follows:

President Commissioner	:	Ir. John Sadrak Karamoy
Independent Commissioners	:	Gustiaman Deru
	:	Ir. Sudono N. Suryohudoyo
Commissioners	:	Ir. Yani Yuhani Rodyat
	:	Ir. Retno Dewi Arifin
President Director	:	Ir. Hilmi Panigoro, MSc
Directors	:	Rashid Irawan Mangunkusumo, BSc, MEng
	:	Ir. Darmoyo Doyoatmojo S. E., MBA

e. 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% and pays a fixed rate of 9.15% 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.

f. On April 1, 2005, the Company restructured the original transaction with Merril Lynch Capital Services Inc. from floating rate into fixed rate while all other terms in the original agreement remained unchanged. Under the new terms, the Company will pay 6.98% and 6.99% (Note 19).

g. On April 25, 2005, the Company has entered into an amendment on its August 3, 2004 agreement with SCB (Note 19) whereby the parties agreed to replace the floating rate equivalent to 3 months US dollar Libor plus 2.90% with a fixed rate of 7.23% per annum.

h. On May 2, 2005, the Company together with Apexindo, MMB, MEPI, PT Musi Banyuasin Energi (MBE), Medco Power Indonesia (MPI), Medco Geothermal Indonesia (MGI), PT Mitra Energi Batam (MEB) and EPI, subsidiaries, subsequently called ''Debitor'' signed Amendment Agreement on Bank Guarantee Facility, Standby Letter of Credit Facility and Letter of Credit Import Facility with PT Bank Danamon Indonesia Tbk (Danamon) whereby the said Agreement has cancelled the agreement that was signed by the Company on April 13, 2005 amounting to US$25,000,000 on Bank Guarantee Facility Agreement, Standby Letter of Credit Facility and Letter of Credit Import Facility.

41. SUBSEQUENT EVENTS (continued)

Based on Agreement, the limit of each debitor is as follows:

— Maximum amount of up to US$25,000,000 for the Company, Apexindo, MPI and MEB;
— Maximum amount of up to US$10,000,000 for MMB, MEPI, MBE, MGI and EPI.

With condition that the usage of credit facility together by the Debitor shall not exceed US$25,000,000.

i. On May 9, 2005, the Company has unwind its foreign exchange swap agreement with PT Investindo Nusantara Sekuritas dated November 5, 2004 (Note 19).

j. On May 13, 2005, the Company has submitted a letter to BAPEPAM advising the later of its plan to list its existing shares in the form of Global Depository Receipts (GDR). On May 24, 2005, the Company has submitted the draft registration statement and the applicable documents to the Luxembourg Stock Exchange. The listing transaction documents are still being reviewed by Luxembourg Stock Exchange as of the reporting date.

k. On June 2, 2005, the Company has entered into a Supplement Agreement relating to the US$105 million loan agreement with UOB. Under the agreement, the clause on disposal events has been revised mainly to include the divestment of the Middle East assets.

l. On June 2, 2005, the Company entered into another cross currency interest rate swap for a notional amount of US$25 million each with Standard Chartered Bank. Under the agreements, the Company will receive a fixed rate of 13.125% per year and pays a fixed rate equivalent to 7.98%. The agreements shall be effective on July 12, 2005 and will expire on July 12, 2009.

m. On June 3, 2005, PT Pemeringkat Efek Indonesia (PEFINDO), the local rating agency, assigned an "AA–" corporate rating with stable outlook to the Rp1,350 billion Notes.

n. On June 9, 2005, the Company has convened its Annual Stockholders' Meeting, which adopted among others the following:

— Approval of the 2004 audited consolidated financial statements; and
— Distribution of cash dividends totalling US$35,060,640 to stockholders on record as of July 5, 2005.

o. Significant Subsequent Events of Subsidiaries

The following are the significant subsequent events of Subsidiaries:

1. APEXINDO

a) Banking Facilities Credit Amendment dated January 13, 2005 with Standard Chartered Bank (SCB) canceling the May 13, 2004 agreement (Note 37d) and granting Apexindo a bridging loan amounting to US$30 million with interest rate based on SCB costs plus 3.5% per annum and maturing on June 30, 2005. The loan was fully repaid by Apexindo on April 8, 2005 using the proceeds from the issuance of the bonds (Note 41.1.c below).

b) Approval from PT Bank Central Asia Tbk (BCA) dated February 8, 2005 for the issuance of a five-year debt and an amendment with respect to debt-to-equity ratio requirement (Note 20b).

41. SUBSEQUENT EVENTS (continued)

o. Significant Subsequent Events of Subsidiaries (continued)

1. APEXINDO (continued)

c) Submission of the Registration Statement to BAPEPAM on February 8, 2005 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. On April 8, 2005, Apexindo has received the proceeds from the issuance of the said bonds amounting to Rp723,281,250 thousand (US$76,134,868), net of underwriting fees of Rp3,750,000 thousand (US$394,736) and sinking fund of Rp22,968,750 thousand (US$2,417,763). Pursuant to the fund plan usage, Apexindo has fully settled its bridging loan from Standard Chartered Bank in the amount US$30 million (Note 41.1.a above).

d) Amendment on the Rig Construction Agreement with PPL to be effective on February 4, 2005, whereby the total contract value was revised to become US$133,726,250. Under the amendment, the rig will be delivered by PPL at least 24 months from the effective date. On January 18, 2005, Apexindo has paid US$30 million as downpayment. On February 8, 2005, PPL has returned US$3,254,735 to Apexindo as a result of the change of the contract value (Note 37).

e) On March 31, 2005, Apexindo sold its 50% ownership interest in MESA for US$2,000,000 to MESA. On April 29, 2005, Apexindo has received full payment of the selling price.

f) In April 2005, Apexindo has entered into Cross Currency Swap Agreement with Standard Chartered Bank (SCB). Under the Agreement, Apexindo pays on the initial exchange on April 8, 2005, the total Rupiah notional amounts of Rp750,000,000,000 and received the total US Dollar notional amounts of US$78,947,408. Apexindo will also receive interest of 12.25% per year on the nominal amount and pays total interest of 8.65% per year on US$27,631,579 and three months US$ Libor BBA plus 4.05% per year on US$39,473,724. 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's pays the total US Dollar notional amounts and receives the total Rupiah notional amounts.

Under the Agreement, if the US Dollar/Indonesian Rupiah spot rate is at or above Rp10,500 at any time during the term of the agreement, the mark to market provision shall apply. The agreement is effective starting April 8, 2005 until April 7, 2010.

g) 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 Raissa rigs amounting to US$23,275,389 and for Yani rigs 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 its bank loans.

41. SUBSEQUENT EVENTS (continued)

o. Significant Subsequent Events of Subsidiaries (continued)

1. APEXINDO (continued)

h) On April 11, 2005, Apexindo has repaid its insurance claim on Maera rig to MEFO based on previous signed Insurance Claim Purchase Agreement (Note 34) in the amount of US$18,511,010.

i) On April 26, 2005, Apexindo has sent a letter to Fortis Bank S.A./N.V., Singapore, regarding its intention to unwind the swap facilities of syndicated term loan of Raissa rig upon the settlement of the respective loan.

j) On April 25, 2005, Apexindo, together with the Company and MMB, MEPI and MEPK signed a Banking Facility Amendment Agreement with SCB amounting to US$15,000,000 for the period from June 1, 2005 up to May 31, 2006.

2. Sale of Pakistan Assets

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 but the Company received US$544,553 compensation for the working capital (Notes 1b and 37b).

3. Sale of US Assets

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 has exercised its option to acquire 25% of all the rights, title and interest of Novus Louisiana on 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 amendment on June 1, 2004 with effective date on September 16, 2002. The Company received US$1,222,955 in consideration for the sale (Note 37b).

4. Gas Sales Agreement with RAS Al Khaimah's Gas Commission

On February 7, 2005, Novus Oman Ltd. has signed a Gas Sales Agreement with Ras Al Khaimah's Gas Commission to purchase gas from its Oman's West Bukha field within Block 8 where it has 40% interest in the block.

5. On February 3, 2005, PT Medco LPG Kaji has withdrawn US$13,299,900 (net of bank charges) from the US$13.3 million facility from DEG. The loan will be payable over nine equal installments from March 15, 2005. Interest rate shall be the cost of fund of the Company plus 1% per annum. This loan is collateralized by all fixed accounts of PT Medco LPG Kaji.

6. On April 28, 2005, MEB has entered into a First Amendment of Credit Agreement with BCA, of which the monthly principal installments were charged to 82 installments beginning March 29, 2005 to January 29, 2011. All the terms and conditions of the other existing agreement dated August 10, 2004 remain the same.

41. SUBSEQUENT EVENTS (continued)

o. Significant Subsequent Events of Subsidiaries (continued)

7. On April 29, 2005, MEFL has unwound its forward interest rate swap agreement with Morgan Stanley & Co. Ltd. International Limited dated July 2, 2004 for a notional amount of US$50 million and has paid MS US$4,200,000 as final settlement (Note 19).

8. 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 (Note 37b), MS shall be entitled to reimbursement for all the paid cash calls upon the announcement of the reinstatement which is scheduled on May 30, 2005. On June 1, 2005, the Company received US$30,369,160 in settlement of the amount in accordance with the agreement with Santos. MS has already reassigned the sole-risk drilling at Jeruk Well to Cue and SPC based on Jeruk Participation and Operating Agreement dated November 5, 2003. The Company will be entitled to penalty income in accordance with reassigned agreement.

9. On May 3, 2005, PT Musi Banyuasin Energi has changed its name to PT Medco LPG Kaji in accordance with Company's re-branding policy. The change of name was approved by the Ministry of Justice and Human Rights based on its letter number C-11976HT.01.04.TH.2005 dated May 3, 2005.

10. On May 10, 2005, an oil leak occurred in the Company's 8'' pipeline, which is operated by PT Medco E&P Indonesia, subsidiary. Such pipeline is used to transport oil from Jene field in South Sumatera Extension block to Pertamina's oil storage at Plaju, South Sumatera province. This incident has no significant impact to the whole operations of the Subsidiary.

42. RESTATEMENT OF THE 2003 AND 2002 CONSOLIDATED FINANCIAL STATEMENTS

a. Restatement of the 2002 consolidated financial statements

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 Subsidiaries' comparative consolidated financial statements as of and for the years ended December 31, 2003 and 2002 issued on April 22, 2004.

1. Adjustments

(i) US Tax Liabilities

As disclosed in the Company's 2001-2002 audited consolidated financial statements, the Secretary of State of Delaware U.S.A, 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.

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42. RESTATEMENT OF THE 2003 AND 2002 CONSOLIDATED FINANCIAL STATEMENTS (continued)

a. Restatement of the 2002 consolidated financial statements (continued)

As further discussed in Note 17, 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 US 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 US 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 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 amount in the consolidated financial statements. The adjustment resulted in increase 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 shares in the results of operations and changes in equity of Subsidiaries. The adjustments resulted in decrease in 2002 net income of US$1,728,362 and of US$14,761,640 in opening retained earnings at January 1, 2002.

2. 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 expense in the 2002 consolidated financial statements have been reclassified to investments in shares of stock in the noncurrent assets, to depreciation and amortization in the cost of sales and direct expenses, and to employee benefits — noncurrent, respectively, to conform with the 2003 financial statement presentation.

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42. RESTATEMENT OF THE 2003 AND 2002 CONSOLIDATED FINANCIAL STATEMENTS (continued)

a. Restatement of the 2002 consolidated financial statements (continued)

A summary of the financial statement items before and after the restatement is as follows:

	2002	
	As Restated	As Previously Reported
	US$	US$
Taxes payable	26,624,062	16,398,314
Accrued expense	43,126,116	39,841,083
Deferred tax liabilities	5,907,846	15,223,495
Minority interest in net assets of subsidiaries	34,499,000	27,126,294
Capital stock	97,915,615	94,227,642
Additional paid-in capital	121,862,995	113,068,224
Difference due to change in equity of subsidiaries	27,788,327	29,673,178
Retained earnings-unappropriated		
Beginning of year	176,557,986	197,141,234
End of year	218,822,952	240,988,683
Other charges — net	2,582,888	1,856,665
Minority interest in net loss of subsidiaries	(220,395)	(707,128)
Current tax	(76,213,815)	(73,712,151)
Deferred tax	(2,798,293)	(5,647,136)
Net income	82,555,799	84,138,282
Basic earnings per share	0.0264	0.0269

b. Restatements of the 2003 and 2002 consolidated financial statements

Subsequent to the issuance of the Company and 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:

1. Adjustments

2003

Deferred Tax

Recognition of deferred tax benefit of US$25,074,189 on temporary differences between the financial statement carrying amounts and the tax bases of oil and gas properties, deferred tax assets on employee benefits of US$1,243,070 and write-off of deferred tax asset of fiscal loss of US$462,259. The adjustments resulted in an increase in net income of US$25,855,000.

42. RESTATEMENT OF THE 2003 AND 2002 CONSOLIDATED FINANCIAL STATEMENTS (continued)

b. Restatement of the 2003 and 2002 consolidated financial statements (continued)

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

Deferred Tax

Recognition of deferred tax assets and liabilities of US$1,214,081 and US$69,064,383, respectively, as of December 31, 2002 on 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 on the January 1, 2002 retained earnings of US$57,532,806.

2. 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 noncurrent 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 revenues; intercompany elimination of other accounts receivable of US$1,352,509 and trade accounts receivable of US$3,281,204 with accrued expenses amounting 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 noncurrent 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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42. RESTATEMENT OF THE 2003 AND 2002 CONSOLIDATED FINANCIAL STATEMENTS (continued)

b. Restatement of the 2003 and 2002 consolidated financial statements (continued)

2. Reclassification of Accounts (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 transaction	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	128,950	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

As a result of the adjustments and reclassifications in Note 42b, the consolidated financial statements for the year ended December 31, 2004 have also been restated to reflect the effects of the said adjustments and restatements.

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43. ECONOMIC CONDITIONS

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.

44. RECLASSIFICATIONS OF THE ACCOUNTS

Certain accounts in the 2003 and 2002 restated financial statements have to been reclassified to conform with the presentation of accounts in the 2004 consolidated financial statements:

	2003		2002	
	Before	After	Before	After
Sales and Other Operating Revenues				
Net oil and gas sales	—	309,968,424	—	318,981,296
Drilling operations and related services		79,482,699	—	44,599,071
Net methanol sales	—	55,113,629	—	30,775,577
Share of profit of joint ventures	—	9,317,473	—	5,911,729
Other contracts	—	9,676,376	—	8,296,808
Total Sales and Other Operating Revenues	477,941,948	463,558,601	420,717,522	408,564,481
Cost of Sales and Direct expenses	265,595,839	—	196,688,969	—
Production and Lifting Costs	—	66,133,851	—	40,260,842
Depreciation and Amortization	—	69,233,287	—	51,115,938
Drilling Operations Costs	—	63,100,073	—	39,849,151
Cost of Methanol Sales	—	32,689,267	—	25,126,628
Exploration Expenses	—	21,307,817	—	29,392,497
Operating Expenses	63,151,589	62,187,548	62,420,324	61,664,708
Other Income (Charges)				
Gain (loss) on insurance claim	(1,480,379)	—	5,573,634	—
Interest income	6,005,962	—	1,572,178	—
Gain on sale of property and equipment	1,689,924	—	78,888	—
Unrealized gain on trading securities	641,300	—	—	—
Gain on sale of receivables from related parties	1,910,383	—	—	—
Interest expense	(22,383,142)	—	(8,384,585)	—
Loss on repurchase of notes payable	(4,838,231)	—	(141,167)	—
Loss on swap transactions	(2,783,177)	—	—	—
Loss on sale of marketable securities — net	—	(4,196,931)	—	—
Equity in net loss of associated entities — net	(40,838)	(40,838)	(1,061,548)	(1,061,548)
Gain on foreign exchange — net	48,752	48,752	1,688,147	1,688,147
Interest expense — net	—	(18,440,094)	—	(6,812,407)
Others — net	(4,922,717)	(3,523,052)	413,736	5,925,091
Tax Income (Expense)				
Current tax	(68,036,341)	(67,748,579)	(76,213,815)	(75,760,303)
Tax Expense — net	(43,226,690)	(42,938,928)	(89,329,604)	(88,876,092)

The above reclassifications were made to present share of profits of Joint Ventures in 2003 and 2002 under the ''Share of Profit of Joint Ventures'' account.

45. REISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company has issued the consolidated financial statements of the Company and Subsidiaries as of and for the year ended December 31, 2004 that were audited by Prasetio, Sarwoko & Sandjaja with audit report No. RPC-3925 dated April 28, 2005. In connection with the planned offering of the Company's existing common shares directly or in the form of Global Depository Receipts on the Luxembourg Stock Exchange, the Company reissued and restated its consolidated financial statements for the year ended December 31, 2004 which included the restatements described in Note 42b to the consolidated financial statements, and additional disclosures in the notes to the consolidated financial statements.

46. COMPLETION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements that were completed on June 27, 2005.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
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(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 2004, 2003 and 2002 in table below in respect of Sumatera, Kalimantan, Tarakan and Sulawesi 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 proved reserve category and subclassification promulgated by the United States Securities and Exchange Commission and by the Society of Petroleum Engineers for probable reserve category and subclassification.

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
Proved Developed, Undeveloped and Probable Reserves		
Balance as of January 1, 2002	372,292	762,559
Revision to previous estimates	(108,862)	907,041
Production in 2002	(31,014)	(24,116)
Balance as of December 31, 2002	232,416	1,645,484
Revision to previous estimates	28,944	189,585
Production in 2003	(23,773)	(28,569)
Balance as of December 31, 2003	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**

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
December 31, 2004, 2003 and 2002
(UNAUDITED)

RESERVE ESTIMATION (continued)

	Crude Oil	**Gas**
	In thousands of barrels	In millions of cubic feet
Proved Developed and Undeveloped Reserves		
Balance as of January 1, 2002	214,241	557,323
Revision to previous estimates	(36,414)	(409,280)
Production in 2002	(31,014)	(24,116)
Balance as of December 31, 2002	146,813	123,927
Revision to previous estimates	(9,168)	54,692
Production in 2003	(23,773)	(28,554)
Balance as of December 31, 2003	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**

Estimated oil reserves in Tuban is as follows:

	Crude oil
	In thousands of barrels
Proved Developed, Undeveloped and Probable Reserves	
Balance as of January 1, 2002	8,450
Production in 2002	(976)
Balance as of December 31, 2002	7,474
Production in 2003	(867)
Balance as of December 31, 2003	6,607
Revision to previous estimates	1,937
Production in 2004	(619)
Balance as of December 31, 2004	7,925

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
December 31, 2004, 2003 and 2002
(UNAUDITED)

RESERVE ESTIMATION (continued)

	Crude oil In thousands Of barrels
Proved Developed and Undeveloped Reserves	
Balance as of January 1, 2002	5,914
Production in 2002	(976)
Balance as of December 31, 2002	4,938
Production in 2003	(867)
Balance as of December 31, 2003	4,071
Revision to previous estimates	4,473
Production in 2004	(619)
Balance as of December 31, 2004	7,925

The gross proved reserves for Tuban Block as of December 31, 2004, 2003 and 2002 were estimated by the Company.

Estimated Novus oil and gas reserves in the United States of America, Australia, Middle East and Indonesia are as follows:

	Crude Oil In thousands of barrels	Gas In millions of cubic feet
Proved Developed, Undeveloped and Probable Reserves		
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**
Proved Developed and Undeveloped Reserves		
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**

The above gross proved reserves for Novus were estimated by the Company.

ERNST & YOUNG

Independent Accountants' Review Report

Report No. RPC-4253

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

We have reviewed the consolidated balance sheets of PT Medco Energi International Tbk (the ''Company'') and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the three months period then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the Indonesian Institute of Accountants. A review of interim financial statements consists principally of applying analytical procedures to the financial data and making inquiries of persons responsible for accounting and financial matters. It is substantially less in scope than an audit conducted in accordance with auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in Indonesia.

Prasetio, Sarwoko & Sandjaja

/s/ Drs. Iman Sarwoko

Drs. Iman Sarwoko
Public Accountant License No. 98.1.0359

June 29, 2005

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 review such consolidated financial statements are those generally accepted and applied in Indonesia.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2005	2004
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1b,2f,3	90,172,825	160,670,581
Short-term investments	1b,2e,2g,4	45,167,937	24,568,395
Trade receivables — net of allowance for doubtful accounts of US$2,924,039 in 2005 and US$2,869,800 in 2004	2i,5,19,20	87,875,938	76,487,941
Other receivables — third parties — net of allowance for doubtful accounts of US$133,565 in 2005	2i,6,17,37	67,619,907	48,144,763
Inventories — net of allowance for decline in value of US$688,261 in 2005 and US$1,202,672 in 2004	1b,2j,7,12,20	33,206,159	36,290,411
Prepaid taxes	1b,2t,8,30	18,974,146	22,156,818
Prepaid expenses	2k	6,035,800	12,109,128
Restricted cash in banks	2h,9,19,20,41d	21,772,463	15,396,964
Other current assets	1b,2c,14,37b,41	151,097,659	—
Total Current Assets		521,922,834	395,825,001
NON-CURRENT ASSETS			
Other receivables — third parties — net	2i,6,17,37	3,877,404	1,853,111
Restricted cash in banks	2h,9,19,20,41d	22,845,829	23,716,138
Accounts receivable from related parties	2e,2i,10,34	10,132,424	1,428,910
Deferred tax assets — net	2t,30	36,110,992	31,464,553
Investments in shares of stock	2g,2p,2y,11,37	17,790,437	1,582,489
Property and equipment — net of accumulated depreciation of US$213,220,062 in 2005 and US$185,330,573 in 2004	1b,2c,2l,2v,2y,12,20,21	272,340,340	256,988,563
Oil and gas properties — net of accumulated depreciation and amortization of US$363,172,901 in 2005 and US$228,734,228 in 2004	1b,2c,2m,2y,13	456,863,079	309,894,864
Swap assets	2u,19	1,457,851	—
Other assets — net	1b,2c,2k,2n,14	33,236,248	12,308,427
Total Non-current Assets		854,654,604	639,237,055
TOTAL ASSETS		**1,376,577,438**	**1,035,062,056**

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED) (continued)
March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2005	2004
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term bank loans	20	30,000,000	—
Trade payables			
Related party	2e,15	477,578	909,206
Third parties	15	36,903,945	33,560,507
Other payables	16	40,055,169	16,835,572
Taxes payable	2t,17,18	20,384,607	26,185,301
Accrued expenses	17,18,40	22,242,823	18,707,428
Current maturities of long-term bank loans	20	31,618,976	28,983,300
Deferred income		1,260,668	—
Swap liabilities	2u,19,21	1,045,515	—
Total Current Liabilities		183,989,281	125,181,314
NON-CURRENT LIABILITIES			
Deferred tax liabilities — net	2t,30	104,004,794	80,731,722
Employee benefits obligation	2s,33	5,366,221	4,888,402
Long-term liabilities — net of current maturities			
Bank loans	2o,2u,20,41	104,148,734	49,278,079
Taxes payable	2t,17	—	1,863,538
Other long-term obligations	1b,2o,2u,9,19,21		
Notes payable		274,690,892	272,818,434
Rupiah bonds		141,378,434	—
Swap liabilities	2u,19,21	5,460,457	1,607,145
Other payables		34,262	—
Total Non-Current Liabilities		635,083,794	411,187,320
NEGATIVE GOODWILL — Net	2c,22	1,766,888	2,091,206
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES	2b,23	37,363,037	31,612,499

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED) (continued)
March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2005	2004
EQUITY			
Capital stock — Rp100 par value per share			
Authorized — 4,000,000,000 shares			
Issued and fully paid — 3,332,451,450 shares	24,41	101,154,464	101,154,464
Treasury stock — 226,597,000 shares	2q,24,41	(3,190,236)	(3,190,236)
Additional paid-in capital	25	122,055,889	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	2g,26	27,836,821	27,836,821
Translation adjustment	2d	(1,150,823)	7,419
Retained earnings			
Appropriated		6,492,210	6,492,210
Unappropriated		265,076,516	210,533,553
Equity — Net		518,374,438	464,989,717
TOTAL LIABILITIES AND EQUITY		**1,376,577,438**	**1,035,062,056**

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

	Notes	2005	2004
Sales and Other Operating Revenues	1b,2r,2w,27		
Net oil and gas sales		85,412,003	72,485,029
Drilling operations and related services		20,453,023	23,747,592
Net methanol sales		12,723,570	11,194,389
Share of profits (losses) of joint ventures		5,270,295	(59,173)
Electric power sales		2,251,766	—
Revenues from other contracts		4,425,525	3,238,497
Net Sales and Other Operating Revenues		130,536,182	110,606,334
Depreciation and Amortization	2r,12,28	21,201,261	11,219,704
Production and Lifting Costs	2s,2r,28	14,678,606	14,662,749
Drilling Operations Costs	2s,2r,28	14,475,365	17,338,800
Cost of Methanol Sales	2s,2r,28	8,855,830	8,983,059
Exploration Expenses	2s,2r,28	1,434,336	4,406,908
Cost of Power Sales	2s,2r,28	122,756	—
Gross Profit		69,768,028	53,995,114
Operating Expenses	2r,2s,12,29	17,926,986	15,782,798
Income from Operations		51,841,042	38,212,316
Other Income (Charges)	2r		
Gain on sale of marketable securities — net	2g	417,433	344,402
Equity in net income (loss) of associated entities — net	2g,11	3,511,955	(137,163)
Gain on foreign exchange — net	2d	567,094	577,410
Financing charges — net	2x,20	(92,542)	(74,346)
Interest expense — net	2u,19	(12,818,376)	(4,475,111)
Others — net	2e,2l,10,11,20	(3,607,066)	2,126,638
Other Charges — Net		(12,021,502)	(1,638,170)
Income Before Tax Expense		39,819,540	36,574,146
Tax Benefit (Expense)	2t,30		
Current tax		(20,521,086)	(15,545,628)
Deferred tax		1,279,028	(447,262)
Tax Expense — Net		(19,242,058)	(15,992,890)
Income Before Minority Interest in Net Earnings of Consolidated Subsidiaries		20,577,482	20,581,256
Minority Interest in Net Earnings of Consolidated Subsidiaries	2b,23	(594,595)	(474,332)
NET INCOME		**19,982,887**	**20,106,924**
BASIC EARNINGS PER SHARE	2aa,31	**0.0064**	**0.0065**

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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 (UNAUDITED)
Three Months Ended March 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 Adjustment	Revaluation Increment in Property and Equipment	Retained Earnings		Net
							Appropriated	Unappropriated	
Balance, December 31, 2003		97,964,228	122,055,889	27,836,821	—	99,597	6,492,210	190,426,629	444,875,374
Translation adjustments of subsidiaries financial statements	2d	—	—	—	7,419	—	—	—	7,419
Net income		—	—	—	—	—	—	20,106,924	20,106,924
Balance, March 31, 2004		**97,964,228**	**122,055,889**	**27,836,821**	**7,419**	**99,597**	**6,492,210**	**210,533,553**	**464,989,717**
Balance, December 31, 2004		97,964,228	122,055,889	27,836,821	(740,901)	99,597	6,492,210	245,093,629	498,801,473
Translation adjustments of subsidiaries financial statements	2d	—	—	—	(409,922)	—	—	—	(409,922)
Net income		—	—	—	—	—	—	19,982,887	19,982,887
Balance, March 31, 2005		**97,964,228**	**122,055,889**	**27,836,821**	**(1,150,823)**	**99,597**	**6,492,210**	**265,076,516**	**518,374,438**

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	125,317,913	111,749,484
Cash paid to suppliers and employees	(83,369,041)	(73,627,434)
Cash generated from operations	41,948,872	38,122,050
Interest and financing charges paid	(7,752,714)	(7,070,484)
Income tax paid	(16,346,094)	(19,328,825)
Net Cash Provided by Operating Activities	**17,850,064**	**11,722,741**
CASH FLOWS FROM INVESTING ACTIVITIES		
Addition to (deduction of) short-term investments	(14,755,363)	26,449,263
Addition to other payables	1,581,816	890,850
Interest received	477,599	952,648
Deduction to other assets	(27,837,480)	(7,918,068)
Proceeds from sale of investments on subsidiaries	45,824,510	—
Additions to oil and gas properties	(12,986,372)	(7,663,484)
Acquisitions of property and equipment	(7,275,115)	(4,727,952)
Deduction of related parties accounts	(29,063)	(495,314)
Acquisitions of investments in shares of stock	(8,260,000)	—
Net Cash Provided by (Used in) Investing Activities	**(23,259,468)**	**7,487,943**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of bank loans	(115,138,780)	(847,348)
Proceeds from sale of treasury notes	—	15,562,305
Placement of restricted cash in banks	(4,581,025)	(7,624,717)
Net Cash Provided by (Used in) Financing Activities	**(119,719,805)**	**7,090,240**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(125,129,209)	26,300,924
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	215,302,034	134,369,657
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**90,172,825**	**160,670,581**

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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 (UNAUDITED)
Three Months Ended March 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 its decision letter No. Y.A.5/192/4 dated April 7, 1981 and was published in State Gazette No. 102, Supplement No. 1020 dated December 22, 1981.

The Company's articles of association have been amended several times, the latest 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 its 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, 16th 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 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 2,294 and 2,198 employees for the three months period ended March 31, 2005 and 2004, respectively.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

a. General Information (continued)

The Company's Boards of Commissioners and Directors are as follows:

	March 31, 2005	March 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 Dwi Arifin	Ir. Yani Yuhani Rodyat
		Ir. Retno Dewi Arifin
		Suwit Pitrchart
		Maroot Mrigadat
		Andrew Purcell
President Director:	Ir. Hilmi Panigoro, MSc	Ir. Hilmi Panigoro, MSc
Directors:	Ir. Darmoyo Doyoatmojo,	
	MSc, MBA	Sugiharto, SE, MBA
	Rashid Irawan	
	Mangunkusumo, BSc, MEng	Peerachat Pinprayong
		Rashid Irawan
		Mangunkusumo, BSc, MEng

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 have appointed Ir. Darmoyo Doyoatmojo, MBA, Msc as his replacement through the Extraordinary Stockholders' Meeting held on March 10, 2005.

On January 23, 2004, the Company's stockholders, in their Extraordinary Stockholders' Meeting, approved the resignation of Mr. Chitrapongse Kwangsukstith as Commissioner and the appointment of Mr. Suwit Pitrchart as his replacement.

In September 2004, the Company's stockholders, in their Extraordinary General Meeting, have approved the resignation of Mr. Peerachat Pinprayong as Director and the appointment of Mr. Yongyos Krongphanich as his replacement.

On March 10, 2005, the Company's stockholders, in their Extraordinary Stockholders' Meeting, approved the resignation of Mr. Maroot Mrigadat, Suwit Pitrchart and Andrew Purcell as the Company's commissioners and the resignation of Mr. Yongyos Krongphanich as the Company's directors, effective February 28, 2005.

b. Subsidiaries

Salaries and other fringe benefits paid to the commissioners and directors amounted to US$450,618 and US$475,902 for the three months ended March 31, 2005 and 2004, respectively.

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

1. GENERAL (continued)

b. Subsidiaries (continued)

As of March 31, 2005, the Company has an ownership interest 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 as of March 31, 2005
1. Exploration for and production of oil and gas				
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	20,059,312
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	63,389,302
PT Medco E&P Indonesia (MEPI) Indonesia	PSC with BP Migas until 2013.	100.00% (99.95% — Company; 0.05% — MEPK)	November 3, 1995	156,853,700
Exspan Airsenda, Inc. (EAS) Delaware USA	PSC with BP Migas until 2023.	100.00%	November 3, 1995	192,316,728
Exspan Airlimau, Inc. (EAL) Delaware USA	PSC with BP Migas until 2023.	100.00%	November 3, 1995	192,316,728
PT Exspan Pasemah Indonesia	Has not started commercial operations	95.00%	—	—
Exspan Exploration and Production Int'l (M), Ltd., (EEPI) Mauritius	Has not started commercial operations	100.00%	—	—
Exspan Exploration and Production Pasemah, Ltd., (EEP) Bahamas	PSC with BP Migas until 2023. The Company has proposed the relinquishment of the PSC and BP Migas has approved through its letter no. 421/BP00000/2003-SI.	100.00%	November 3, 1995	—
Exspan Pasemah, Inc. (EP) Delaware USA	The Company has already relinquished the PSC with BP Migas as approved by BP Migas letter No. EXP-331/01 dated February 26, 2003.	100.00%	November 3, 1995	—

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

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 as of March 31, 2005
Ensearch Far East Limited Cayman Island	Participating interest in Tuban PSC — Joint Operating Body (JOB) with PERTAMINA (until 2018) has been transferred to PT Medco E&P Tuban in 2003.	100.00%	February 29, 1988	5,674,666
Exspan Cumi-Cumi (L), Inc. Malaysia	PSC with BP Migas until 2029. The Company has already relinquished the PSC based on BP Migas approval letter No. 445/BP00000/2002-SI dated August 20, 2002.	100.00% through MEPK	In liquidation process	64,448
Senoro Toili (Ind) Ltd., Bahamas	Participating interest in PSC — JOB with PERTAMINA has been transferred to PT Medco E&P Tomori Sulawesi on October 9, 2000.	100.00%	Closed operations starting October 2000.	2
PT Medco E&P Tomori Sulawesi Indonesia	PSC — JOB with PERTAMINA until 2027.	100.00% (95% — Company; 5% — MEPI)	Has not started commercial operations	35,578,109
Medco Simenggaris Pty. Ltd., Australia	PSC — JOB with PERTAMINA until 2028.	60.00%	Has not started commercial operations	9,207,963
Medco Madura Pty. Ltd., Australia	PSC — JOB with PERTAMINA until 2027.	51.00%	Has not started commercial operations	24,847,454
Exspan Myanmar (L), Inc. Malaysia	PSC with Myanmar Oil and Gas Enterprise (MOGE), has been already relinquished based on MOGE's approval letter No. MD-3/23 (2338) 2002 dated October 25, 2002.	100.00%	Has not started commercial operations	—
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 Medco International Venture Ltd.	Has not started commercial operations	—

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

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 as of March 31, 2005
Medco Lematang Limited Malaysia	PSC Lematang with BP Migas (until 2007) was transferred to PT Medco E&P Lematang in 2003.	100.00% through Medco International Venture Ltd.	October 1, 2002	—
PT Petroner Bengara Energi Indonesia	PSC Bengara with BP Migas until 2029.	95.00%	Has not started commercial operations	991,162
PT Medco E&P Lematang (MEPL) Indonesia	PSC with BP Migas until 2017.	100.00% (99.99% — Company; 0.01% — MEPI)	2003	31,167,672
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	1,647,317
PT Medco Sarana Balaraja Indonesia	PSC Rombebai with BP Migas (until 2028) was transferred to Ramu Rombebai LLC.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	109,806
Exspan International (Kakap) Ltd., Mauritius	Has not started commercial operations.	100.00% through EEP	—	1
PT Medco E&P Brantas	Has not started commercial operations.	100.00% (99.99% — Company; 0.01% — MEPI)	—	26,372
PT Medco E&P Tuban Indonesia	PSC — JOB with PERTAMINA until 2018.	99.99%	September 1, 2003	58,043,973
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	2,465,950
PT Medco E&P Sampang Indonesia	Participating interest with Santos Sampang Pty. Ltd., to operate Jeruk well in Sampang PSC under Sole Risk Agreement.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	30,474,739
PT Medco E&P Kakap Indonesia	Has not started commercial operations.	100.00% (99.99% — Company; 0.01% — MEPI)	—	105,486
PT Medco E&P Asahan Indonesia	Has not started commercial operations.	99.99%	—	26,372

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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 as of March 31, 2005
PT Medco E&P Rimau Indonesia	Assignee of working interest of Exspan Airsenda Inc. and Exspan Airlimau Inc.	99.99%	Has not started commercial operations	14,700
PT Medco E&P Nunukan Indonesia	PSC with BP Migas until 2034 (from December 12, 2004).	100.00% (99.99% — Company; 0.01% — MEPI)	—	1,581,915
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%	Has not started commercial operations	—
Medco Energi (Australia) Pty., Ltd., (MEAPL) Australia	Holding Company of Novus Petroleum Limited.	100.00%	Has not started commercial operations	418,254,479
2. Drilling and other support services for oil and gas activities				
PT Apexindo Pratama Duta Tbk (Apexindo) Indonesia	Onshore and offshore drilling operations, and related services for companies involved in the oil and gas industry.	77.53%	1992	325,582,246
PT Antareja Jasatama Indonesia	Clear fields for mining activities and services related to drilling operations (ceased operations starting April 2004).	77.20% through Apexindo	June 18, 1999	1,206,286
PT Exspan Energi Nusantara (EEN) Indonesia	Generation and distribution of electricity.	100.00% (99% — MEPK, 1% — MEPI)	Has not started commercial operations	34,636
PT Medco LPG Kaji Indonesia	Processing of natural gas and distribution of gas products (LPG).	100.00% (99.99% — Company; 0.01% — MEPI)	April 4, 2004	21,146,110
PT Exspan Petrogas Intranusa (EPI) Indonesia	Provision of services to companies involved in oil and natural gas exploration and production.	99.99%	1999	17,587,773

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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 as of March 31, 2005
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	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	15,343
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	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.	80.00% through EPI	March 1, 2004	1,838,184
3. Methanol gas production				
PT Medco Methanol Bunyu (MMB) Indonesia	Production of methanol under the Refinery Agreement with PERTAMINA until 2017.	99.99%	November 3, 1995	26,234,760
4. Power Plant				
PT Medco Power Sengkang Indonesia	Holds an investments 5% shares in Sengkang Power Plant.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	105,486
PT Medco Energi Menamas Indonesia	Holding company of MEB.	99.99%	Has not started commercial operations	31,251,902
PT Medco Power Indonesia Indonesia	To engage in power plant operations.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	105,486
PT Mitra Energi Batam (MEB) Indonesia	Electricity power supply to PLN Batam until 2011.	53.99%	October 29, 2004	31,035,061
PT Medco Geothermal Indonesia Indonesia	To engage in electrical power plant operations.	100.00% (99.99% — Company; 0.01% — MEPI)	Has not started commercial operations	105,486

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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 as of March 31, 2005
5. Others				
Medco Energi Finance Overseas, B.V. (MEFO) The Netherlands	Raise funds through issuance debt securities.	100.00%	October 14, 1999	71,921,378
MEI Euro Finance Limited (MEFL) Mauritius	Raise funds through issuance debt securities.	100.00%	March 19, 2002	281,767,991
Medco International Venture Ltd., (MIV) Malaysia	Acquire interests involving exploration and production of oil and natural gas.	100.00%	Has not started commercial operations	7,036,127
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	56,841,021
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	16,946

On December 22, 2003, MEAPL has announced an unsolicited off-market take over bid for all the issued share capital of Novus Petroleum Limited (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 their Extraordinary General Stockholders' Meeting, have approved MEAPL's plan to acquire/take over the shares issued by NPL. MEAPL has started its on-market purchases of the 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 July 1, 2004.

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1. GENERAL (continued)

b. Subsidiaries (continued)

As of March 31, 2005, the Novus companies (Novus) included in the consolidation are as follows:

Subsidiary	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets as of March 31, 2005
Parent Company				
Novus Petroleum Limited (NPL)	Holding Company	100% (through MEAPL)	Australia	237,742,069
Controlled Entities				
Novus Management Services Pty. Ltd.	Management Services	100% (through NPL)	Australia	231,308
Novus Australia Holdings Pty. Ltd. (NAH)	Holding Company	100% (through NPL)	Australia	166,928,585
Novus Finance Pty. Ltd. (NF)	Finance Company	100% (through NPL)	Australia	19,003,580
Controlled Entities Held Directly and Indirectly by Novus Australia Holdings, Pty. Ltd.				
Novus Pakistan Pty. Ltd. (NPP)	Exploration and Production	100% (through NPL)	Australia	1,072,600
Novus Oman Limited (NOL)	Exploration and Production	100% (through NAH)	Bermuda	71,302,499
Novus Petroleum Canada (Kakap) Limited (NPCL)	Exploration and Production	100% (through NPL)	Canada	41,167,653
Novus Lematang Company (NLC)	Exploration and Production	100% (through NPL)	Canada	—
Novus Indonesia Brantas Company (NIBC)	Exploration and Production	100% (through NPL)	Cayman Island	87,212,272
Novus Al Khaleej Limited (NAKL)	Exploration and Production	100% (through NPL)	Guernsey	817,775
Novus UK (Kakap) Limited (NUKL)	Exploration and Production	100% (through NPL)	United Kingdom	85,190,406
Novus Nevada Petroleum LLC (NNPL)	Exploration and Production	100% (through NPL)	USA	105,561,847
Novus Oil & Gas Texas LLC (NOGTL)	Exploration and Production	100% (through NPL)	USA	1,299,223
Novus Louisiana LLC (NLL)	Exploration and Production	100% (through NPL)	USA	72,099,251
Novus Oil & Gas LP (NOGL)	Exploration and Production	100% (through NPL)	USA	45,493,647
Novus Overseas Holdings Limited (NOHL)	Holding Company	100% (through NPL)	Guernsey	82,435,739
Novus Middle East Limited (NMEL)	Holding Company	100% (through NPL)	Guernsey	23,166,410

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1. GENERAL (continued)

b. Subsidiaries (continued)

Subsidiary	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets as of March 31, 2005
Novus Group Holdings (Malaysia) Sdn Bdh (NGHSB)	Holding Company	100% (through NPL)	Malaysia	2
Novus Petroleum Canada (Indonesia) Holdings (NPCH)	Holding Company	100% (through NPL)	Canada	—
Novus Exploration Holdings Pty. Ltd. (NEHPL)	Holding Company	100% (through NPL)	Australia	210,346,572
Novus Australia Energy Company Pty. Ltd. (NAECPL)	Holding Company	100% (through NPL)	Australia	166,857,410
Novus UK (Indonesian Holding Limited) (NUKIHL)	Holding Company	100% (through NPL)	United Kingdom	23,481,582
Novus US Holding Inc.	Holding Company	100% (through NPL)	USA	112,099,758
Novus US Finance LLC (NUFL)	Financing Company	100% (through NPL)	USA	56,050
Medco West Asia Ltd. (formerly known as Novus West Asia Limited (NWAL)	Management Services	100% through NPL)	Guernsey	222,408
Novus Petroleum Canada (Malacca Strait) Limited (NPCL)	Dormant Company	100% (through NPL)	Canada	13,330,502
Novus UK (Malacca Strait) Limited (NUMSL)	Paper Company	100% (through NPL)	United Kingdom	23,469
Subsidiaries that have not started commercial operations				
CIBC Nominees Pty. Ltd. (CNPL)	Holding Company	100% (through NPL)	Australia	—
Novus Nominees Pty. Ltd, (NMPL)	Dormant 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	—
Kenzone Pty. Ltd. (KLL)	Dormant Company	100% (through NPL)	Australia	—
Melzeal Pty. Ltd. (MPL)	Dormant Company	100% (through NPL)	Australia	—

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1. GENERAL (continued)

b. Subsidiaries (continued)

Subsidiary	Description	Percentage of Effective Ownership	Place of Incorporation	Total Assets as of March 31, 2005
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	—

As of March 31, 2005, Novus has the following petroleum joint venture operations in Australia, Asia, the Middle East and the United States of America:

Joint Venture	Country	Ownership Interest
Brantas PSC	Indonesia	32
Kakap PSC	Indonesia	18.75
Block 8 (includes the Bukha field)	Oman	40
Block 17	Oman	40
Block 15/47 (Blok 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 (Note 41)
Bolan Concession	Pakistan	47.5 (Note 41)
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
Sorrento Dome — NUL 14 lease	USA	63.167
Sorrento Dome — NUL 11 lease	USA	100
Sorrento Dome — NUL 13 lease	USA	100
EC 317/318 (East Cameron) leases	USA	50-100
MP 64/65 (Main Pass) lease	USA	79.375

The fair value of the assets and liabilities acquired in respect of Novus acquisition could only be determined on a provisional basis as of the date of this report 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 and Silk Route and other third parties (Novus Assets Disposals) (Notes 37b and 41). Accordingly, the values of the assets and liabilities acquired and the goodwill on acquisition (currently allocated to Oil and Gas Properties and Other Assets (Notes 13 and 14) in the consolidated balance sheet) as stated below, may 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 (Note 2c).

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1. GENERAL (continued)

b. Subsidiaries (continued)

The fair value of the net assets acquired at the acquisition date is 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
Total	**253,277,523**

The purchase consideration is as follows:

Cash	**253,277,523**

From June 30 to December 31, 2004, in connection with the acquisition of Novus, the Company entered into several agreements with Santos and Silk Route, whereby the Company and its Novus subsidiaries have agreed to dispose of several of the subsidiaries and working interests in Indonesia, Australia, Pakistan and the Middle East. As of March 31, 2005, the Company and its Novus subsidiaries have completed the sale and transfers of their interests in Novus Kakap 2 Limited and Novus Australia Resources NL (Note 37b).

Furthermore, 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 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 effective date on September 16, 2002, for US$1,443,338 as consideration.

Subsequently on December 27, 2004, Apache Corporation (Apache) also exercised its preferential right to purchase Novus's interest in certain properties in the Stratton Field pursuant to the Operating Agreement dated November 26, 2001 between Apache and Novus Oil & Gas LLP (with 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) (Note 41).

In accordance with the Sale and Purchase Agreement (SPA) between Novus Lousiana LLC (Novus Lousiana) and Darcy Energy Limited (Darcy) dated January 14, 2005, Darcy has exercised its option to acquire 25% of all the rights, title and interest of Novus Lousiana on 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 effective date on September 16, 2002. The Company received US$1,222,955 in consideration for the sale (Note 37b).

The Company and Subsidiaries have several new and potential acquisitions and transfers of working interests under Production Sharing Contracts (PSC) (Note 36).

Refer to Notes 36 and 37 for further discussion of the nature of PSC, PSC-JOB and TAC.

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1. GENERAL (continued)

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 his 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 its letter No. S-2244/PM/1999. A total of 321,730,290 new shares were issued in this offering, which were listed on the JSE on November 19, 1999.

Subsequently, the Company had a 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.

As of March 31, 2005, all of the Company's shares totaling 3,332,451,450 are listed on the JSE.

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 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).

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its Subsidiaries (Medco 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 Medco Group and cease to be consolidated from the date on which control is transferred out of Medco 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 outside shareholders in the results and net assets of subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

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 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 are recognized as goodwill/negative goodwill. Goodwill of the acquired oil and gas companies is reported under Oil and Gas Properties account and is amortized over the life of the Production Sharing Contracts (PSC) 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.

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 Methanol Bunyu (MMB), PT Exspan Petrogas Internusa (EPI), PT Antareja Jasatama (AJT), PT Mitra Energi Batam (MEB), PT Medco Energi Menamas (MEM) 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.

As of balance sheet date, 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 and MEM maintain their books/accounts in Indonesian Rupiah. For consolidation purposes, assets and liabilities of MEB and MEM are translated into US 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 Stockholders' Equity. The books/accounts of Apexindo, MMB, EPI and AJT are maintained in

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign Currency Transactions and Balances (continued)

Rupiah currency, MEFO in Euro and MEAPL and Novus Australian Entities in Australian Dollars, but their functional currency is US Dollars. For consolidation purposes, the accounts of these entities have been remeasured into US Dollars is in order to reflect more closely their economic substance.

As of March 31, 2005 and 2004, the rates of exchange used are as follows:

	2005	2004
Rupiah/US$1	9,480	8,587
Euro/US$1	1.2921	1.2213
Australian Dollars/US$1	0.7859	0.7507
Singapore Dollars/US$1	0.6064	0.5959
Japanese Yen 100/US$1	0.9334	0.9563
Arab Emirates Dirham/US$1	3.65	3.65
British Pound sterling/US$1	1.8792	1.8317

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Cash Equivalents

Time deposits and other short-term investments with maturity period 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 the 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 gain from the improvement in the short-term prices of the securities. Investments that meet this classification are recorded 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 recorded 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 recorded 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 Stockholders' 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 period 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 adjustment arising from financial statements translation, amortization of deferred gain on exchange of non-monetary assets and straight-line amortization over a five (5) year period of the difference between the cost of such investment 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 company are reflected as additions to or reductions of Stockholders' Equity under the account "Effects of Changes in the Equity Transactions of Subsidiaries/Associated Companies" in the consolidated balance sheets. Gain or loss is recognized when the investments are disposed.

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 period.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Prepaid Expenses

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

l. 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.

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

	Years
Building and improvements	20
Offshore drilling rigs	20-21
Onshore drilling rigs	4-8
Rig equipment	4-10
Vehicles	3-5
Leasehold improvements	3-8
Office and other equipment	3-5

Land is stated at cost and is not depreciated.

In 2004, the estimated useful lives of certain off shore drilling rigs and offshore drill pipes which are classified under rig equipment have been changed, to reflect a more realistic assumption of the economic benefits over the utilization of such assets. The effect of the change is charged to current operations (Note 12).

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Oil and Gas Properties (continued)

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.

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 asset 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. Shares Issuance and Loan Transactions Costs

   Transaction costs of bank loans, which consist 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 non-monetary assets which represents the economic interest retained in the associated company, was deferred and presented as part of the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Deferred Gain on Exchange of Non-Monetary Assets (continued)

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. Revenue and Expense Recognition

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

Revenue from sale of methanol is recognized upon delivery to the customer.

Revenue from sale of electric power supply is recognized upon delivery to PT Pelayanan Listrik Nasional Batam (PLN Batam).

Revenue from drilling activity is recognized when the drilling service is rendered. 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.

Share of profits of joint ventures is recognized to the extent of the Company's/Subsidiaries' working interest in the joint ventures.

All other income and expenses are recognized when these are earned/incurred (accrual method).

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' salaries.

The subsidiaries' pension costs are charged to income as incurred.

2. Other Employee Benefits

The Company and Subsidiaries recognize employee benefits liability in accordance with requirements of the Labor Law No. 13 Year 2003 (Law No. 13/2003) dated March 25, 2003 issued by the President of the Republic of Indonesia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Pension and Other Employee Benefits (continued)

2. Other Employee Benefits (continued)

The Company and Subsidiaries use the Projected-Unit-Credit Method with long-term actuarial assumptions in recognizing the employees' 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 period 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 current operations. Transitional liability arising from the addition of the new labor law is amortized over four and 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 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 provided based on the estimated taxable income for the period.

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 MEPT 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/Subsidiaries, when the result of the appeal is decided by the court.

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 requiring that

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Derivative Instruments (continued)

every derivative instruments (including embedded derivatives) be recorded in the balance sheet as either asset or liability as 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 2l).

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. 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.

y. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Revised Statement of Financial Accounting Standards (PSAK)

PSAK No. 24 "Accounting for Employees Benefits"

In July 2004, the 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 24 ''Accounting for Pension Benefits Cost'', which was issued in 1994.

The Revised PSAK 24 will be 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 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.

As of the date of this report, the Company and Subsidiaries are still in the process of evaluating the effects of the Revised PSAK No. 24.

PSAK No. 38, "Accounting for Restructuring of Entities Under Common Control"

In July 2004, IAI revised PSAK No. 38, ''Accounting for Restructuring of Entities Under Common Control'', which provides for the realization of the restructuring difference to gain or loss if the conditions therein are fulfilled. This PSAK No. 38 (Revised 2004) will be effective for the financial statements covering periods beginning on or after January 1, 2005. As of the date of this report, the Company and Subsidiaries are still in the process of evaluating the effects of the said PSAK No. 38 (revised 2004).

aa. 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 period.

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.

3. CASH AND CASH EQUIVALENTS

This account consists of:

	2005	2004
Cash on hand	51,056	34,400
Banks		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	1,782,606	1,090,666

See Independent Accountants' Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

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3. CASH AND CASH EQUIVALENTS (continued)

	2005	2004
Third parties		
Rupiah		
Citibank, NA	1,245,293	675,793
PT Bank Mandiri (Persero) Tbk	984,599	908,648
PT Bank Central Asia Tbk	1,610,117	1,195
PT Bank Niaga Tbk	184,907	446,146
PT Bank Internasional Indonesia Tbk	155,598	238,666
PT Bank Negara Indonesia (Persero) Tbk	146,930	262,888
PT Bank Rakyat Indonesia (Persero) Tbk	188,930	65,171
Others (each below US$5,000)	160	184
United States Dollars		
Citibank, NA	66,033,069	55,803,319
ANZ Bank Brisbane	1,147,756	—
Merrill Lynch Capital Service, Inc.	2,499,665	26,066,202
Standard Chartered Bank	5,998,338	15,693,183
PT Bank Central Asia Tbk	1,042,494	13,599,965
PT Bank Niaga Tbk	784,836	30,505
Fortis Bank S.A/N.V., Singapore	894,463	845,510
PT Bank Mandiri (Persero) Tbk	74,064	214,494
Others (each below U$100,000)	71,852	67,849
Australian Dollars		
Australia New Zealand (ANZ) Bank	1,330,052	—
AED Dirham		
Citibank, NA	110,641	55,357
Euro		
ABN Amro	452	—
Sub-total	86,286,822	116,065,741
Time deposits		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	580,169	2,387,330
Third parties		
Rupiah		
PT Bank Mega Tbk	3,200,000	1,397,461

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3. CASH AND CASH EQUIVALENTS (continued)

	2005	2004
United States Dollars		
PT Bank Mega Tbk	—	582,276
PT Bank Central Asia Tbk	54,778	—
PT Bank Niaga Tbk	—	5,044,289
PT Bank Bumiputera Indonesia Tbk	—	5,043,195
Union Bank of Switzerland	—	30,115,889
Sub-total	3,834,947	44,570,440
Total	**90,172,825**	**160,670,581**
Interest rate per annum on time deposits		
Rupiah	7.25%	5.75%-6.75%
United States Dollars	2.25%	0.68%-2.25%

4. SHORT-TERM INVESTMENTS

This account consists of:

	2005	2004
Marketable Securities		
Money Market		
Goldman Sachs & Co.	15,000,000	—
PT Indopremier Securities	6,726,767	6,472,314
PT Danatama Makmur Securities	5,274,262	—
Andalas Artha Advice Securities	5,050,000	—
PT Kresna Graha Sekurindo Tbk	2,165,744	—
BNI Investment	1,424,050	—
Niaga Asset Manajemen	749,884	244,925
Medium Term Bond (MTB)		
PT Bank Mandiri (Persero) Tbk	8,209,119	11,742,507
PT Bank Rakyat Indonesia (Persero) Tbk	327,453	349,365
Dana Ganesa Abadi	240,658	—
PT Indofood International Finance Ltd	—	4,920,124
Sub-Total	45,167,937	23,729,235
Time deposits with maturity of more than 3 months		
Third party		
Rupiah		
PT Bank Niaga Tbk	—	180,505
Related party		
Rupiah		
Bank Himpunan Saudara 1906	—	116,455

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4. SHORT-TERM INVESTMENTS (continued)

	2005	2004
Time deposits used as collateral		
Third parties		
United States Dollars		
The Hong Kong and Shanghai Banking Corporation Ltd.	—	474,500
PT Bank Niaga Tbk	—	67,700
Sub-Total	—	839,160
Total	**45,167,937**	**24,568,395**
Interest rate per annum:		
Bonds	7%-13.5%	7%-14%
Time Deposits United States Dollars	—	1.12%-2.25%

Certain time deposits are used as collateral for the issuance of short-term bank guarantee certificates, letters of credit, performance bond and bid bonds.

5. TRADE RECEIVABLES — NET

The details of this account are as follows:

a. By debtor

	2005	2004
Related party		
Mesa Drilling Inc.	—	774,184
Allowance for doubtful accounts	—	(774,184)
Net	—	—
Third parties		
Local debtors	64,081,662	50,907,471
Foreign debtors	26,718,315	27,676,086
Sub-Total	90,799,977	78,583,557
Allowance for doubtful accounts	(2,924,039)	(2,095,616)
Net	87,875,938	76,487,941
Total	**87,875,938**	**76,487,941**

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5. TRADE RECEIVABLES — NET (continued)

b. By age category

	2005	2004
Not yet due	71,049,496	61,490,348
1-30 days past due	10,225,924	8,850,106
31-60 days past due	2,862,990	2,477,797
61-90 days past due	192,670	166,748
91-120 days past due	1,108,344	959,225
More than 120 days past due	5,360,553	5,413,517
Total	90,799,977	79,357,741
Allowance for doubtful accounts	(2,924,039)	(2,869,800)
Net	**87,875,938**	**76,487,941**

c. By currency

	2005	2004
United States Dollars	87,696,142	76,671,502
Rupiah	3,103,835	2,686,239
Total	90,799,977	79,357,741
Allowance for doubtful accounts	(2,924,039)	(2,869,800)
Net	**87,875,938**	**76,487,941**

The changes in the allowance for doubtful accounts are as follows:

	2005	2004
Beginning balance as of December 31	2,924,039	2,900,194
Deductions	—	(30,394)
Ending balance as of March 31	**2,924,039**	**2,869,800**

Based on the review of the status of the individual receivable accounts at the end of the period, 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 March 31, 2005 and 2004, US$11,021,595 and US$10,898,340, respectively, of trade receivables, were used as security for loans received from Fortis Bank and PT Bank Central Asia Tbk (Notes 19 and 20).

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6. OTHER RECEIVABLES — NET

This account consists of:

	2005	2004
Santos (Sampang) Pty. Ltd	30,369,159	7,744,200
BP Migas	17,481,761	13,028,654
Pertamina	8,496,154	3,321,237
Loans to employees	3,793,451	6,926,474
Joint Venture receivables	1,653,432	2,393
PT Pelayanan Listrik Nasional Batam (PLN Batam)	38,301	—
Others	9,798,618	18,974,916
Total	71,630,876	49,997,874
Long-term portion	3,877,404	1,853,111
Current portion	67,753,472	48,144,763
Allowance for doubtful accounts	(133,565)	—
Net	**67,619,907**	**48,144,763**

Receivable from Santos (Sampang) Pty. Ltd (Santos) represents PT Medco E&P Sampang (MS) cash call payments to the Jeruk well 2 in accordance with the sole — risk arrangement with Santos. As discussed in Note 37b, this amount shall be reimbursed to the Company.

Accounts receivable from BP Migas represent Value Added Tax (VAT) that have been paid by subsidiaries involved in the oil and gas industry which are reimbursable from BP Migas, as well as BP Migas field operational expenses advanced by subsidiaries.

Receivables from PLN Batam represent the costs advanced by a subsidiary to install Gas Turbin Genset Dual Fuel on behalf of PLN Batam which will be repaid back by PLN Batam on installment based on a fixed price per production output of electric energy as stated in the agreement (Note 37e).

7. INVENTORIES — NET

Inventories consist of:

	2005	2004
Spareparts, well supplies and others	30,405,057	34,295,903
Methanol	2,741,835	1,946,130
Materials in transit	747,528	1,251,050
Total	33,894,420	37,493,083
Allowance for decline in value	(688,261)	(1,202,672)
Net	**33,206,159**	**36,290,411**

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7. INVENTORIES — NET (continued)

The changes in the allowance for decline in value of inventories are as follows:

	2005	2004
Beginning balance as of December 31	688,261	1,373,576
Additions	—	31,789
Write-offs	—	(202,693)
Ending balance as of March 31	**688,261**	**1,202,672**

Based on the review of the physical condition of inventories at the end of the period, management is of the opinion that the allowance for decline in value of inventories is adequate.

All inventories were insured with certain insurance companies as of March 31, 2005 and 2004.

8. PREPAID TAXES

The details of this account are as follows:

	2005	2004
Company		
Corporate income tax overpayments	1,044,035	1,074,510
Value added tax	47,842	470,448
Sub-total	1,091,877	1,544,958
Subsidiaries		
Corporate income tax overpayments	13,849,620	10,112,886
Value added tax	4,032,649	10,498,974
Sub-total	17,882,269	20,611,860
Total	**18,974,146**	**22,156,818**

(Expressed in United States Dollars, unless otherwise stated)

9. RESTRICTED CASH IN BANKS

The details of this account are as follows:

	2005	2004
Current		
Third parties		
United States Dollars		
Fortis Bank S.A./N.V., Singapore	18,042,948	12,126,489
PT Bank Central Asia Tbk	3,729,515	3,270,475
Total	**21,772,463**	**15,396,964**
Non-current		
Related party		
Rupiah		
PT Bank Himpunan Saudara 1906	5,216,478	6,180,940
Third parties		
Rupiah		
PT Bank Niaga Tbk	4,258,435	4,364,737
PT Bank Negara Indonesia (Persero) Tbk	1,351,266	3,966,461
PT Bank Mandiri (Persero) Tbk	384,600	291,138
United States Dollars		
Morgan Stanley & Co. Int'l Ltd.	7,635,050	6,806,350
Standard Chartered Bank	4,000,000	2,106,512
Total	**22,845,829**	**23,716,138**

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 (Note 20).

Restricted cash in (Rupiah) PT Bank Himpunan Saudara 1906, PT Bank Niaga Tbk and PT Bank Negara Indonesia (Persero) Tbk represents Subsidiaries time deposits and current account used from employees loan collateral.

Current account in Morgan Stanley & Co. Int'l Ltd. (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 19).

Current account placed in PT Bank Central Asia Tbk (BCA) represents escrow account in relation to bank loan obtained by a Subsidiary from the same bank (Note 20).

Current account with Standard Chartered Bank (SCB) represents eligible collateral in connection with the bank guarantee facilities obtained by the Company and its subsidiaries from SCB (Note 37).

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10. ACCOUNTS RECEIVABLE FROM RELATED PARTIES

This account consists of the following:

	2005	2004
Medco Moeco Langsa Limited (MML)	10,050,445	—
Mesa Drilling Inc.	—	1,428,910
Consortium CPA-Exspan	81,979	—
Total	**10,132,424**	**1,428,910**

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 fund of MEFL (Note 34).

11. INVESTMENTS IN SHARES OF STOCK

This account consists of the following:

	March 31, 2005				
	Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings (Losses) — Net	Others	Net
At Equity					
Probe Technology Services Inc. (Probe)	39.55	1,408,038	(336,709)	—	1,071,329
Consortium CPA-Exspan	50.00	70,000	3,099	(70,000)	3,099
Medco Moeco Langsa Limited (MML)	50.00	1	2,459,107	—	2,459,108
Sub-Total		1,478,039	2,125,497	(70,000)	3,533,536
Allowance for unrecoverable Investment		—	(3,099)	—	(3,099)
Total		1,478,039	2,122,398	(70,000)	3,530,437
At Cost					
Mesa Drilling Inc. (MESA)	50.00	2,023,416	—	(2,023,416)	—
		3,501,455	2,122,398	(2,093,416)	3,530,437
Advances for investments					14,260,000
Sub-Total					17,790,437

	March 31, 2004				
	Percentage of Ownership (%)	Cost	Accumulated Equity in Net Earnings (Losses) — Net	Others	Net
At Equity					
Mesa Drilling Inc. (MESA)	50.00	2,023,416	—	(1,059,566)	963,850
Probe Technology Services Inc. (Probe)	37.13	1,408,039	(789,400)	—	618,639
Consortium CPA-Exspan	50.00	70,000	3,099	(70,000)	3,099
Sub-Total		3,501,455	(786,301)	(1,129,566)	1,585,588
Allowance for unrecoverable Investment		—	(3,099)	—	(3,099)
Total		**3,501,455**	**(789,400)**	**(1,129,566)**	**1,582,489**

The equity in net earnings (losses) of associated entities for the three months ended March 31, 2005 and 2004 are as follows:

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11. INVESTMENTS IN SHARES OF STOCK (continued)

	March 31,	
	2005	**2004**
MML	3,469,553	—
Probe	42,402	(140,262)
Consortium CPA-Exspan	—	3,099
Total	**3,511,955**	**(137,163)**

Mesa and Probe were entities incorporated and currently operate in USA, while MML was incorporated in Mauritius and operate in Indonesia.

On June 15, 2001, Apexindo transferred one unit of rig to MESA 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 January 2004, Apexindo's Board of Commissioners approved Apexindo's plan to release all of its shares and assets 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 one unit of rig that 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 release all of its shares and assets in MESA. Accordingly, the outstanding balance of the deferred gain on exchange of 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 has signed a Stock Purchase Agreement with MESA to transfer its 50% ownership interest in MESA for a selling price of US$2,000,000. The resulting loss arising from the disposal amounted to US$23,416. On April 24, 2005, Apexindo has received full payment of the selling price.

MML is engaged in the exploration of crude oil and gas in Langsa contract area of East Aceh, Sumatera under a TAC (Note 37). MML is the operator of the Langsa Block TAC where it also has 70% undivided interest in the TAC and the LOA.

MML started its commercial production on November 7, 2004 while its commercial lifting took place on January 6, 2005.

Advances for investments consist of US$10.5 million for investment in Bawean PSC and US$3.760 million for investment in shares of stock of PT Energi Sengkang (Note 37b).

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12. PROPERTY AND EQUIPMENT — NET

This account consists of the following:

	March 31, 2005				
	Beginning Balance	Additions	Deductions	Reclassifications	Ending Balance
Carrying value					
Land	1,034,387	—	—	—	1,034,387
Buildings and land improvements	6,830,294	—	—	—	6,830,294
Onshore and offshore drilling rigs and equipment	448,425,667	3,338,541	—	—	451,764,208
Vehicles	8,542,832	1,474,309	—	—	10,017,141
Office and other equipment	4,831,522	84,058	434,000	—	4,481,580
Leasehold improvement	5,018,518	—	—	—	5,018,518
Construction in progress	1,123,031	5,291,243	—	—	6,414,274
Total Carrying Value	475,806,251	10,188,151	434,000	—	485,560,402
Accumulated Depreciation					
Buildings and land improvements	1,578,197	623,955	—	—	2,202,152
Onshore and offshore drilling rigs and equipment	188,545,799	8,027,384	—	—	196,573,183
Vehicles	8,408,526	464,300	—	—	8,872,826
Office and other equipment	2,570,094	76,988	26,064	—	2,621,018
Leasehold improvement	2,707,375	243,508	—	—	2,950,883
Total Accumulated Depreciation	203,809,991	9,436,135	26,064	—	213,220,062
Net Book Value	**271,996,260**				**272,340,340**

	March 31, 2004				
	Beginning Balance	Additions	Deductions	Reclassifications	Ending Balance
Carrying value					
Land	741,665	—	—	—	741,665
Buildings and land improvements	3,436,570	—	—	—	3,436,570
Onshore and offshore drilling rigs and equipment	393,533,867	5,219,236	—	—	398,753,103
Vehicles	8,271,268	1,207,997	—	—	9,479,265
Office and other equipment	4,191,171	266,333	—	17,933,625	22,391,129
Leasehold improvement	4,046,168	190,550	—	—	4,236,718
Construction in progress	16,601,411	4,612,900	—	(17,933,625)	3,280,686
Total Carrying Value	430,822,120	11,497,016	—	—	442,319,136
Accumulated Depreciation					
Buildings and land improvements	1,432,414	126,285	—	—	1,558,699
Onshore and offshore drilling rigs and equipment	165,040,681	6,206,516	—	—	171,247,197
Vehicles	8,152,015	56,135	—	—	8,208,150
Office and other equipment	2,171,762	95,958	—	—	2,267,720
Leasehold improvement	1,764,637	284,170	—	—	2,048,807
Total Accumulated Depreciation	178,561,509	6,769,064	—	—	185,330,573
Net Book Value	**252,260,611**				**256,988,563**

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12. PROPERTY AND EQUIPMENT — NET (continued)

Allocation of depreciation expense is as follows:

	2005	2004
Cost of sales	9,098,285	6,625,645
Operating expenses	337,850	143,419
Total	**9,436,135**	**6,769,064**

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^2 of land in Bojonegara. Apexindo is still in the process of transferring the landright certificate in Bojonegara to be under its name.

As of March 31, 2005, construction in progress mainly represents the construction of an offshore jack-up drilling rig and drilling equipment.

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 over the utilization of such assets. The details of the change in useful lives are as follows:

	Years	
	Before	After
Offshore drilling rigs		
Rig Raniworo	18	20
Rig Raisis	17	20
Rig equipment	4-5	4-10

The change in estimated useful lives has decreased the direct cost by US$605,706 and increased the net income by US$431,447 for the three months ended March 31, 2004.

Certain property and equipment are used as collateral for the loan facilities obtained from several banks and to the bonds payable (Notes 20 and 21).

All property and equipment, except land, and inventories, were insured against fire, theft and other possible risks for US$769,716,903 and Rp24,829,100 thousand as of March 31, 2005 and US$219,991,604 and Rp21,392,492 thousand as of March 31, 2004. Management believes that the insurance coverage is adequate to cover possible losses on the assets insured.

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13. OIL AND GAS PROPERTIES — NET

This account consists of the following:

	2005	2004
Operated acreage	68,325,870	25,878,474
Unoperated acreage	1,409,000	2,909,000
Wells and related equipment and facilities	500,383,710	338,561,577
Office equipment	9,556,822	9,187,311
Vehicles	3,237,634	3,237,634
Uncompleted wells, equipment and facilities	123,493,999	101,920,080
Fair value adjustments	113,628,945	56,935,016
Total	820,035,980	538,629,092
Accumulated depreciation and amortization	(363,172,901)	(228,734,228)
Net Book Value	**456,863,079**	**309,894,864**

As of March 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$207,476,083 and US$267,898,670, respectively.

This account includes oil and gas properties of Medco Madura Pty. Ltd. (Medco Madura) amounting to US$20,678,939 in respect of the Madura Block PSC which exploration license has expired 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. On June 17, 2005, letter of BP Migas to Director General of Oil and Gas (Migas) No. 368/BP00000/2005-S1, BP Migas has recommended the extension of the exploration licence of Medco Madura for another year up to May 15, 2006.

Oil and gas properties include US$132,808,653 including (US$56,693,929 fair value adjustment) from newly acquired Novus subsidiaries in 2004 (Notes 1b and 2c).

14. OTHER ASSETS

This account consists of the following:

	2005	2004
Current		
Assets for sale	151,097,659	—
Total	**151,097,659**	**—**
Non-current		
Advance payment for property and equipment	26,407,408	3,095,626
Security deposits	927,882	1,105,629
SAP Software costs — net	1,309,185	3,606,200
Deferred charges	2,111,973	—
Notes receivable — Kredit Asia Finance, Ltd.	—	5,170,350
Others	5,575,426	7,596,598
Total	36,331,874	20,574,403
Allowance for possible losses on notes receivable and advance payment for property and equipment	(3,095,626)	(8,265,976)
Net	**33,236,248**	**12,308,427**

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14. OTHER ASSETS (continued)

Assets for sale represent the net assets and working interest of Novus Subsidiaries which are for disposal or 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 37b). Assets for sale include US$127,481,273 (including US$68,891,867 fair value adjustment) representing oil and gas properties of these Subsidiaries.

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. The Company has written off the receivables in 2004 based on 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.

Advance 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, which amounting to US$3,095,626. The developer has stopped the construction of the Graha Niaga 2 project since 1999. Management has made a 100% provision for possible losses on this account.

15. TRADE PAYABLES

This account consists of the following:

a. By creditor

	2005	2004
Related party		
PT Andrawina Praja Sarana	477,578	909,206
Sub-total	477,578	909,206
Third parties		
Local suppliers	31,905,477	28,412,981
Foreign suppliers	4,998,468	5,147,526
Sub-total	36,903,945	33,560,507
Total	**37,381,523**	**34,469,713**

b. By age category

	2005	2004
Up to 1 month	30,822,838	28,421,913
1 - 3 months	3,286,661	3,030,649
3 - 6 months	2,243,766	2,068,989
6 months - 1 year	332,236	306,357
More than 1 year	696,022	641,805
Total	**37,381,523**	**34,469,713**

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15. TRADE PAYABLES (continued)

c. By currency

	2005	2004
United States Dollars	31,634,354	29,170,216
Rupiah	5,393,096	4,973,005
Singapore Dollars	354,073	326,492
Total	**37,381,523**	**34,469,713**

Purchases of materials and services, both from local and foreign suppliers, have credit terms of 30 to 60 days.

16. OTHER PAYABLES

This account consists of the following:

	2005	2004
Joint Venture payables	18,080,395	—
BP	4,536,217	4,536,217
Falcon Oil Ltd.	6,880,334	3,559,879
BP Migas	3,953,431	5,421,126
Others	6,604,792	3,318,350
Total	**40,055,169**	**16,835,572**

Payable to BP represents the amount to be paid by PT Medco E&P Tomori Sulawesi, subsidiary, to BP once the petroleum production from the Senoro-Toili Block has reached certain volume as provided in the agreement.

17. TAXES PAYABLE

This account consists of:

	2005	2004
Company		
Income tax		
Article 21	118,655	160,506
Article 23	88,037	157,390
Article 26	703,951	324,299
Value added tax	20,243	22,300
Sub-total	930,886	664,495

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17. TAXES PAYABLE (continued)

	2005	2004
Subsidiaries		
United States of America tax liabilities	—	9,860,192
Corporate income tax	12,905,899	10,511,511
Income tax		
Article 21	847,539	242,771
Article 23	715,337	661,156
Article 25	22,581	73,069
Article 26	3,453	37,887
Tax on revaluation of fixed assets — current portion	1,687,996	1,863,538
Value added tax	3,270,916	2,270,682
Sub-total	19,453,721	25,520,806
Total	**20,384,607**	**26,185,301**

US Tax Obligation

The Secretary of 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 void and any actions taken while the companies were void have been validated.

As of December 31, 2003, the Company has provided for US$15.3 million provision for its US tax obligations, consisting of US$12 million for the principal amount (presented under Taxes Payable) and US$3.3 million for interest charges (included in Accrued Expenses) (Note 18).

The Company and Subsidiaries have made it a top priority to become compliant with their 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, 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 advise by 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. On the letter of the Territory Manager of the IRS in September 2004 to the Director of the Philadelphia Service Center, it had indicated that any applicable penalties related to the Subsidiaries delinquent filing of the returns should be waived.

In 2004, tax obligations settled by the Subsidiaries with the IRS with respect to their 1995-2003 tax obligations amounted to about US$9.9 million including interest amounting to about 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 December 2004.

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17. TAXES PAYABLE (continued)

Indonesian Tax Obligations

In 2003, Apexindo and its subsidiary (Apexindo) received several assessment letters from the Tax Office for their over and underpayment of the 2001 corporate income tax. As required under the Indonesian taxation, Apexindo has fully settled the underpayment in 2003 for a total amount of approximately US$842,646 (Rp7,828,183 thousand). At the same time, Apexindo submitted its objection letter for the said assessments in 2003. On September 9, 2004, Apexindo received approval letters from the Tax Office for the tax objections and have been granted tax refund of approximately US$705,805 (Rp6,556,931 thousand). As of March 31, 2005, Apexindo has not yet received the said tax refund and has recognized interest receivable totaling US$8,712.

On June 28, 2004, Apexindo received assessment from the Tax Office for deficiency taxes (including penalties) totaling US$365,406 and adjusted Apexindo's tax income in 2002 from Rp21,436,992 thousand to Rp25,781,644 thousand. The Tax Office also approved the claim of Apexindo for income tax refund for the 2002 fiscal year (except claim for some prepaid tax Article 23) amounting to US$3,888,929, net of tax deficiencies and penalties and was refunded on July 9, 2004. On September 9, 2004, Apexindo submitted its objection letter for claim of prepaid tax Article 23 amounting to US$686,945 to the Director General of Taxation. In March 2004, Apexindo has received approvals for its claims for tax refund totaling US$4,159,084 thousand, which were collected in March and April 2004.

In 2004, EPI received assessment from the Tax Office for deficiency taxes (including penalties) totaling US$944,619 for fiscal years 1999 and 2002. EPI has only paid US$723,603 in 2004. On May 12, 2004, EPI submitted its objection for the above tax assessment to the Tax Office. As of the reporting date, the Tax Office has not yet completed its review.

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.

18. ACCRUED EXPENSES

	2005	2004
Interest	11,806,192	11,032,664
Abandonment and site restoration (Note 40)	1,223,146	248,965
Others	9,213,485	7,425,799
Total	**22,242,823**	**18,707,428**

19. DERIVATIVES

i. On June 19, 2003 as amended by the 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") of US$2 million (Note 9). The

19. DERIVATIVES (continued)

swap is being used to hedge the exposure to changes in the fair value of MEFL's 8.75% fixed Guaranteed Notes (Note 21). As of March 31, 2005, the collateral amount was increased to US$7,635,050 to cover the fluctuations on the interest rate swap based on mark to market statement from MS. The fair value of the swap payable amounted to US$5,243,613 and US$1,183,197 as of March 31, 2005 and 2004, respectively. As discussed in Note 41, MEFL has unwind the agreement effective on April 29, 2005.

ii. On July 13 and July 15, 2004, the Company entered into a cross-currency interest rate swap (CCIRS) agreements with Merril Lynch Capital Services, Inc (ML) for a notional amount of US$25 million each. Under the agreements, the Company will receive a fixed rate of 13.125% per year, and pays a floating rate equivalent to US$-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. The fair value of the swap receivables amounted to US$384,353 as of March 31, 2005, while net gain on settlement of the interest rate payment amounted to US$1,003,311 for three months ended March 31, 2005.

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% and pays 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 swap receivables amounted to US$609,750, while net gain on settlement of the interest rate payment amounted to US$482,406.68 for the three months ended March 31, 2005. 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 based on a fixed rate of 7.23% per annum (Note 41).

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 Rp226,250,000,000) 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 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% and pays 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$61,823 as of March 31, 2005.

19. DERIVATIVES (continued)

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 pays 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 March 31, 2005, the fair value of the foreign exchange swap amounted to US$1,045,515.

As discussed in Note 41, the Company has unwind the foreign exchange swap contracts on May 9, 2005.

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$17,972 million with maturity period ending September 1, 2006, respectively. The fair value of interest rate swap assets amounted to US$463,744 as of March 31, 2005 while the fair value of interest rate swap payable amounted to US$423,948 as of March 31, 2004 (Note 41).

vii. On March 28, 2005, Company has entered into a Cross Currency Interest Rate Swap agreement with Standard Chartered Bank 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% and pays a fixed rate of 9.15% 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. As of March 31, 2005, the fair value of the cross currency interest rate swap payable amounted to US$155,021.

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20. BANK LOANS

This account consists of:

	2005	2004
SHORT-TERM BANK LOAN		
Standard Chartered Bank	30,000,000	—
LONG-TERM BANK LOANS		
United Overseas Bank Ltd.	50,000,000	—
PT Bank Central Asia Tbk	38,624,130	23,989,499
Fortis Bank S.A./N.V., Singapore	36,343,580	54,271,880
DEG — Deutsche Investitions MBH	10,800,000	—
Total	135,767,710	78,261,379
Less current portion	31,618,976	28,983,300
Long-term portion	104,148,734	49,278,079
Interest rates per annum	2.15% - 7.375%	2.15% - 5.53%

a. Standard Chartered Bank

On January 13, 2005, Apexindo has signed a Banking Facilities Credit amendment with Standard Chartered Bank (SCB) canceling its Rp10 billion loan facility agreement dated May 13, 2004 and granting Apexindo a bridging loan amounting to US$30 million with interest rate based on SCB's cost of fund plus margin of 3.5% per annum. The loan will be due on June 30, 2005. This loan facility was used to finance the advances for the construction of a Jack-up rig by PPL Shipyard Pte Ltd. This loan was fully settled by Apexindo on April 8, 2005, using the proceeds from the issuance of its bonds (Note 41).

b. 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$120,000,000 bridging loan facility. The proceeds of the facility was used to part-finance the acquisition of NPL and to refinance the Novus notes obligation. The loan bears interest at SIBOR plus margin of 5 (five) % per annum.

The loan shall be repaid in full on 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 under 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 rank 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;

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20. BANK LOANS (continued)

b. Syndicated Loan (continued)

- Not to reduce its share capital or make a distribution of assets or other capital distribution 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 transaction 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 guarantee to the Company's subsidiaries;
- Provide financial information

On June 30, 2004, the Company has entered into an Amendment and Restatement Agreement to Bridging Loan Facility with UOB and Overseas-Chinese Banking Corporation Limited (OCBC) as arrangers and UOB as agent, of which the amount of facility has increased to US$200,000,000. The loan which shall be available from August 24, 2004, bears interest at SIBOR plus margin of 4% per annum. All the terms and conditions of the previous agreement dated May 24, 2004 remain the same.

Subsequently on December 30, 2004, the Company signed another loan agreement with the arrangers, lenders and the facility agent. Under the agreement, the US$105,000,000 of the US$200,000,000 Bridging loan facility was converted into US$105,000,000 Transferrable Loan Facility, with interest at SIBOR plus a margin ranging from 3%-6.50% as specified in the agreement. The facility which shall be available beginning 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.

In January, 2005, the Company has paid the US$150,000,000 of this syndicated bank loan.

On June 2, 2005, the Company has entered into supplemental agreement with UOB relating to a US$105,000,000 loan of which the disposal events have been extended to the middle east assets (Note 41).

c. PT Bank Central Asia Tbk (BCA)

The BCA loans consisted of US$19,171,612 obtained by Apexindo and US$20,990,312 (equivalent to Rp195 billion) obtained by MEB in 2004, and US$22,869,341 obtained by Apexindo in 2003.

20. BANK LOANS (continued)

c. PT Bank Central Asia Tbk (BCA) (continued)

(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 (KI) amounting to US$20,000,000, with 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 (KL) amounting to US$5,000,000, with interest rate based on BCA's prime lending rate minus 0.75% per annum. This revolving loan is payable over 1 (one) year.
- 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 Raisis, which should 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):

- 1st — 3rd installments: 5% each of the principal amount
- 4th — 7th installments: 6.5% each of the principal amount
- 8th — 11th installments: 8% each of the principal amount
- 12th — 15th 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 loans to stockholders, 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.

20. BANK LOANS (continued)

c. PT Bank Central Asia Tbk (BCA) (continued)

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 Rp10,000,000 thousand which will mature on August 25, 2005.

On February 8, 2005, Apexindo obtained BCA approval for the issuance of five year debt and an amendment with respect to debt to equity ratio requirement.

As of March 31, 2005, the bank guarantee facilities previously utilized by Apexindo have been settled.

(ii) MEB

The Rp195 billion loan of 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. The loan is collateralized by all of MEB's property and equipment, rights over receivables on Panaran Project, shares of stock of MEB, advance payment guarantee for Roll Royce, performance bonds, rights on project insurance, and all BCA accounts related to the project (Note 12). The loan is payable monthly for 84 equal installments from August 10, 2004.

On April 28, 2005, MEB signed a First Amendment of the Credit Facility agreement relating to installment period of the loan (Note 41g).

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 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 over four years with 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.

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 rig Raissa, whichever is lower, to finance the rig's construction. The term loan carried interest at

20. BANK LOANS (continued)

d. Fortis Bank (continued)

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 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 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, to undertake, among others, any of the following:

- Merger or consolidation;
- Declare or pay dividend and/or other portion 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).

Apexindo and AAP also entered into the following agreements in compliance with the requirements of Fortis:

- 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 buy back the Raissa rig from AAP.

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20. BANK LOANS (continued)

d. Fortis Bank (continued)

- Sale and Purchase Agreement dated June 4, 2003, whereby Apexindo agreed to sell and transfer all its rights and obligations on the Yani rig to AAP.
- Conditional Installment Asset Sale Agreement dated June 4, 2003, whereby Apexindo agreed to buy back the Yani rig from AAP.

As discussed in Note 41, the Fortis Bank loans have been fully settled as of the date of this report.

e. DEG-Deutsche Investitions- Und Entwicklungsgesellschaft MBH (DEG)

On February 3, 2005, PT Medco LPG Kaji has withdrawn US$13,299,900 (net of bank charges) from the US$13.3 million facility from DEG (Note 37d). The loan will be payable over nine equal installments from March 15, 2005. Interest rate shall be the cost of fund of the Company plus 1% per annum. This loan is collateralized by all fixed assets of PT Medco LPG Kaji.

21. OTHER LONG-TERM OBLIGATIONS

	2005	2004
Notes Payable		
Guaranteed Notes (GN) jatuh tempo 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)
Net	282,048,000	282,048,000
Less unamortized discounts	7,357,108	9,229,566
Net	274,690,892	272,818,434
Rupiah Bonds		
Rupiah Bonds due in 2009	142,533,392	—
Less unamortized discounts	1,154,958	—
Net	141,378,434	—
Interest rate per annum	8.75% - 13.125%	8.75% - 10.00%

Long-Term Rupiah Bonds Due in 2009

On June 29, 2004, the Company issued Rupiah Bonds (IDR Bonds) at 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 first payment due on October 12, 2004.

Under the terms and conditions of the IDR Bonds, the Company is restricted from performing the following actions, among others, without prior approval from designated trustee:

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.

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21. OTHER LONG-TERM OBLIGATIONS (continued)

Long-Term Rupiah Bonds Due in 2009 (continued)

3. Change in the main business.

4. Grant loans to third parties, except loans which have been secured and/or pledge before the trustee agreement or loan, loans to employees, employees' welfare organizations/program.

5. Pledge the Company's assets including the Company's rights on income on those assets, except those pledged for:

   — payment of outstanding payable based on bond and trustee agreement.
   — those existing before the trustee agreement.
   — those in connection with the 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) those transfer of assets without any income, and (b) those transfer of assets in connection with asset securitization.

7. Issue bonds or obtaining 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 bond holders 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).

On June 7, 2004, PT Pemeringkat Efek Indonesia (PEFINDO), the local rating agency, assigned an "AA–" corporate rating with stable outlook to the IDR Bonds amounted to Rp1,350 billion.

Senior Guaranteed Notes (SGN) Due in 2007 and Guaranteed Notes (GN) Due in 2010

On March 19, 2002, MEFL issued US$100 million 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 ratio, prohibit the declaration and payment of dividends to

21. OTHER LONG-TERM OBLIGATIONS (continued)

Senior Guaranteed Notes (SGN) Due in 2007 and Guaranteed Notes (GN) Due in 2010 (continued)

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 Subsidiaries to merge unless certain conditions have been met.

On May 22, 2003, MEFL has issued another US$ 250 million 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 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 to issue any notes or other similar instruments that are senior to the notes, not sell, lease, transfer or otherwise dispose of its fixed assets other than due to impairment and not 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.

On 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 the repurchase price amounting to US$4,838,231 was charged to the 2003 consolidated statement of income. In 2004, the Company has sold its buy-back notes with total face value of US$15,000,000 for US$15,562,305. As of March 31, 2005, the outstanding balance of the buy-back notes amounted to US$69,014,567 (net of unamortized discount of US$1,848,433), with market value amounting to US$70,366,528.

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. As of March 31, 2005, the notes have market value of US$280,860,140.

MEFL has entered into several swap transactions in relation to these notes (Note 19).

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22. NEGATIVE GOODWILL

Negative goodwill arose from the acquisition of the following subsidiaries:

	2005	2004
Exspan Exploration and Production Pasemah, Ltd.	3,104,411	3,104,411
Exspan E&P Pasemah, Inc.	3,104,411	3,104,411
Ensearch Far East Ltd.	1,337,421	1,337,421
PT Medco E&P Kalimantan	1,012,044	1,012,044
Exspan Airsenda, 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
Total	10,650,216	10,650,216
Less accumulated amortization	(8,883,328)	(8,559,010)
Net book value	**1,766,888**	**2,091,206**

23. MINORITY INTERESTS

a. Minority interests in net assets of subsidiaries:

	2005	2004
PT Apexindo Pratama Duta Tbk	32,365,299	31,390,741
PT Medco Energi Menamas	4,857,040	—
PT Exspan Petrogas Intranusa	139,009	220,642
PT Medco Methanol Bunyu	1,689	1,116
Total	**37,363,037**	**31,612,499**

b. Minority interests in net income (loss) of subsidiaries:

	2005	2004
PT Apexindo Pratama Duta Tbk	507,097	487,336
PT Medco Energi Menamas	122,758	—
PT Medco Methanol Bunyu	173	—
PT Exspan Petrogas Intranusa	(35,433)	(13,004)
Net	**594,595**	**474,332**

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24. CAPITAL STOCK

	2005			
	Number of Shares	Ownership Percentage	Amount	
			Rp '000	US$
New Links Energy Resources Limited (Note 41)	1,748,647,349	52.48%	174,864,735	53,082,156
Aman Energy Resources Pte. Ltd	1,100,767,216	33.03%	110,076,722	33,415,026
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
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)
Net	**3,105,854,450**	**100.00%**	**310,585,446**	**97,964,228**

	2004			
	Number of Shares	Ownership Percentage	Amount	
			Rp '000	US$
New Links Energy Resources Limited Limited	2,849,414,565	85.51%	284,941,457	86,497,182
PT Medco Duta	78,360,000	2.35%	7,836,000	2,377,130
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%)	399,791,885	11.99%	39,979,189	12,128,420
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)
Net	**3,105,854,450**	**100.00%**	**310,585,446**	**97,964,228**

On January 29, 2005, Encore International Ltd. (Encore) has signed a Conditional Shares Purchase Agreement with PTTEP Offshore Investment Company Limited (PTTEPO) and Cumin Limited (Cumin) to purchase 40% and 19.9% share ownership of PTTEPO and Cumin in New Links Energy Resources Limited (New Links), respectively, the Company's majority shareholder (85.51%). The Purchase Agreement was completed on February 17, 2005. Accordingly, Encore becomes the solely shareholder of New Links or the only indirect controlling shareholder of the Company. The change in the composition of New Link's shareholder has resulted to a change in the Company's management as reflected in the resolution of Extraordinary Shareholders Meeting convened on March 10, 2005. Subsequently, on March 31, 2005, the Company received a letter from New Links whereby New Links advised the Company of its transfer of the 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 another wholly-owned subsidiary of Encore (Notes 41i and m).

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24. CAPITAL STOCK (continued)

Changes in the shares outstanding for the three months period ended March 31, 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)
2003	1,601,500
2004	—
2005	—
Balance	**3,105,854,450**

25. ADDITIONAL PAID-IN CAPITAL

This account consists of:

	2005	2004
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	192,894	192,894
Distribution of bonus shares in 1998	(32,254,579)	(32,254,579)
Additional paid-in capital on treasury shares	(19,291,414)	(19,291,414)
Total	**122,055,889**	**122,055,889**

26. EFFECTS OF CHANGES IN THE EQUITY TRANSACTIONS OF SUBSIDIARIES ASSOCIATED COMPANIES

This account consists of:

	2005	2004
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
Donated capital	107,870	107,870
Effect of new shares issued by a subsidiary	48,494	48,494
Effect of new shares issued in relation to initial public offering of a subsidiary	(2,769,920)	(2,769,920)
Total	**27,836,821**	**27,836,821**

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27. NET SALES AND OTHER OPERATING REVENUES

Net sales and other operating revenues were derived from the following:

	2005 3 months	2004 3 months
Net oil and gas sales	85,412,003	72,485,029
Drilling operations and related services	20,453,023	23,747,592
Net methanol sales	12,723,570	11,194,389
Share of profit (losses) of joint ventures	5,270,295	(59,173)
Electric power sales	2,251,766	—
Other contracts	4,425,525	3,238,497
Total	**130,536,182**	**110,606,334**

Details of net oil and gas sales in 2005 and 2004 which represent a significant portion of the net sales and operating revenues, are as follows:

	2005 3 months	2004 3 months
PTT Public Company Ltd. (Note 37g)	—	26,466,650
Mitsui Oil (Asia) Hongkong Ltd.	—	21,427,389
PT Pertamina (Persero)	26,363,260	15,886,640
Novus overseas customers	4,871,439	—
Itochu Petroleum Co. (s) Pte. Ltd.	54,177,304	8,704,350
Total	**85,412,003**	**72,485,029**

28. COST OF SALES

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:

	2005 3 months	2004 3 months
Field operations overhead	6,437,600	7,610,590
Operations and maintenance	5,586,386	2,982,441
Operational supports	1,036,432	2,202,200
Pipeline and transportation fees	1,618,188	1,867,518
Total	**14,678,606**	**14,662,749**

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28. COST OF SALES (continued)

b. Exploration Expenses

This account consists of:

	2005 3 months	2004 3 months
Dry hole costs	4,533	2,561,376
Geological and geophysical	834,194	1,119,024
Seismic	276,195	608,873
Exploration overhead	319,414	117,635
Total	**1,434,336**	**4,406,908**

c. Depreciation and Amortization

This account represents depreciation and amortization for the following:

	2005 3 months	2004 3 months
Oil and gas operations	15,278,020	5,555,066
Methanol	364,389	291,744
Drilling	5,262,738	5,372,894
Power	296,114	—
Total	**21,201,261**	**11,219,704**

d. Drilling Operations Costs

This account consists of:

	2005 3 months	2004 3 months
Labor	4,387,654	5,342,157
Drilling equipment	2,454,910	2,332,053
Rental	2,041,683	2,303,726
Repairs and maintenance	1,742,414	2,415,653
Catering	1,079,305	1,097,336
Insurance	999,734	1,639,041
Transportation	969,101	1,040,296
Others	800,564	1,168,538
Total	**14,475,365**	**17,338,800**

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28. COST OF SALES (continued)

e. Cost of Methanol Sales

This account consists of:

	2005 3 months	2004 3 months
Rental	6,549,296	5,926,763
Feed gas	3,004,234	2,458,053
Refinery plant operational costs	473,519	780,420
Salaries and other allowances	321,425	302,377
Contract labor	27,281	50,041
Fuel consumption	72,325	55,920
Others	1,005	24,015
Total production costs	10,449,085	9,597,589
Inventories:	1,148,580	1,331,610
At beginning of period	2,741,835	1,946,140
At end of period	(1,593,255)	(614,530)
Total	**8,855,830**	**8,983,059**

f. Cost of Power Sales

For the three months ended March 31, 2005, this account consists of the following:

Maintenance costs	108,737
Salaries	14,019
Total	**122,756**

Purchases of raw materials of methanol, spare parts and catering services for three months ended March 31, 2005 and 2004 included purchases from the following suppliers which individually represent more than 10% of the total purchases for the respective periods:

	2005 3 months	2004 3 months
PT Andrawina Praja Sarana	596,569	965,765
Oil Service and Trading Inc.	444,406	922,630
CV Tiga Putra	371,118	790,389
Midcontinent Tubular Pte. Ltd.	72,758	—
Total	**1,484,851**	**2,678,784**

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29. OPERATING EXPENSES

This account consists of:

	2005 3 months	2004 3 months
General and administrative		
Salaries and wages	6,256,659	3,629,656
Other employee benefits	1,415,499	1,530,034
Contract charges	2,061,419	3,167,202
Professional fees	2,084,851	801,321
Office supplies and equipment	1,046,520	885,391
Depreciation	337,850	143,419
Insurance	135,328	76,808
Repairs and maintenance	137,137	283,200
Others (each below US$100,000)	2,592,324	1,769,878
Total	16,067,587	12,286,909
Selling		
Export expenses	1,276,478	2,782,842
Business travelling	371,470	626,614
Advertising and promotion	204,446	78,235
Entertainment	7,005	8,198
Total	1,859,399	3,495,889
Total Operating Expenses	**17,926,986**	**15,782,798**

30. INCOME TAX

Tax expense of the Company and Subsidiaries consists of the following:

	2005 3 months	2004 3 months
Current tax		
Subsidiaries	(20,521,086)	(15,545,628)
Deferred tax		
Company	(1,861,790)	(333,806)
Subsidiaries	3,140,818	(113,456)
Sub-total	1,279,028	(447,262)
Total tax expense	**(19,242,058)**	**(15,992,890)**

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30. INCOME TAX (continued)

Current Tax

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

	2005 3 months	2004 3 months
Income before tax expense per consolidated statements of income	39,819,540	36,574,146
Less income before tax expense of Subsidiaries	(37,918,313)	(34,309,344)
Income before tax expense of the Company	1,901,227	2,264,802
Temporary differences		
Other employee benefits	72,360	—
Depreciation and amortization	(50,070)	2,843
Permanent differences		
Non-deductible expenses	199,527	91,095
Income already subjected to final income tax	(67,446)	(1,309,293)
Taxable income before loss carryforwards	2,055,598	1,049,447
Fiscal loss carried forward	(20,486,013)	(84,542,434)
Fiscal loss carry forward, end of period	(18,430,415)	(83,492,987)

No provision for current income tax was made for the three months ended March 31, 2005 and 2004 because the Company is still in fiscal loss position.

Deferred Tax

The details of deferred tax assets and liabilities are as follows:

	January 1, 2004	Charged (credited) to statements of income	March 31, 2004	January 1, 2005	Charged (credited) to statements of income	March 31, 2005
Deferred Tax Assets						
Company						
Fiscal loss	2,034,033	(351,187)	1,682,846	6,145,804	(1,868,477)	4,277,327
Depreciation of property and equipment	15,127	17,381	32,508	(44,396)	21,708	(22,688)
Deferred charges	—	—	—	86,832	(15,021)	71,811
Sub-total	2,049,160	(333,806)	1,715,354	6,188,240	(1,861,790)	4,326,450
Subsidiaries	29,175,033	574,166	29,749,199	31,006,100	778,442	31,784,542
Deferred Tax Assets — Net	31,224,193	240,360	31,464,553	37,194,340	(1,083,348)	36,110,992
Deferred Tax Liabilities						
Subsidiaries	80,044,100	687,622	80,731,722	74,934,070	(2,362,376)	72,571,694
New subsidiaries acquired	—	—	—	31,433,100	—	31,433,100
	80,044,100	687,622	80,731,722	106,367,170	(2,362,376)	104,004,794
Deferred Tax Income (Expense)		(447,262)			1,279,028	

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30. INCOME 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:

	2005	2004
Income before tax expense per consolidated statements of income	39,819,540	36,574,146
Less income before tax expense of subsidiaries	37,918,313	34,309,344
Income before tax of the Company	1,901,227	2,264,802
Tax expense using effective tax rates	(570,368)	(679,441)
Income already subjected to final income tax	20,234	392,788
Non-deductible expenses	(59,858)	(27,329)
Total	(39,624)	365,459
Utilization of fiscal loss carryforward	616,679	314,834
Deferred tax adjustment of fiscal loss	(1,868,477)	(334,658)
Tax expense		
Company	(1,861,790)	(333,806)
Subsidiaries	(17,380,268)	(15,659,084)
Total	**(19,242,058)**	**(15,992,890)**

No provision for income tax was made for the three months ended March 31, 2005 and 2004 because the Company is in fiscal loss position.

31. EARNINGS PER SHARE

a. Earnings per share

The computation of basic earnings per share is based on 3,105,854 thousand and 3,105,650 thousand shares, representing the weighted average number of shares in 2005 and 2004, respectively.

	2005	2004
Earnings per share		
Net income for the current year	19,982,887	20,106,924
Basic earnings per share	0.0064	0.0065

b. Diluted earnings per share

The Company did not compute diluted earnings per share since there were no dilutive potential ordinary shares in the periods presented.

32. CASH DIVIDENDS

On May 12, 2004, the Company's stockholders, in their Annual General Meeting of Stockholders, approved to distribute cash dividends amounting to US$0.0064 per share or equivalent to US$19,877,468.

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33. 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 at 6% of gross salaries and their employees at 2% of gross salaries.

The reconciliation of pension liability is as follows:

	2005	2004
Beginning balance	33,561	53,074
Pension cost for the period	109,895	99,905
Pension contribution paid during the period	(109,584)	(99,622)
Ending balance	**33,872**	**53,357**

Other Employee Benefits

The Company and Subsidiaries also recognize employee benefits obligations for their qualifying employees in accordance with applicable regulations. The post retirement benefits of the employees in oil and gas operations 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 1,902 and 1,721 in 2005 and 2004, respectively.

a. An analysis of employee benefits obligations recognized in the consolidated balance sheets is as follows:

	2005	2004
Present value of employee benefits obligations	42,998,347	45,828,501
Fair value of plan assets	(32,000,215)	(26,546,594)
Unfunded employee benefits obligations	10,998,132	19,281,907
Unrecognized past service cost — non vested	(26,426)	—
Unrecognized transitional liability	(5,222,299)	(8,986,934)
Unrecognized actuarial gain	(383,186)	(5,406,571)
Employee benefits obligations	**5,366,221**	**4,888,402**

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33. PENSION AND OTHER EMPLOYEE BENEFITS (continued)

b. An analysis of the employee benefits costs in the consolidated statements of income is as follows:

	2005	2004
Current service cost	784,584	703,713
Interest expense	1,058,579	888,956
Expected return on asset	(394,979)	(359,072)
Amortization of actuarial loss	1,577,921	1,492,953
Amortization of transitional liability	2,021,919	1,664,758
Total	**5,048,024**	**4,391,308**

c. An analysis of the movements of employee benefits obligation in the consolidated balance sheets is as follows:

	2005	2004
Liability at the beginning of period	4,790,101	4,527,712
Contribution for the period	(4,452,927)	(4,055,476)
Gain on foreign exchange	(18,977)	24,858
Employee benefits cost	5,048,024	4,391,308
Liability at the end of period	**5,366,221**	**4,888,402**

The present value of the employee benefits' obligation was calculated by independent actuaries, using the following assumptions:

	2005	2004
Discount rates	8%-11%	12%
Expected rate of return on assets:		
— IDR Portfolio	8%	9.60%
— USD Portfolio	—	7.40%
Salary increment rate	6%-9%	10%
Mortality rate	TMI 1999 and CSO 1980	100% TMI2
Morbidity rate (disability)	10% mortality rate	5% mortality rate
Resignation rate:		
— Oil and gas subsidiaries	0-1% per year	0.5% per year
— Others	1% per year up to age 25 then decreasing linearly into 0.05% at age 49-54	1% per year up to age 25 then decreasing linearly into 0.05% at age 44
Proportion of early retirement	0.15%	0.15%
Proportion of normal retirement	100%	100%
Other termination rate	Nil	Nil

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34. NATURE OF RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

Nature of Relationship

a. Companies whose major shareholder 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 have partly the same key members of management as the Company:
   - PT Andrawina Praja Sarana (APS)
   - PT Multifabrindo Gemilang
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 deposit and current account in PT Bank Himpunan Saudara 1906.
b. Engaging APS to render catering services, which according to management, were made at normal prices and conditions as those with third parties. Catering services from related party for the three months ended March 31, 2005 and 2004 amounted to US$1,037,089 and US$942,808, respectively. As of balance sheet date, outstanding liabilities for these services were presented as Trade Payables which constituted 1.3% and 2.6% of the total trade payables as of March 31, 2005 and 2004, respectively.
c. Apexindo, a subsidiary, rents its office building from INTI at normal prices and conditions as those with third parties.
d. The Company has a crude oil sale agreement with PTT Public Company since June 2003 which has been extended in June 2004 for another seven months (Note 37g).
e. MBE has appointed PT Multifabrindo Gemilang as provider of fabrication services.
f. On May 1, 2003, The Company entered into a secondment agreement with PTTEP, which ended in February 2005.

Conflict of Interest

The transactions below represent transactions which are construed as conflict of interest between the Company and Subsidiaries as discussed in BAPEPAM regulation No. IX.E.1 concerning “Certain Conflict

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

Conflict of Interest (continued)

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''.

1. Working Capital loan provided by the Company to Apexindo on May 15, 2002 with maximum amounts of US$5,116,355 and Rp49,492,193 thousand to finance Apexindo's drilling operations. The loan bears annual interest at 1% above cost of fund of the Company for US dollar portion and 2% above 3 months time deposits for the Rupiah portion. The loan agreement contained several restrictions stipulated therein and will mature within 3 years from the date of the agreement.

   The Company's independent shareholders, in their Extraordinary Stockholders' Meeting held on September 15, 2003, did not approve the working capital loan. Accordingly, Apexindo has repaid the loan on December 23, 2003, as acknowledged in the Extraordinary General Meeting of the Company's Shareholders on January 23, 2004.

2. Joint Financing Arrangements between Apexindo and MEFO to finance the construction of Raissa and Yani rigs based on MEFO's Joint Financing Letters (JFS) dated May 16, 2002 and August 27, 2002 and Reconfirmation on the Participation of Joint Financing (Reconfirmations) dated November 17, 2002. Under the JFS and Reconfirmations, MEFO has agreed to participate in the joint financing of Raissa and Yani rigs. Furthermore, based on the above documents, Apexindo or through its wholly owned subsidiary may take over the rights and obligations of MEFO by paying MEFO a certain sum of money, as specified in the above documents or such other amount to be mutually determined by both parties. 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.

3. The plan for compensation payment by AAP, a wholly-owned subsidiary of Apexindo, to MEFO for its share in the construction cost of Submersible Swamp Barge Raissa and Yani Rigs. This was approved by the Company's independent stockholders in their Third Extraordinary Stockholders' Meeting held on April 21, 2004 and on Apexindo's General Independent Stockholders' Meeting held on April 28, 2003.

4. 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 (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 landrigs.

   The above transactions were approved by the independent stockholders of Apexindo in their General Meeting held on April 28, 2003.

5. 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

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

Conflict of Interest (continued)

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 fund of MEFL, which is 9.5% as of March 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 March 31, 2005, the outstanding balance of the loan amounted to US$10,050,445 as non-current receivables.

This transaction is exempted from the requirement of obtaining the approval of majority independent shareholders 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:

a. Exploration and production of oil and gas

b. Drilling and other related services

c. Methanol production

d. Electric Power

e. Others

Segment information of the Company and Subsidiaries are as follows:

2005	Exploration and production of oil and gas	Drilling services	Methanol production	Electric Power	Others	Elimination	Consolidated
SALES AND OTHER OPERATING REVENUES							
External sales	90,734,298	24,826,548	12,723,570	2,251,766	—	—	130,536,182
Inter-segment sales	54,795,977	2,720,693	—	—	—	(57,516,670)	—
Total	145,530,275	27,547,241	12,723,570	2,251,766	—	(57,516,670)	130,536,182
RESULTS							
Segment results	44,462,016	5,812,582	2,577,409	1,535,904	(1,595,849)	(951,020)	51,841,042
Income from operation							51,841,042
Gain (loss) on foreign exchange — net	(628,645)	(1,906,382)	(57,040)	13,125	3,044,527	101,509	567,094
Interest expense — net	(654,221)	(3,088,341)	3,215	—	(9,961,536)	882,507	(12,818,376)
Equity in net loss of associated entities — net	—	42,402	—	—	3,469,553	—	3,511,955
Gain on sale of marketable securities — net	—	—	—	—	342,688	74,745	417,433
Financing charges — net	—	(35,372)	—	—	(57,170)	—	(92,542)
Others — net	198,663	106,130	26,844	(460,551)	(3,093,125)	(385,027)	(3,607,066)
Income before tax							39,819,540

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35. SEGMENT INFORMATION (continued)

2005	Exploration and production of oil and gas	Drilling services	Methanol production	Electric Power	Others	Elimination	Consolidated
Tax income (expense)	(16,484,375)	569,609	(820,599)	(525,824)	(1,980,869)	—	(19,242,058)
Minority interests in net earnings of subsidiaries	—	35,356	—	(122,715)	—	(507,236)	(594,595)
NET INCOME							**19,982,887**
OTHER INFORMATION							
ASSETS							
Segment assets	2,138,580,726	340,145,289	26,234,760	31,568,360	(151,471,227)	(1,026,939,981)	1,358,117,927
Investments in associated companies	16,719,108	1,740,403	—	—	496,772,188	(496,772,188)	18,459,511
CONSOLIDATED TOTAL ASSETS							**1,376,577,438**
LIABILITIES							
Segment liabilities	313,787,276	112,841,074	9,341,003	22,011,942	1,406,156,784	(1,045,065,004)	819,073,075
Capital expenditures	—	11,535,415	1,594,377	25,964,803	—		39,094,595
Depreciation and amortization	14,951,838	5,566,882	475,345	440,166	104,880		21,539,111
Non-cash expenses other than depreciation and amortization	10,298,473	2,884,105	1,563,139	143,339	7,353,766		22,242,822

2004	Exploration and production of oil and gas	Drilling services	Methanol production	Electric Power	Others	Elimination	Consolidated
SALES AND OTHER OPERATING REVENUES							
External sales	72,425,856	26,986,089	11,194,389	—	—	—	110,606,334
Inter-segment sales	55,597,385	3,183,019	—	—	—	(58,780,404)	—
Total	128,023,241	30,169,108	11,194,389	—	—	(58,780,404)	110,606,334
RESULTS							
Segment results	30,044,609	4,344,260	1,023,833	—	(1,663,844)	4,463,458	38,212,316
Income from operation							38,212,316
Gain on sale of marketable securities — net	—	—	—	—	344,402	—	344,402
Gain (loss) on foreign exchange — net	(650,651)	1,725,580	(202,585)	(3,356)	(291,578)	—	577,410
Interest expense — net	254,760	(3,034,666)	5,153	—	(3,191,278)	1,490,920	(4,475,111)
Equity in net loss of associated entities — net	—	(137,163)	—	—	—	—	(137,163)
Financing charges — net	—	—	—	—	(74,346)	—	(74,346)
Others — net	5,711,196	(2,339,375)	13,010	—	(1,258,193)	—	2,126,638
Income before tax							**36,574,146**
Tax expense	(16,303,571)	14,379	(245,639)	—	541,941	—	(15,992,890)
Minority interest in net earnings of subsidiaries	—	13,004	—	—	—	(487,336)	(474,332)
Net income							**20,106,924**
OTHER INFORMATION							
ASSETS							
Segment assets	788,479,868	336,605,764	24,555,772	232,910	687,665,996	(803,907,164)	1,033,633,146
Investments in associated companies	—	1,428,910	—	—	—	—	1,428,910
CONSOLIDATED TOTAL ASSETS							**1,035,062,056**
LIABILITIES							
Segment liabilities	354,007,082	198,439,315	13,394,532	—	796,989,128	(826,461,424)	536,368,633
Capital expenditures	—	—	—	—	—	—	—
Depreciation and amortization	5,411,647	5,511,224	380,064	—	60,188	—	11,363,123
Non-cash expenses other than depreciation and amortization	3,578,217	3,954,953	724,460	—	10,449,798	—	18,707,428

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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:

Geographical segment	2005	2004
Indonesia	71,487,439	54,007,945
Overseas		
Asia	54,177,304	56,598,389
Middle East	480,296	—
United States of America	4,391,143	—
Total	**130,536,182**	**110,606,334**

As a result of the acquisition of Novus, the Company and Subsidiaries' activities have been concentrated into five major geographic locations (Indonesia, USA, Middle East and Others) from 2004. 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 different production sharing arrangements with BP Migas. A general description of those arrangements is as follows:

a. Production Sharing Contract (PSC)

PSC 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, dividends 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.

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

36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW (continued)

a. Production Sharing Contract (PSC) (continued)

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.

PSC in Indonesia is 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 oil profit. 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 historic production of the field) at the time the TAC is signed and accrues to PERTAMINA. 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 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). The New Oil and Gas Law creates an overall statutory framework for a fundamental restructuring of the oil and gas regime.

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36. PRODUCTION SHARING ARRANGEMENTS AND NEW OIL AND GAS LAW (continued)

c. Joint Operating Body (JOB) (continued)

New Oil and Gas Law (continued)

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 BP Migas which 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 BP Migas, all rights and obligations of PERTAMINA under PSC were transferred to BP Migas. Further regulation will be implemented and to formally amend with respect to such PSCs.

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 BP Migas, and all funding and risks are to be assumed by investors (the Government through BP Migas 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.

37. COMMITMENTS

a. Production Sharing Arrangements

The Subsidiaries have entered into PSC-JOB 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 are shared based on the provisions of the related contracts.

The Subsidiaries are obliged to pay between US$1,000,000 to US5,000,000 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.

b. Acquisitions and Transfers

i. On December 12, 2004, PT Medco E&P Nunukan, subsidiary, entered into a Production Sharing Contract with BP Migas to develop Nunukan block located in East Kalimantan. The term of this contract shall be thirty (30) years.

ii. On January 29, 2005, the Company has been awarded the right to explore Block 47, with a 6,812 kilometer area in the Ghadames basin in Northwest Libya. The award has been followed by further 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) a 50% interest each, 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 take over 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 subsequently after the take over are as follows:

(a) Sale of Cooper Basin, Patchawarra, Kakap and Brantas Assets

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)

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

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's interest in the Indonesian assets — Kakap and Brantas. As stated in the agreement, the sale and transfers are effective on January 1, 2004. The excerpts of the heads of agreements are as follows:

(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 the 4.75% working interest in Copper Basin and 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 about US$87.2 million.

(ii) Purchase Agreement for Kakap 6.25% (dated September 24, 2004)

The agreement was signed between SL and SIHPL (herewith referred to as ''Buyers''), Novus UK (Indonesian Holdings) Limited (herewith referred to as ''Vendor''), NPL and the Company. Under the agreement, the Vendor agrees to sell the shares of Novus UK (Kakap 2) Limited (herewith referred to as ''Novus Kakap 2'') (owner of the 6.25% working interest in Kakap) 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 of a 2.75% Interest in the Kakap Production Sharing Contract 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 agrees to sell and transfer to NNPL its 2.75% interest in the Kakap Production Sharing Contract and Related Contracts on the terms and subject to the conditions of the agreement. As of the reporting date, the sale and transfer has not been consummated pending receipt of the approval from BP Migas.

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

(b) Sale of Pakistan and Middle East Assets and Participation on the Profit from Sale of US Assets

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 agrees 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 on the sale of the US 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 has been satisfied or waived. On January 5, 2005, Silk Route has indicated its intention to exercise the option in the Middle East assets. As of the reporting date, the Company and Silk Route are still in process of discussion.

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.

Subsequently in 2005, 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 above sales, transfers, or providing of rights or other options to purchase the Company's interests (directly or indirectly, through its subsidiaries), of Novus or its subsidiaries' interest and ownerships in the oil and gas blocks in Indonesia, Australia, Pakistan, Middle East and the USA, to Santos and Silk Route Investments and/or other third parties, were approved by the Company's stockholders in their Extraordinary General Meeting of Stockholders on September 15, 2004.

In connection with the above mentioned agreements, the accounts of NPPL, the 2.75% of the Novus Kakap Canada assets, the Middle East assets and the US assets are presented under "Other Assets — Current" (Note 14).

iv. On February 27, 2004, the Company entered into a Stockholders Agreement with PT Menamas whereby both parties agreed to established PT Medco Energi Menamas for the purpose of acquiring 54% shares of PT Menamas in PT Mitra Energi Batam (MEB), an entity established

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37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

and owned by PT Menamas and YPK-PLN. Currently, the other stockholders of MEB with thirty (30%) and sixteen (16%) ownership are PT PLN Batam and YPK PLN respectively. MEB now owns and operates 2×27.5 MW Simple Cycle Gas Turbine located in Panaran, Batam, Indonesia (Note 2). On March 29, 2004, PT Menamas has released its 52% ownership in MEB and has been replaced by PT Medco Energi Menamas.

v. On January 14, 2004, the Company through PT Medco E&P Lematang (MEPL), subsidiary, has 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 therefore MEPL's working interest in Lematang PSC has totaled of 74.1176%.

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. MML is currently engaged as operator in exploration of crude oil and gas in 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 drilling at Jeruk Well. Santos Sampang has the right to explore Sampang Block and Santos proposed to drill Jeruk Well on a sole-risk basis because 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 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 Coastal and Cue decide to back-in and participate in the sole-risk drilling, Coastal and Cue shall be obliged to pay a premium as stipulated in the Joint Operating Agreement for Sampang PSC.

As discussed in Note 41e, on April 29, 2005, Cue Energy Resources Limited (Cue) and Singapore Petroleum Company (SPC) (formerly Coastal Indonesia Sampang Ltd.) have announced their intention to reinstate their rights in the Jeruk Oil Discovery under the Sole-Risk Agreement. The Company shall be entitled to reimbursement for all the paid cash calls upon the announcement of the reinstatement which is scheduled on May 30, 2005.

viii. On October 1, 2003, the Company has entered into a 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 as

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

stipulated in the agreement. PT Energi Sengkang is a joint-venture company operating the power plant located in Sengkang, South Sulawesi. The Company's advances for this purchase transaction is recorded as ‘‘Advances for Investments’’ (Note 11). The Company completed the purchase of the 5% ownership in ES.

ix. On September 2, 2003, Exspan Airsenda Inc. and Exspan Airlimau Inc. 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 5% 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 Medco E&P Indonesia.

x. On October 14, 2003, the Company through PT Exspan Merangin (now known as PT Medco E&P Merangin), has signed a Production Sharing Contract with BP Migas for Merangin Block I located in Jambi province, Indonesia. The PSC is valid for 30 years with exploration period of 4 years. Merangin Block 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.

xi. 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. (Maraja) as stipulated in Deed of Assignment dated June 29, 2004.

xii. On January 16, 2004, MEPI has entered into a Sale and Purchase Agreement with PT Krakatau Steel (KS) (Persero), whereby the Company agreed to supply KS' 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 owned by PT Perusahaan Gas Negara (Persero) Tbk (PGN), and estimated to be completed by July 2006.

37. COMMITMENTS (continued)

b. Acquisitions and Transfers (continued)

xiii. On January 16, 2004, MEPI entered into a Liquified Petroleum Gas (LPG) Sales and Purchase Agreement with PT Pertamina (Persero), whereby MEPI will deliver and sell LPG pursuant to the conditions setforth 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.

xiv. On January 21, 2004, MEPI has entered into 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.

xv. On June 10, 2005, PT Medco E&P Lematang (ME Lematang) and MEPI have signed Head 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, ME Lematang would supply 24 BBTUD for a total of 90 BCF to PLN Keramasan for 10 (ten) years from 2006. Meanwhile, the amendment on the gas sales agreement with PLN Gunung Belah was made for the purpose of changing existing sales point from Gunung Belah to Kampung Satu, Tarakan.

xvi. On October 2, 2002, MIV entered into a Farm-In Agreement on behalf of PT Exspan Rombebai (now known as PT Medco Sarana Balaraja — MSB) with Ramu Rombebai LLC (Ramu) in accordance with the terms of a Memorandum of Agreement dated October 2, 2002 between the said parties. Based on the Agreement, MSB acquired a 60% participating interest in the Rombebai Block PSC from Ramu. As part of the consideration for the interest acquired, MSB has committed to:

- Drill one well with a total depth of 6,000 feet with costs not to exceed US$5,000,000. If MSB agrees, the said subsidiary will also acquire another 20% participating interest in consideration for drilling another well of similar depth and within the time frame set forth in the annual Work Program And Budget approved by BP Migas.
- Assume all exploration costs, thereby carrying Ramu's participating interests, until the Plan of Development (POD) is approved by BP Migas. If requested by Ramu, and MSB agrees to carry Ramu's participating interests after the POD is approved, MSB 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, MSB has reassigned its working interest in the Rombebai PSC to Ramu.

xvii. On July 9, 2004, PT Medco E&P Indonesia (MEPI, formerly PT Exspan Nusantara) has entered into a Sale and Supply of Gas Agreement with Conocophillips (Grissik) Ltd., whereby MEPI agrees to supply gas at 0.8 BBTU/day. The term of agreement is 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)

xviii. 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 with total quantity of 20,559.58 BBTU. Gas price is agreed to be US$ 2.685/MMBTU to US$2.75/MMBTU. The term of the agreement will be commencing on January 1, 2009 until May 31, 2013 or up to the time total quantity is met, whichever comes first.

xix. On December 12, 2004, MEPI has entered into a Sale and Supply of Gas Head of Agreement with PT Meta Epsi and PT Pembangkitan Jawa-Bali, whereby MEPI agrees to supply gas with total quantity of 37,187.9 BBTU. Average gas price is agreed to be US$2.4084/MMBTU. The term of the agreement is twenty years commencing on February 1, 2006.

xx. On December 12, 2004, MEPI has entered into an Amendment of Sale and Supply of Gas with PT Pertamina (Persero), whereby MEPI agrees to supply gas with total quantity of 54.7 trillion BTU. Gas price is agreed to be US$1.4/MMBTU to US$1.55/MMBTU. The agreement shall be effective on September 1, 2004 and terminates on December 31, 2007.

xxi. 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 with quantity of 350 MMSCFD, commencing in 2008 for twenty years.

c. Drilling Contract

i. Apexindo has the following outstanding drilling contracts:

Company	Date of Agreement/Terms	Consideration
Statoil SP Gas AS	May 14, 2003 (for two years)	Daily operating rate of US$50,280 for two years
Total E&P Indonesie	October 9, 2002, August 8, 2002, July 29, 2004, June 16, 2004 renewal/Raisa for five years; Yani for three years.	US$231.44 million

ii. On October 8, 2004, Apexindo and PPL Shipyard Pte., Ltd. (PPL) entered into a Rig Construction Agreement (the Agreement) whereby PPL agreed to design, construct, launch, equip, test and deliver one unit of an Offshore Jack-up Drilling Rig (the rig) for a contract price of US$123,500,000, payable in installments as stated in the Agreement. The Jack-up financing plan was approved by Apexindo's Board of Commissioners on April 19, 2004. The Rig Construction Agreement with PPL was amended to be effective on February 4, 2005, whereby the total contract value was revised to become US$133,726,250. Under the amendment, the rig will be delivered by PPL at least 24 months from the effective date. On January 18, 2005,

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37. COMMITMENTS (continued)

c. Drilling Contract (continued)

Apexindo has paid US$30 million as downpayment. On February 8, 2005, PPL has returned US$3,254,735 to Apexindo as a result of the change of the contract value.

d. Banking Facilities

As of March 31, 2005, the Company and Subsidiaries have the following outstanding bank facilities:

Bank	Facility	Maximum Facility Limit/Amount	Unused Portion of the Facility as of March 31, 2005
Standard Chartered Bank	General Banking Facility	US$15,000,000	US$9,403,767
Standard Chartered Bank	Revolving Loan Facility	Rp10 billion	Rp10 billion
PT Bank Central Asia Tbk	Spot Line Facility Agreement — Foreign currency facility	US$1,500,000	US$1,500,000
PT Bank Mandiri (Persero) Tbk	Bank Guarantee Facility — Revolving Bank Guarantee Facility	US$10 million	US$4,234,252
PT Bank Central Asia Tbk	Credit loan	Rp195 billion	Nil
United Overseas Bank Ltd	Transferable loan facility	US$150 million	Nil
DEG — Deutsche Investitions MBH	General Banking Facility	US$13.3 million	Nil

e. Gas Supply and Transfer of Power Purchase Agreement

i. In February 2005, the Company through its MEAPL's subsidiary (Note 1b), Novus Oman Ltd., has signed a Gas Sales Agreement with Ras Al Khaimah's Gas Commission to purchase gas from its Oman's West Bukha field within block 8 where it has 40% interest in the block.

ii. On July 9, 2004, the Company through its subsidiary, Medco Madura Pty. Ltd., and together with PERTAMINA, have entered into a Memorandum of Understanding (MOU) with PT Pembangkitan Jawa-Bali to provide a gas supply of about 20 (twenty) million metric standard cubic feet per day (MMSCFD) to Pembangkitan 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.

At the same date, the Company through its subsidiary, PT Medco E&P Lematang, has entered into a Memorandum of Understanding (MOU) with PT Perusahaan Gas Negara (Persero) Tbk (PGN) to provide a gas supply 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.

37. COMMITMENTS (continued)

e. Gas Supply and Transfer of Power Purchase Agreement (continued)

iii. 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 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 wherein the commercial operation date is on 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 date to become August 30 for unit 1 and September 30, 2004 for unit 2. PLN Batam will purchase the electricity at a minimum of 408,391,200 kwh/year at the price of Rp190/kwh for 12 years. The parties further agreed that the costs incurred by MEB to install the Gas Turbin Genset Dual Fuel shall be repaid by PLN Batam on installment at Rp7/kWh for every production at a maximum of 408,391,200 kWh/year over 12 years (Note 6). MEB started its commercial operation on October 29, 2004.

iv. On December 30, 2003, MEPI entered into a Sale and Supply of Gas agreement with PT PLN (Persero), whereby MEPI agrees to sell and supply gas from working area of MEPI 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 (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 Directorat Technic Oil and Gas, Directorat General 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 commencement date of delivery. After the 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.

v. 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 sell and 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 date of delivery. After the 365 days, the gas price will be calculated based on the contract.

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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), 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 lor and Platt's Petrochemical Scan), as adjusted based on the formula as specified in the addendum.

ii. Agency Agreement

On August 9, 2004, MMB entered into an agency 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 of 150,000 metric tons to Nitracom and 120,000 metric tons to Trada per year and the later shall sell methanol at a price as stated in the agreement. 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 has 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 (Notes 27 and 34).

On February 3, 2005, the Company has entered into a crude oil sale and purchase agreement with Itochu Petroleum Co. Pte. Ltd. Under the agreement, the Company, has agreed among others, 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 fix premium per barrel as stated in the agreement (Note 41).

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 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.

b. 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.

c. 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 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, person injury claims and other damage to

PT MEDCO ENERGI INTERNASIONAL Tbk AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Three Months Ended March 31, 2005 and 2004
(Expressed in United States Dollars, unless otherwise stated)

39. OPERATING HAZARDS AND UNINSURED RISKS (continued)

properties of the Company and Subsidiaries. Additionally, certain of the Company and 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 Subsidiaries maintain insurance coverage against some, but not all, potential losses. The Company and 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 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.

40. ABANDONMENT AND SITE RESTORATION OBLIGATIONS

Under the Renewal and Extension of Production Sharing Contracts signed by Exspan Airsenda Inc and Exspan 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 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 and shall be adjusted each year as required.

41. SUBSEQUENT EVENTS

a. On April 1, 2005, the Company restructured the original derivative (CCIRS) transaction with Merril Lynch Capital Service, Inc. (Note 19ii) from floating rate into fixed rate while all other terms in the original agreement remained unchanged. Under the new terms, the Company will pay 6.98% and 6.99%.

b. On April 25, 2005, the Company has entered into an amendment on its August 3, 2004 agreement with SCB whereby the parties agreed to replace the floating rate equivalent to 3 months US dollar Libor plus 2.90% with a fixed rate of 7.23% per annum.

c. On June 2, 2005, the Company entered into another cross currency interest rate swap (Note 19ii) for a notional amount of US$25 million each with SCB. Under the agreements, the Company will receive a fixed rate of 13.125% per year and pays a fixed rate equivalent to 7.98%. The agreements shall be effective on July 12, 2005 and will expire on July 12, 2009.

d. On April 29, 2005, Cue Energy Resources Limited (Cue) and Singapore Petroleum Company (SPC) have announced their intention to reinstate their rights in the Jeruk Oil Discovery. Under the Sole-Risk

41. SUBSEQUENT EVENTS (continued)

Agreement, PT Medco E&P Sampang (MS) shall be entitled to reimbursement for all the paid cash calls upon the announcement of the reinstatement which is scheduled on May 30, 2005 (Note 37b). On June 1, 2005, the Company received US$30,369,160 in settlement of the amounts in accordance with the agreement with Santos. MS has already reassigned the sole-risk drilling at Jeruk Well to Cue and SPC based on Jeruk Participation and Operating Agreement dated November 5, 2003. The Company will be entitled to penalty income in accordance with reassigned agreement.

e. On May 2, 2005, the Company together with Apexindo, MMB, MEPI, Medco LPG Kaji (previously known as PT Musi Banyuasin Energi — MBE), Medco Power Indonesia (MPI), Medco Geothermal Indonesia (MGI), Mitra Energi Batam (MEB) and EPI, subsidiaries, subsequently called "Debitor" signed Amendment Agreement on Bank Guarantee Facility, Standby Letter of Credit Facility and Letter of Credit Import Facility with PT Bank Danamon Indonesia Tbk (Danamon) whereby the said Agreement has cancelled the previous agreement signed on April 13, 2005 amounting to US$25,000,000 on Bank Guarantee Facility Agreement, Standby Letter of Credit Facility and Letter of Credit import Facility.

Based on the agreement, the credit limit for each debitor are as follows:

- Maximum amount of up to US$25,000,000 for the Company, Apexindo, MPI and MEB;
- Maximum amount of up to US$10,000,000 for MMB, MEPI, MBE, MGI and EPI.

With condition that the credit facility utilized by the above companies shall not exceed US$25,000,000.

f. On May 9, 2005, the Company has unwound its foreign exchange swap contract with PT Investindo Nusantara Sekuritas dated November 5, 2004 (Note 19).

g. On May 13, 2005, the Company has submitted a letter to BAPEPAM advising the later of its plan to list its existing shares in a form of Global Depository Receipts (GDR). On May 24, 2005, the Company has submitted the draft registration statement and the applicable documents to the Luxembourg Stock Exchange. The listing transaction documents are still being reviewed by Luxembourg Stock Exchange as of the reporting date.

h. On May 17, 2005, New Links transferred all of its 1,748,647,349 shares (52.473% ownership) on the Company, to Densico Energy Resources Pte. Ltd. (Densico), a wholly-owned subsidiary of Encore International Limited or indirectly own by Panigoro Family, and recorded on the Register of Company's shareholders on May 16, 2005 (Note 24).

i. Significant Subsequent Events of Subsidiaries

The following are the significant subsequent events of Subsidiaries:

1. APEXINDO

a) On April 11, 2005, Apexindo has sent a letter to Fortis Bank S.A./N.V., Singapore (Fortis), regarding their intention to pay of their syndicated term bank loan for Raissa and Yani rigs amounting to US$23,275,389 and US$13,536,811 on May 3 and June 1, 2005,

41. SUBSEQUENT EVENTS (continued)

i. Significant Subsequent Events of Subsidiaries (continued)

1. APEXINDO (continued)

respectively. Subsequently on May 3 and June 1, 2005, Apexindo has fully settled its bank loans.

b) On April 11, 2005, Apexindo has repaid its insurance claim on Maera rig to MEFO based on previous signed Insurance Claim Purchase Agreement (Note 34) in amount of US$18,511,010.

c) On April 26, 2005, Apexindo has sent a letter to Fortis Bank S.A./N.V., Singapore, regarding its intention to unwind the swap facilities of syndicated term loan of Raissa rig upon the settlement of the respective loan.

d) Submission of the Registration Statement to BAPEPAM on February 8, 2005 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. On April 8, 2005, Apexindo has received the proceeds from the issuance of the said bonds amounting to Rp723,281,250 thousand (US$76,134,868), net of underwriting fees of Rp3,750,000 thousand (US$394,736) and sinking fund of Rp22,968,750 thousand (US$2,417,763). Pursuant to the fund plan usage, Apexindo has fully settled its bridging loan from Standard Chartered Bank in the amount US$30 million.

e) In April 2005, Apexindo has entered into Cross Currency Swap Agreement with Standard Chartered Bank (SCB). Under the Agreement, Apexindo pays on the initial exchange on April 8, 2005, the total Rupiah notional amounts of Rp750,000,000,000 and receive the total US Dollar notional amounts of US$78,947,408. Apexindo will also receive interest of 12.25% per year on the nominal amount and pays total interest of 8.65% per year on US$27,631,579 and three months US$ Libor BBA plus 4.05% per year on US$39,473,724. 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's pays the total US Dollar notional amounts and receives the total Rupiah notional amounts.

Under the Agreement, if the US Dollar/Indonesian Rupiah spot rate is at or above Rp10,500 at any time during the term of the agreement, the mark to market provision shall apply. The agreement is effective starting April 8, 2005 until April 7, 2010.

f) On April 25, 2005, Apexindo, together with the Company, MMB, MEPI and MEPK signed a Banking Facility Amendment Agreement with SCB for US$15,000,000 for the period from June 1, 2005 up to May 31, 2006.

41. SUBSEQUENT EVENTS (continued)

i. Significant Subsequent Events of Subsidiaries (continued)

2. Sale of Pakistan Assets

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 but the Company received US$544,553 compensation for working capital (Notes 1b and 37b).

3. MBE

On May 3, 2005, PT Musi Banyuasin Energi has changed its name to PT Medco LPG Kaji in accordance with Company's re-branding policy. The change of name was approved by the Ministry of Justice and Human Rights of the Republic of Indonesia based on its letter number C-11976HT.01.04.TH.2005 dated May 3, 2005.

4. MEPI

On May 10, 2005, an oil leak occurred in the Company's 8'' pipeline, which is operated by PT Medco E&P Indonesia, a subsidiary. Such pipeline is used to transport oil from Jene field in South Sumatera Extension block to PT Pertamina's oil storage at Plaju, South Sumatera province. This incident has no significant impact to the whole operations of the Subsidiary.

5. MEFL

On April 29, 2005, MEFL has unwound its forward interest rate swap agreement with Morgan Stanley & Co. International Limited (MS) dated July 2, 2004 for a notional amount of US$50 million and has paid MS US$4,200,000 as final settlement (Note 19).

6. MEB

On April 28, 2005, MEB has entered into a First Amendment of Credit Agreement with BCA, of which the monthly principal installments were charged to 82 installments beginning March 29, 2005 to December 29, 2011. All the terms and conditions of the other existing agreement dated August 10, 2004 remain the same.

j. On June 2, 2005, the Company has entered into a Supplement Agreement relating to the US$105 million loan agreement with UOB. Under the agreement, the clause on disposal events has been revised mainly to include the divestment of the Middle East asset.

k. On June 10, 2005, the Company has entered into Head of Agreement (HOA) for gas sales commitment with PLN Keramasan, Palembang, South Sumatera. According to the HOA, PT Medco E&P Lematang would supply 24 Billion British Thermal Units per Day (BBTUD) or 90 Billion Cubic Feet for the period of 10 (ten) years starting from 2006 to 2016.

l. On April 19, 2005, Aman advised the Company of its transfer of the 125,810,559 shares (3.775% ownership) in the Company to Tamwin Limited, one of the Encore's creditors, the indirect controlling shareholder of the Company.

41. SUBSEQUENT EVENTS (continued)

m. On June 1, 2005, the Company entered into a prepayment agreement with Itochu for US$50 million which shall be effective on July 1, 2005 (Note 37g). Also, on June 1, 2005, the crude oil and sales purchase agreement was amended, among others, as follows:

   i. The agreement shall be effective from January 1, 2005 to December 31, 2006;

   ii. 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 of 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

   iii. 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.

n. On June 3, 2005, PT Pemeringkat efek Indonesia (PEFINDO), the local rating agency, assigned an ‘‘AA–’’ corporate rating with stable outlook to the Rp1,350 billion Notes.

o. On June 9, 2005, the Company has convened its Annual Stockholders’ Meeting, which adopted among others the following:

   • Approval of the 2004 audited consolidated financial statements.
   • Distribution of cash dividends totalling US$35,060,640 to stockholders on record as of July 5, 2005.

42. ADJUSTMENTS AND RECLASSIFICATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2004

The Company and Subsidiaries have adjusted and reclassified several accounts in the previously published consolidated financial statements as of March 31, 2004, to conform with the audited consolidated financial statements for the year ended December 31, 2004.

43. ECONOMIC CONDITIONS

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.

44. COMPLETION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements that were completed on June 29, 2005.

See Independent Accountants’ Review Report on the March 31, 2005 and 2004 Consolidated Financial Statements.

PT MEDCO ENERGI INTERNASIONAL Tbk
AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION (UNAUDITED)
MARCH 31, 2005 AND 2004

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 2004 in table below in respect of Sumatera, Kalimantan, Tarakan and Sulawesi 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 proved reserve category and subclassification promulgated by the United States Securities and Exchange Commission and by the Society of Petroleum Engineers for probable reserve category and subclassification.

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 In thousands of barrels	**Gas** In millions of cubic feet
Proved Developed, Undeveloped and Probable Reserves		
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
Production during 3 months in 2005	(4,548)	(10,911)
Balance as of March 31, 2005	**155,258**	**493,839**
Proved Developed and Undeveloped Reserves		
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
Production during 3 months in 2005	(4,548)	(10,911)
Balance as of March 31, 2005	**80,735**	**211,436**

PT MEDCO ENERGI INTERNASIONAL Tbk
AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION (UNAUDITED)
MARCH 31, 2005 AND 2004

RESERVE ESTIMATION (continued)

Estimated oil reserves in Tuban is as follows:

	Crude Oil
	In thousands of barrels
Proved Developed, Undeveloped and Probable Reserves	
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
Production during 3 months in 2005	(165)
Balance as of March 31, 2005	**7,760**
Proved Developed and Undeveloped Reserves	
Balance as of January 1, 2004	4,071
Revision to previous estimates	4,473
Production in 2004	(619)
Balance as of December 31, 2004	7,925
Production during 3 months in 2005	(165)
Balance as of March 31, 2005	**7,760**

The gross proved reserves for Tuban Block as of March 31, 2005 and 2004 were estimated by the Company.

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
Proved Developed, Undeveloped and Probable Reserves		
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
Production during 3 months in 2005	(200)	(5,141)
Balance as of March 31, 2005	**20,781**	**290,637**
Proved Developed and Undeveloped Reserves		
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
Production during 3 months in 2005	(200)	(5,141)
Balance as of March 31, 2005	**5,686**	**218,350**

The above gross proved reserves for Novus were estimated by the Company.

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RESERVE CERTIFICATIONS OF GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD

GCA

Gaffney, Cline & Associates (Consultants) Pte Ltd

Technical and Management Advisers to the Petroleum Industry Internationally Since 1962

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MSR/dh/L0071/2005/KK72600

22nd April, 2005

Mr Ronny Maas,
PT Medco Energi E&P Indonesia,
Bidakara Office Building 16th Floor,
Jl. Jend. Gatot Subroto Kav. 71-73,
Pancoran, Jakarta 12870,
Indonesia.

CRUDE OIL AND NATURAL GAS SPE PROVED AND PROBABLE RESERVES CERTIFICATION
PT Medco Energi E&P Indonesian Properties
As of January 1, 2003-2005

Dear Pak Ronny:

Gaffney, Cline & Associates (GCA) was retained by PT Medco Energi E&P Indonesia (the ''Company'') to perform independent audits of Proved and Probable hydrocarbon reserve volumes attributable to the Company's Indonesian oil and gas assets located in Sumatra, Kalimantan and Sulawesi as of January 1 of years 2003, 2004 and 2005. Company's assets in Sumatra include the Rimau Block, South Sumatra Extension Block, Kampar Block, and Lematang Production-Sharing Contract (PSC) areas. In Kalimantan, Company's assets include the East Kalimantan/Sanga Sanga Technical Assistance Contract (TAC) area, the Tarakan PSC area, and the Tarakan TAC area. The Senoro-Toili PSC/JOB asset is located on the island of Sulawesi and has been certified for its oil volumes within the Tiaka field only (excludes 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, 2003 — 2005, presented in **Tables 1 to 6** 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, 2005 on a "gross 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, 2005.

In **Table 1**, the Rimau Small Fields include Tabuan, Langkap, Kerang and West Iliran; the Kampar Small Fields include Binio, Gemuruh, Kayuara, Merbau, Mutiara, North Merbau, Panduk, Pekan, and Kerumutan; the South Sumatra Small Fields include Lagan, Pian, Rambutan Shallow, Teras, Koneng, Rambutan Deep, Kembar, Serdang, Temelat, and Petar; the Sanga Sanga TAC Small Fields include 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 Mengatol, Pamusian, Juata and Sesanip Shallow. 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.

Table 1
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 (Mbbl)	Probable (Mbbl)	Proved (MMscf)	Probable (MMscf)
Rimau PSC (95%)		**60,158**	**44,075**	**18,320**	**12,949**
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 *et al., (n=4)*	841	246	—	—
Central Sumatra Kampar PSC (99.9998%)		**3,328**	**270**	**—**	**—**
East Kayuara		1,288	219	—	—
Parum		187	51	—	—
"Small" Fields	Kermutan *et al., (n=9)*	1,853	—	—	—
South Sumatra Extension PSC (99.9998%)		**12,237**	**18,909**	**153,705**	**260,176**
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 *et al., (n=10)*	2,584	2,409	65,497	133,956
Sanga Sanga TAC (99.99%)		**5,020**	**2,356**	**20,860**	**—**
Louise		887	—	—	—
Muara		189	—	—	—
North Kutai Lama		2,915	2,356	20,860	—
Tanjung Una		228	—	—	—
"Small" Fields	Anggana *et al., (n=4)*	802	—	—	—
Tarakan PSC (99.99%)		**1,268**	**796**	**27,229**	**8,596**
Mamburungan		1,088	746	21,110	2,477
"Small" Fields	Pamusian Deep *et al., (n=3)*	180	50	6,119	6,119

Continued overpage

Table 1 continued

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mbbl)	(Mbbl)	(MMscf)	(MMscf)
Tarakan TAC (99.99%)		**441**	**63**	**—**	**—**
"Small" Fields	Juata *et al., (n=4)*	441	63	—	—
Lematang PSC (74.1176%)		**13**	**—**	**412**	**—**
Harimau		13	—	412	—
Senoro-Toili JOB (50%)		**2,585**	**2,866**	**—**	**—**
Tiaka		2,585	2,866	—	—
TOTAL		**85,050**	**69,335**	**220,526**	**281,722**

Excludes Senoro Gas field.
Four fields have been removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

Tables 2 through **3** summarize the Company's gross working interest Proved and Probable reserves as of January 1, 2004, and January 1, 2003, respectively. In these tables, oil and condensate volumes are reported in thousands of stock tank barrels (Mbbl). 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.

Table 4 summarizes the remaining reserves for Company's Indonesian oil and gas assets year-on-year basis as of January 1, 2003 to January 1, 2005 on a "gross working interest" volume basis converted to barrels of oil equivalent (BOE). Natural gas volumes representing expected sales (after deductions for plant fuel and shrinkage) have been converted to BOE at a ratio of 5850 standard cubic feet (scf) gas to 1 BOE. In this table, the reserve volumes are reported in thousands of barrels oil equivalent (MBOE).

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.

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.

As of January 1, 2005, 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, 2005 were certified taking into consideration the existing Gas Sales Agreements (GSAs) which include:

- South Sumatra — PLTG Kaji Bayuasin, PUSRI, PUSRI Extension, PLTG Simpang Tiga Indralaya, PLTG Simpang Tiga Indralaya Amendment, and PLTG Borang contracts.
- East Kalimantan — PLTGU Tanjung Batu, Methanol Plant in Pulau Bunyu and PLTD Gunung Belah

Table 2
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 Proved (Mbbl)	Gross Working Interest Oil and Condensate Probable (Mbbl)	Gross Working Interest Natural Gas Proved (MMscf)	Gross Working Interest Natural Gas Probable (MMscf)
Rimau PSC (95%)		**85,363**	**70,112**	**24,383**	**23,312**
Kaji	Baturaja & Talang Akar	31,415	12,175	9,424	3,652
	Telisa	3,379	12,154	1,352	4,862
Semoga	Baturaja & Talang Akar	45,553	22,807	12,300	6,159
	Telisa	3,268	21,596	1,307	8,639
Kalabau		1,439	1,380	—	—
"Small" Fields		309	—	—	—
Central Sumatra Kampar PSC (99.9998%)		**3,559**	**423**	**—**	**—**
East Kayuara		1,558	336	—	—
Parum		221	87	—	—
"Small" Fields		1,780	—	—	—
South Sumatra Extension PSC (99.9998%)		**12,714**	**16,488**	**191,990**	**204,594**
Fariz		—	—	—	—
Jene		2,407	—	—	—
Soka	Baturaja	4,387	9,179	34,836	59,407
Matra		3,080	5,309	1,254	1,240
Hijau		14	38	733	1,710
Gunung Kembang		2,646	1,750	65,718	27,619
"Small" Fields		180	212	89,449	114,618
Sanga Sanga TAC (99.99%)		**6,178**	**1,747**	**19,087**	**13,953**
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		2,456	—	—	—
Tarakan PSC (99.99%)		**687**	**—**	**35,526**	**—**
Mamburungan		687	—	18,077	—
"Small" Fields		—	—	17,449	—
Senoro-Toili JOB (50%)		**—**	**3,250**	**—**	**—**
Tiaka		—	3,250	—	—
TOTAL		**109,443**	**92,020**	**270,986**	**241,859**

Excludes Senoro Gas field.
Four fields have been 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, 2003
Company's Gross Working Interest

Licence / Field	Formation / Details	Gross Working Interest Oil and Condensate		Gross Working Interest Natural Gas	
		Proved	Probable	Proved	Probable
		(Mbbl)	(Mbbl)	(MMscf)	(MMscf)
Rimau PSC (100%)		**106,160**	**32,113**		**18,853**
Kaji	Baturaja & Talang Akar	48,008	12,286		10,283
	Telisa	2,300	4,120		
Semoga	Baturaja & Talang Akar	55,467	13,984		8,570
	Telisa	9	1,158		
Kalabau		—	—	—	—
"Small" Fields		376	565		
Central Sumatra Kampar PSC (99.9998%)		**3,779**	**484**	**—**	**—**
East Kayuara		1,585	337	—	—
Parum		276	147	—	—
"Small" Fields		1,918	—	—	—
South Sumatra Extension PSC (99.9998%)		**21,971**	**21,694**	**60,955**	**188,144**
Fariz		—	—	—	—
Jene		3,234	—	—	—
Soka	Baturaja	3,116	2,400	—	—
Matra		14,000	18,700	—	—
Hijau		—	—	—	—
Gunung Kembang		1,534	—	38,296	33,668
"Small" Fields		87	594	22,659	154,476
Sanga Sanga TAC (95.93%)		**13,824**	**122**	**20,426**	**23,030**
Louise		1,550	—	—	3,416
Muara		298	—	1,803	322
North Kutai Lama		8,484	122	18,623	19,292
Tanjung Una		340	—	—	—
"Small" Fields		3,152	—	—	—
Tarakan PSC (95.93%)		**1,079**	**—**	**42,576**	**—**
Mamburungan		1,079	—	25,129	—
"Small" Fields		—	—	17,447	—
Senoro-Toili JOB (50%)		**—**	**3,250**	**—**	**—**
Tiaka		—	3,250	—	—
TOTAL		**146,813**	**57,663**	**123,957**	**230,027**

Excludes Senoro Gas field.
Three fields have been removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

Table 4
Remaining Proved and Probable Hydrocarbon Reserve Volumes
As of January 1, 2003 — 2005
Company's Gross Working Interest

Licence / Field	Oil, Condensate, and Natural Gas (MBOE)					
	2003		2004		2005	
	Proved	Probable	Proved	Probable	Proved	Probable
Rimau PSC	**106,160**	**35,336**	**89,531**	**74,098**	**63,289**	**46,289**
Kaji Baturaja & Talang Akar	48,008	14,044	33,026	12,799	28,693	15,604
Kaji Telisa	2,300	4,120	3,610	12,985	5,764	6,744
Semoga Baturaja & Talang Akar	55,467	15,449	47,656	23,860	27,077	14,315
Semoga Telisa	9	1,158	3,491	23,073	831	9,380
Kalabau	—	—	1,439	1,380	84	—
Small Fields	376	565	309	—	841	246
Central Sumatra Kampar PSC	**3,779**	**484**	**3,559**	**423**	**3,328**	**270**
East Kayuara	1,585	337	1,558	336	1,288	219
Parum	276	147	221	87	187	51
Small Fields	1,918	—	1,780	—	1,853	—
South Sumatra Extension PSC	**32,391**	**53,855**	**45,533**	**51,461**	**38,511**	**63,384**
Fariz	—	—	—	—	—	5,918
Jene	3,234	—	2,407	—	3,231	1,134
Soka Baturaja Oil	3,116	2,400	10,342	19,334	7,583	19,569
Matra	14,000	18,700	3,294	5,521	2,504	5,483
Hijau	—	—	139	330	—	465
Gunung Kembang	8,080	5,755	13,880	6,471	11,414	5,507
Small Fields	3,960	27,000	15,470	19,805	13,780	25,307
Sanga Sanga TAC	**16,277**	**4,059**	**9,441**	**4,132**	**8,586**	**2,356**
Louise	1,550	584	1,081	609	887	—
Muara	607	55	219	379	189	—
North Kutai Lama	11,667	3,420	6,359	3,145	6,481	2,356
Tanjung Una	340	—	267	—	228	—
Small Fields	2,113	—	1,515	—	802	—
Tarakan PSC	**8,357**	**—**	**6,760**	**—**	**5,922**	**2,265**
Mamburungan	5,375	—	3,777	—	4,696	1,169
Small Fields	2,982	—	2,983	—	1,226	1,096
Senoro-Toili PSC/JOB	**—**	**3,250**	**—**	**3,250**	**—**	**3,250**
Tiaka	—	3,250	—	3,250	—	3,250
TOTAL	**166,964**	**96,984**	**154,824**	**133,364**	**119,637**	**117,814**

Excludes Senoro Gas field.
Four fields have been removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

GCA has reconciled the movement of Company's gross Proved (1P) reserves as estimated on January 1 of each year for the years 2003, 2004 and 2005. The results are presented in **Table 5**. 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 2003, 2004 and 2005. The results are presented in **Table 6**. In these tables, oil and condensate volumes are reported in thousands of stock tank barrels (Mbbl). 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.

Table 5
Reconciliation of Movements of Proved (1P) Reserves
As of January 1st for the years 2003, 2004 and 2005
Company's Gross Working Interest

Block	Gross Working Interest Oil & Condensate (Mbbl)			Gross Working Interest Natural Gas (MMscf)		
	2003	2004	2005	2003	2004	2005
Rimau PSC						
Beginning of Year	120,003	106,160	85,363	—	—	24,382
Discoveries, Extensions & Revisions	12,412	(1,904)	(12,367)	—	24,383	5,375
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(26,255)	(18,893)	(12,838)	—	—	(11,437)
End of the Year	106,160	85,363	60,158	—	24,383	18,320
Central Sumatra Kampar PSC						
Beginning of Year	4,362	3,779	3,559	—	—	—
Discoveries, Extensions & Revisions	315	595	533	—	—	38
Acquisitions & Sales	—	—		—	—	—
Production for the Year	(898)	(815)	(764)	—	—	(38)
End of the Year	3,779	3,559	3,328	—	—	—
South Sumatra Extension PSC						
Beginning of Year	20,369	21,971	12,714	49,275	60,955	191,990
Discoveries, Extensions & Revisions	2,963	(7,326)	2,345	26,030	147,138	(16,957)
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(1,361)	(1,931)	(2,822)	(14,350)	(16,103)	(21,328)
End of the Year	21,971	12,714	12,237	60,955	191,990	153,705
Sanga Sanga TAC						
Beginning of Year	11,846	12,786	6,178	21,772	20,426	19,087
Discoveries, Extensions & Revisions	2,340	(4,827)	27	2,834	3,259	7,098
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(2,187)	(1,877)	(1,841)	(4,180)	(4,598)	(5,325)
End of the Year	12,786	6,178	5,020	20,426	19,087	20,860
Tarakan PSC						
Beginning of Year	1,488	1,079	687	30,607	42,576	35,526
Discoveries, Extensions & Revisions	(96)	(135)	824	17,555	818	(61)
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(313)	(257)	(243)	(5,586)	(7,868)	(8,236)
End of the Year	1,079	687	1,268	42,576	35,526	27,229
TOTAL						
Beginning of Year	**158,058**	**145,775**	**108,501**	**101,654**	**123,957**	**270,985**
Discoveries, Extensions & Revisions	**17,934**	**(13,597)**	**(8,150)**	**46,419**	**175,598**	**(4,507)**
Acquisitions & Sales	**—**	**—**	**—**	**—**	**—**	**—**
Production for the Year	**(31,014)**	**(23,773)**	**(18,340)**	**(24,116)**	**(28,569)**	**(46,364)**
End of the Year	**145,775**	**108,501**	**82,011**	**123,957**	**270,986**	**220,114**

Table 6
Reconciliation of Movements of Proved plus Probable (2P) Reserves
As of January 1st for the years 2003, 2004 and 2005
Company's Gross Working Interest

Block	Gross Working Interest Oil & Condensate (Mbbl)			Gross Working Interest Natural Gas (MMscf)		
	2003	2004	2005	2003	2004	2005
Rimau PSC						
Beginning of Year	177,625	138,273	155,476	—	18,853	47,693
Discoveries, Extensions & Revisions	(13,097)	36,095	(38,405)	18,853	28,842	(4,986)
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(26,255)	(18,893)	(12,838)	—	—	(11,437)
End of the Year	138,273	155,475	104,233	18,853	47,695	31,269
Central Sumatra Kampar PSC						
Beginning of Year	4,876	4,263	3,982	—	—	—
Discoveries, Extensions & Revisions	285	534	380	—	—	38
Acquisitions & Sales	—	—		—	—	—
Production for the Year	(898)	(815)	(764)	—	—	(38)
End of the Year	4,263	3,982	3,598	—	—	—
South Sumatra Extension PSC						
Beginning of Year	124,266	43,665	29,202	262,532	249,099	396,583
Discoveries, Extensions & Revisions	(79,240)	(12,532)	4,765	917	163,588	38,626
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(1,361)	(1,931)	(2,822)	(14,350)	(16,103)	(21,328)
End of the Year	43,665	29,202	31,146	249,099	396,584	413,881
Sanga Sanga TAC						
Beginning of Year	16,393	12,908	7,925	31,234	43,456	33,040
Discoveries, Extensions & Revisions	(2,095)	(3,202)	1,124	16,402	(5,818)	(6,855)
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(2,187)	(1,877)	(1,673)	(4,180)	(4,598)	(5,325)
End of the Year	12,908	7,925	7,376	43,456	33,040	20,860
Tarakan PSC						
Beginning of Year	1,488	1,079	687	48,054	42,576	35,526
Discoveries, Extensions & Revisions	(96)	(135)	1,620	108	818	8,535
Acquisitions & Sales	—	—	—	—	—	—
Production for the Year	(313)	(257)	(243)	(5,586)	(7,868)	(8,236)
End of the Year	1,079	687	2,064	42,576	35,526	35,825
TOTAL						
Beginning of Year	***324,647***	***200,187***	***197,272***	**341,820**	**353,984**	**512,842**
Discoveries, Extensions & Revisions	**(94,243)**	**20,760**	**(30,515)**	**36,280**	**199,066**	**35,358**
Acquisitions & Sales	**—**	**—**	**—**	**—**	**—**	**—**
Production for the Year	**(31,014)**	**(23,773)**	**(18,340)**	**(24,116)**	**(28,570)**	**(46,364)**
End of the Year	**200,187**	**197,272**	**148,417**	**353,984**	**512,842**	**501,836**

This audit examination was based on reserve estimates and other information provided by the Company to GCA through March 31st, 2005, 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 the Company 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

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[1] 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.

1 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.

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.

In general, reserves are considered Proved if the commercial productibility 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 required 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.

Approved by the Board of Directors, Society of Petroleum Engineers (SPE), Inc., and
the Executive Board, World Petroleum Congresses (WPC), March 1997.

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MSR/dh/L0072/2005/KK72600 1st June, 2005

Mr Ronny Maas,
Medco Energi E&P Indonesia,
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Pancoran, Jakarta 12870,
Indonesia.

CRUDE OIL AND NATURAL GAS SEC PROVED RESERVE CERTIFICATION
Medco Energi E&P Indonesian Properties
As of January 1, 2003-2005

Dear Pak Ronny:

Gaffney, Cline & Associates (GCA) was retained by Medco Energi E&P Indonesia (the "Company") to perform independent audits of hydrocarbon reserve volumes attributable to the Company's Indonesian oil and gas assets located in Sumatra, Kalimantan and Sulawesi as of January 1 of years 2003, 2004 and 2005. Company's assets in Sumatra include the Rimau Block, South Sumatra Extension Block, Kampar Block, and the Lematang Block Production-Sharing Contract (PSC) areas. In Kalimantan, the Company's assets include the East Kalimantan/Sanga Sanga Technical Assistance Contract (TAC), the Tarakan PSC, and the Tarakan TAC. The Company's asset in Sulawesi relates to the Senoro-Toili PSC/Joint Operating Body (JOB) contract.

It is GCA's considered opinion that the estimates of remaining recoverable oil, condensate and natural gas reserve volumes as of January 1, 2003-2005, 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, 2005, January 1, 2004, and January 1, 2003, 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 (Mbbl). 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 Tabuan, Langkap, Kerang and West Iliran; the Kampar Small Fields include Binio, Gemuruh, Kayuara, Merbau, Mutiara, North Merbau, Panduk, Pekan, and Kerumutan; the South Sumatra Small Fields include Lagan, Pian, Rambutan Shallow, Teras, Koneng, Rambutan Deep, Kembar, Serdang, Temelat, and Petar; the Sanga Sanga TAC Small Fields include 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 Mengatol, Pamusian, Juata and Sesanip Shallow. The Proved 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.

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.

Economic models were constructed based on terms of the applicable PSC, TAC or JOB at the time of reporting in order to calculate the Company's net revenue interest reserves. 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 PSC/JOB has been effective since December 4, 1997, for a contract term of 30 years.

As of January 1, 2005, 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, 2005 were certified taking into consideration the existing Gas Sales Agreements (GSAs) which include:

- South Sumatra — PLTG Kaji Bayuasin, PUSRI, PUSRI Extension, PLTG Simpang Tiga Indralaya, PLTG Simpang Tiga Indralaya Amendment, and PLTG Borang contracts.
- East Kalimantan — PLTGU Tanjung Batu, Methanol Plant in Pulau Bunyu and PLTD Gunung Belah

The economic tests for the January 1, 2003 through January 1, 2005 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 thousands of 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.

Reconciliation of the movement of volumes between the dates January 1, 2003 to January 1, 2005 is shown in **Table 4** in a format compatible with the requirements of FASB-69.

Table 1
Remaining Net Proved Hydrocarbon Reserve Volumes
As of January 1, 2005
Company's Net Revenue Interest

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mbbl)			Net Revenue Interest Natural Gas (MMscf)		
		Proved Developed	Proved Undeveloped	Total Proved	Proved Developed	Proved Undeveloped	Total Proved
Rimau PSC		**21,387**	**49**	**21,436**	**16,135**	**—**	**16,135**
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 *et al., (n=4)*	251	49	300	—	—	—
Central Sumatra Kampar PSC		**1,425**	**—**	**1,425**	**—**	**—**	**—**
East Kayuara		552	—	552	—	—	—
Parum		80	—	80	—	—	—
"Small" Fields	Kermutan *et al., (n=9)*	794	—	794	—	—	—
South Sumatra Extension PSC		**5,241**	**—**	**5,241**	**88,980**	**12,051**	**101,030**
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 *et al., (n=10)*	1,107	—	1,107	43,352	—	43,352
Sanga Sanga TAC		**2,928**	**—**	**2,928**	**10,651**	**4,563**	**15,215**
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 *et al., (n=4)*	468	—	468	—	—	—
Tarakan PSC		**427**	**332**	**759**	**18,840**	**2,385**	**21,225**
Mamburungan		427	225	651	16,455	—	16,455
"Small" Fields	Pamusian Deep *et al., (n=3)*	—	108	108	2,385	2,385	4,770

Continued over page

Table 1 continued

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mbbl)			Net Revenue Interest Natural Gas (MMscf)		
		Proved Developed	Proved Undeveloped	Total Proved	Proved Developed	Proved Undeveloped	Total Proved
Tarakan TAC		**257**	**—**	**257**	**—**	**—**	**—**
"Small" Fields	Juata *et al., (n=3)*	257	—	257	—	—	—
Lematang PSC		**12**	**—**	**12**	**412**	**—**	**412**
Harimau		12	—	12	412	—	412
Singa		—	—	—	—	—	—
Senoro-Toili PSC/JOB		**—**	**2,363**	**2,363**	**—**	**—**	**—**
Senoro		—	—	—	—	—	—
Tiaka		—	2,363	2,363	—	—	—
TOTAL		**31,677**	**2,745**	**34,422**	**135,018**	**18,999**	**154,017**

Excludes Senoro Gas field.
Four fields have been removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit.

Table 2
Remaining Net Proved Hydrocarbon Reserve Volumes
As of January 1, 2004
Company's Net Revenue Interest

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mbbl)			Net Revenue Interest Natural Gas (MMscf)		
		Proved Developed	Proved Undeveloped	Total Proved	Proved Developed	Proved Undeveloped	Total Proved
Rimau PSC		**31,790**	**545**	**32,335**	**18,321**	**—**	**18,321**
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		117	545	545	—	—	—
"Small" Fields	Tabuan *et al., (n=4)*	117	—	117	—	—	—
Central Sumatra Kampar PSC		**1,782**	**—**	**1,782**	**—**	**—**	**—**
East Kayuara		780	—	780	—	—	—
Parum		111	—	111	—	—	—
"Small" Fields	Kermutan *et al., (n=9)*	891	—	891	—	—	—
South Sumatra Extension PSC		**5,451**	**883**	**6,334**	**49,314**	**—**	**49,314**
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 *et al., (n=4)*	58	—	58	19,624	—	19,624
Sanga Sanga TAC		**4,177**	**—**	**4,177**	**14,248**	**—**	**14,248**
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 *et al., (n=7)*	889	—	889	—	—	—
Tarakan PSC		**274**		**274**	**12,424**	**11,993**	**24,417**
Mamburungan		274		274	12,424		12,424
"Small" Fields	Pamusian Deep/Hakebabo	—	—	—	—	11,993	11,993
TOTAL		**43,474**	**1,428**	**44,902**	**94,307**	**11,993**	**106,300**

Four fields have been 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, 2003
Company's Net Revenue Interest

Licence / Field	Formation / Details	Net Revenue Interest Oil and Condensate (Mbbl)			Net Revenue Interest Natural Gas (MMscf)		
		Proved Developed	Proved Undeveloped	Total Proved	Proved Developed	Proved Undeveloped	Total Proved
Rimau PSC		**30,215**	**264**	**30,479**	**—**	**—**	**—**
Kaji	Baturaja & Talang Akar	13,783	—	13,783	—	—	—
	Telisa	396	264	660	—	—	—
Semoga	Baturaja & Talang Akar	15,925	—	15,925	—	—	—
	Telisa	3	—	3	—	—	—
Kalabau		—	—	—	—	—	—
"Small" Fields		108		108	—	—	—
Central Sumatra Kampar PSC		**1,580**		**1,580**	**—**	**—**	**—**
East Kayuara		663		663	—	—	—
Parum		115		115	—	—	—
"Small" Fields		802		802	—	—	—
South Sumatra Extension PSC		**3,332**	**5,854**	**9,186**	**41,108**		**41,108**
Fariz		—	—	—	—	—	—
Jene		1,352		1,352	1,352		1,352
Soka (Baturaja)	Baturaja	1,303		1,303	—	—	—
Matra		—	5,854	5,854	—	—	—
Hijau		—	—	—	—	—	—
Gunung Kembang		641		641	25,827		25,827
"Small" Fields		36		36	15,281		15,281
Sanga Sanga TAC		**5,270**	**465**	**5,735**	**1,467**	**14,381**	**15,848**
Louise		884		884			
Muara		170		170		1,399	1,399
North Kutai Lama		2,559	465	3,024	1,467	12,982	14,449
Tanjung Una		194		194			
Pamusian		593		593			
"Small" Fields		870		870			
Tarakan PSC		**403**		**403**	**14,904**	**10,348**	**25,252**
Mamburungan		403		403	14,904		14,904
"Small" Fields						10,348	10,348
TOTAL		**40,800**	**6,583**	**47,383**	**57,479**	**24,729**	**82,208**

Four fields have been 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 Company for Years between 2002, 2003, 2004

Block	Net Revenue Interest Oil and Condensate (Mbbl)			Net Revenue Interest Natural Gas (MMscf)		
	2002	2003	2004	2002	2003	2004
Rimau PSC						
Beginning of Year	54,257	30,479	32,335	—	—	18,321
Discoveries, Extensions and Revisions	(14,356)	9,013	(5,956)	—	18,321	7,383
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	(9,422)	(7,157)	(4,943)	—	—	(9,569)
End of the Year	***30,479***	***32,335***	***21,436***	**—**	***18,321***	***16,135***
Central Sumatra Kampar PSC						
Beginning of Year	2,678	1,580	1,782	—	—	—
Discoveries, Extensions and Revisions	(722)	610	(29)	—	—	25
Acquisitions and Sales	—	—		—	—	—
Production for the Year	(376)	(408)	(327)	—	—	(25)
End of the Year	***1,580***	***1,782***	***1,425***	**—**	**—**	**—**
South Sumatra Extension PSC						
Beginning of Year	12,502	9,186	6,334	28,446	41,108	49,314
Discoveries, Extensions and Revisions	(2,747)	(1,885)	116	22,340	19,586	65,833
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	(569)	(967)	(1,208)	(9,678)	(11,380)	(14,117)
End of the Year	***9,186***	***6,334***	***5,241***	***41,108***	***49,314***	***101,030***
Sanga Sanga TAC*						
Beginning of Year	6,338	5,735	4,177	17,348	15,848	14,248
Discoveries, Extensions and Revisions	645	(457)	(274)	1,743	1,832	4,850
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	(1,248)	(1,101)	(976)	(3,243)	(3,432)	(3,884)
End of the Year	***5,735***	***4,177***	***2,928***	***15,848***	***14,248***	***15,215***
Tarakan PSC						
Beginning of Year	632	403	274	17,529	25,252	24,417
Discoveries, Extensions and Revisions	(112)	(26)	633	11,036	4,573	3,227
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	(117)	(103)	(148)	(3,313)	(5,408)	(6,419)
End of the Year	***403***	***274***	***759***	***25,252***	***24,417***	***21,225***

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Table 4 continued

Block	Net Revenue Interest Oil and Condensate (Mbbl)			Net Revenue Interest Natural Gas (MMscf)		
	2002	2003	2004	2002	2003	2004
Tarakan TAC*						
Beginning of Year	—	—	—	—	—	—
Discoveries, Extensions and Revisions	—	—	384	—	—	171
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	—	—	(127)	—	—	(171)
End of the Year	**—**	**—**	***257***	**—**	**—**	**—**
Lematang PSC						
Beginning of Year	—	—	—	—	—	—
Discoveries, Extensions and Revisions	—	—	12	—	—	412
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	—	—	—	—	—	—
End of the Year	**—**	**—**	***12***	**—**	**—**	**412**
Senoro Toili PSC/JOB						
Beginning of Year	—	—	—	—	—	—
Discoveries, Extensions and Revisions	—	—	2,363	—	—	—
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	—	—	—	—	—	—
End of the Year	**—**	**—**	***2,363***	**—**	**—**	**—**
TOTAL						
Beginning of Year	***76,407***	***47,383***	***44,902***	***63,323***	***82,208***	***106,300***
Discoveries, Extensions and Revisions	*(17,292)*	*7,255*	*(2,751)*	*35,119*	*44,312*	*81,902*
Acquisitions and Sales	—	—	—	—	—	—
Production for the Year	*(11,732)*	*(9,736)*	*(7,729)*	*(16,234)*	*(20,220)*	*(34,185)*
End of the Year	**47,383**	**44,902**	**34,422**	**82,208**	**106,300**	**154,017**

Four fields have been removed from the Sanga Sanga TAC and placed in the Tarakan TAC for the 1/1/2005 audit

This audit examination was based on reserve estimates and other information provided by the Company to GCA through March 31st, 2005, 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 Energi E&P Indonesia 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 the Company 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

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 know 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 or 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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