Jimmy Budhi & Rekan
Registered Public Accountants

PT ENERGI MEGA PERSADA Tbk AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
AND
REPORT OF INDEPENDENT AUDITORS

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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PT ENERGI MEGA PERSADA Tbk.

DIRECTORS' STATEMENT LETTER
RELATING TO
THE RESPONSIBILITY ON THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
PT ENERGI MEGA PERSADA TBK AND SUBSIDIARIES

In order to fulfill Bapepam's Regulation stipulated in the Enclosure of Bapepam Decision under Number Kep-40/PM/2003 dated December 22, 2003, concerning Regulation Number VIII.G.11: Responsibility of Directors upon Financial Report, we, the undersigned:

1.	Name	:	Christian Victor Ponto
	Office address	:	Wisma Mulia Lt. 32, Jl. Jenderal Gatot Subroto Kav. 42, Jakarta, Indonesia
	Domicile as stated in ID Card	:	Jl. Duren Tiga Selatan VII, RT. 003, RW. 02, Kelurahan Duren Tiga, Kecamatan Pancoran Jakarta Selatan
	Phone number	:	(021) 52906250
	Position	:	President Director
2.	Name	:	Yuli Soedargo
	Office address	:	Wisma Mulia Lt. 32, Jl. Jenderal Gatot Subroto Kav. 42, Jakarta, Indonesia
	Domicile as stated in ID Card	:	Taman Kebon Jeruk J-XI/16 R.T. 003/R.W. 021 Kel. Srengseng, Kec. Kembangan, Jakarta Barat
	Phone number	:	(021) 52906250
	Position	:	Director

state that:

1. We are responsible for the preparation and presentation of the consolidated financial statements;
2. The consolidated financial statements have been prepared and presented in accordance with generally accepted accounting principles in Indonesia;
3. a. All information contained in the consolidated financial statements is complete and correct;
   b. The consolidated financial statements do not contain misleading material information or facts, and do not omit material information and facts.
4. We are responsible for the Company and Subsidiaries' internal control system.

This statement letter is made truthfully.

Jakarta, March 26, 2008

Director		Director
METERAI TEMPEL 6000		
Christian Victor Ponto		**Yuli Soedargo**

Jimmy Budhi & Rekan
Registered Public Accountants

License Number: No. KEP-315/KM.6/2004 dated July 27, 2004
Jl. Sisingamangaraja No. 26, 2nd Floor, Jakarta Selatan 12120 - Indonesia • T 62 21 720 2605 • F 62 21 72788954 • E audit@kapjimmybudhi.com • W www.kapjimmybudhi.com

Report of Independent Auditors

Report No. 035/2008

The Stockholders and Boards of Commissioners and Directors
PT Energi Mega Persada Tbk

We have audited the accompanying consolidated balance sheets of PT Energi Mega Persada Tbk (the "Company") and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in consolidated stockholders' equity, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of Subsidiary, whose statements reflect assets and revenues of the consolidated totals of 15.13% and 4.80% as of December 31, 2006. The financial statements of that Subsidiary was audited by other independent auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for that Subsidiary, is based solely on the reports of the other independent auditors.

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

In our opinion, based on our audits and the report of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and Subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Indonesia.

As explained in Note 3, the financial statements of Kalila Energy Ltd., Pan Asia Enterprise Ltd., and Lapindo Brantas, Inc. were no longer consolidated into the accompanying consolidated financial statements of the Company for the years ended December 31, 2007 and 2006. Also, consolidated financial statements were restated as a result of the change of the Subsidiary's treatment of consolidation method and effect in the Subsidiary's deferred taxes recomputation.

Furthermore, as explained in Note 37(b), the Company signed agreements with Mitsubishi Corporation (MC) and Japan Petroleum Exploration Co., Ltd. (Japex) whereby MC and Japex will assume, in aggregate, an indirect 50% working interest in Kangean PSC block, which resulted in 50% dilution of the Company's investment in EMP Inc. As a result of the dilution, commencing from January 1, 2007, the Company consolidated the financial statements of EMP Inc. according to its diluted share.

JIMMY BUDHI & REKAN
Registered Public Accountants

Jimmy S. Budhi
License No. 03.1.0835

March 26, 2008

NOTICE TO READERS

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

PT ENERGI MEGA PERSADA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Figures in Rupiah expressed in thousands, unless otherwise stated)

A S S E T S

	Notes	2007 *)	2006 (As restated - see Note 3)
CURRENT ASSETS			
Cash and cash equivalents	2d,4	455,088,071	620,896,485
Restricted cash in bank	2d,5	51,642,013	-
Short-term investment	2e,6	723,155,499	-
Trade receivables	2f,7	192,236,669	290,541,194
Other receivables	2f,8	547,683,300	396,092,010
Inventories	2g,9	377,908,336	519,870,192
Prepaid expenses and advances	2h,10	57,989,476	86,239,213
Total Current Assets		2,405,703,364	1,913,639,094
NON-CURRENT ASSETS			
Due from related parties	2j,11a	1,190,308,248	946,672,828
Restricted time deposits	2k,12,17,18	548,239,536	126,846,622
Fixed assets - net of accumulated depreciation of Rp 9,979,054 in 2007 and Rp 6,362,487 in 2006	2l	6,650,134	6,502,331
Oil and gas properties - net	2m,13	4,539,866,699	5,220,828,764
Site restoration fund	32a,35	110,094,616	85,644,827
Deferred tax assets	2s,27d	490,901,465	261,224,169
Reimbursement of Subsidiary's dividend tax	18	-	198,842,996
Other assets		86,430,351	13,641,182
Total Non-Current Assets		6,972,491,049	6,860,203,719
TOTAL ASSETS		9,378,194,413	8,773,842,813

*) In 2007 total assets, liabilities and equity are presented as percentage of ownership in EMP Inc., a Subsidiary, by applying the proportionate consolidation method (see Note 22).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

LIABILITIES AND EQUITY

	Notes	2007 *)	2006 (As restated - see Note 3)
CURRENT LIABILITIES			
Trade payables	14	307,041,608	460,232,217
Other payables	15	111,675,134	89,910,785
Accrued expenses	16	567,762,546	386,164,115
Taxes payable	2s,27a	132,598,825	94,110,211
Current maturities of long-term loans	17	2,569,371,593	766,294
Total Current Liabilities		3,688,449,706	1,031,183,622
NON-CURRENT LIABILITIES			
Long-term loans - net of current maturities	17	1,310,938,142	4,941,733,089
Due to related parties	2j,11b	61,363,392	221,022,494
Deferred tax liabilities	2s,27d	420,522,106	350,138,771
Employee benefits obligation	2r,29	35,844,168	32,501,528
Site restoration obligation	32a,35	138,178,874	103,684,827
Subsidiary's dividend tax liability	18	370,647,819	198,842,992
Total Non-current Liabilities		2,337,494,501	5,847,923,701
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES	2b	11,360	11,242

The accompanying Notes to Consolidated Financial Statements are an integral part of the consolidated financial statements.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

	Notes	2007 *)	2006 (As restated - see Note 3)
EQUITY			
Capital stock - Rp 100 par value per share			
Authorized - 55,000,000,000 shares			
Issued and paid-in capital - 14,400,813,372 shares	19	1,440,081,337	1,440,081,337
Additional paid-in capital	20	3,354,749,228	3,354,749,228
Difference in value from restructuring transaction of entities under common control	2c,21	(2,634,645,040)	(2,625,400,967)
Difference due to change of equity in Subsidiary	2i,22	1,262,994,439	-
Translation adjustments	2v	27,286,613	(82,072,126)
Deficit		(98,227,731)	(192,633,224)
Total Equity		3,352,238,846	1,894,724,248
TOTAL LIABILITIES AND EQUITY		9,378,194,413	8,773,842,813

*) In 2007 total assets, liabilities and equity are presented as percentage of ownership in EMP Inc., a Subsidiary, by applying the proportionate consolidation method (see Note 22).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

	Notes	2007 *)	2006 (As restated - see Note 3)
NET SALES	2q,23	1,137,542,666	1,459,460,289
COST OF GOODS SOLD	2q,24	(795,209,787)	(930,550,390)
GROSS PROFIT		342,332,879	528,909,899
OPERATING EXPENSES			
General and administrative	2q,25	(219,337,330)	(222,494,671)
INCOME FROM OPERATIONS		122,995,549	306,415,228
OTHER INCOME (CHARGES)			
Interest income		46,010,884	17,578,003
Overhead cost recovery		16,628,832	21,995,157
Gain (loss) on foreign exchange - net	2v	9,153,712	(17,439,774)
Financing charges	26a	(318,486,261)	(252,287,653)
Loss on impairment of investment value	2n,3	-	(430,645,750)
Gain on insurance claim	2q,26b	-	56,438,666
Others - net	26c	71,904,791	14,190,615
Other Charges - Net		(174,788,042)	(590,170,736)
LOSS BEFORE TAX		(51,792,493)	(283,755,508)
TAX BENEFIT (EXPENSE)	2s,27b,27d		
Current		(44,483,763)	(39,050,544)
Deferred		211,914,018	59,409,668
Total		167,430,255	20,359,124

The accompanying Notes to Consolidated Financial Statements are an integral part of the consolidated financial statements.

PT ENERGI MEGA PERSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Figures in Rupiah expressed in thousands, unless otherwise stated)

	Notes	2007 *)	2006 (As restated - see Note 3)
INCOME (LOSS) BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		115,637,762	(263,396,384)
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	2b	-	-
NET INCOME (LOSS)		115,637,762	(263,396,384)
BASIC EARNINGS (LOSS) PER SHARE (in full amount)	2t,28	8.03	(18.71)

*) In 2007, total net income is presented as percentage of ownership in EMP Inc., a Subsidiary, by applying the proportionate consolidation method (see Note 22).

PT ENERGI MEGA PERSADA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Figures in Rupiah expressed in thousands, unless otherwise stated)

	Notes	Capital Stock	Additional Paid-in Capital	Equity Proforma from Restructuring Transactions of Entities Under Common Control	Difference in Value from Restructuring Transactions of Entities Under Common Control	Difference Due to Changes of Equity in Subsidiary	Translation Adjustments	Retained Earnings (Deficit)	Total Equity
Balance as of January 1, 2006		949,144,518	158,420,946	154,476,142	(190,589,716)	-	34,500,246	70,763,160	1,176,715,296
Right Issue I	1b	490,936,819	3,196,328,282	-	-	-	-	-	3,687,265,101
Elimination of Subsidiaries' equity from restructuring transactions of entities under common control	2c	-	-	(154,476,142)	-	-	-	-	(154,476,142)
Difference in value from restructuring transactions of entities under common control	2c,21	-	-	-	(2,434,811,251)	-	-	-	(2,434,811,251)
Translation adjustments	2v	-	-	-	-	-	(116,572,372)	-	(116,572,372)
Net loss for the year		-	-	-	-	-	-	(263,396,384)	(263,396,384)
Balance as of December 31, 2006 (As restated - see Note 3)		1,440,081,337	3,354,749,228	-	(2,625,400,967)	-	(82,072,126)	(192,633,224)	1,894,724,248
Balance as of January 1, 2007		1,440,081,337	3,354,749,228	-	(2,625,400,967)	-	(82,072,126)	(192,633,224)	1,894,724,248
Deferred tax adjustment on dividend received	2s,27d	-	-	-	-	-	-	(21,232,269)	(21,232,269)
Difference in value from restructuring transactions of entities under common control	2c,21	-	-	-	(9,244,073)	-	-	-	(9,244,073)
Difference due to change of equity in Subsidiary	2i,22	-	-	-	-	1,262,994,439	-	-	1,262,994,439
Translation adjustments	2v	-	-	-	-	-	109,358,739	-	109,358,739
Net income for the year		-	-	-	-	-	-	115,637,762	115,637,762
Balance as of December 31, 2007 *)		1,440,081,337	3,354,749,228	-	(2,634,645,040)	1,262,994,439	27,286,613	(98,227,731)	3,352,238,846

*) In 2007, total equity is presented as percentage of ownership in EMP Inc., a Subsidiary, by applying the proportionate consolidation method (see Note 22).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

	2007 *)	2006 (As restated - see Note 3)
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	1,250,853,519	1,426,543,274
Cash paid to suppliers and employees	(694,776,352)	(937,892,621)
Cash provided from operations	556,077,167	488,650,653
Financing charges paid	(459,899,404)	(576,018,389)
Corporate income and dividend tax paid	(45,639,965)	(41,223,977)
Net Cash Flows Provided by (Used in) Operating Activities	50,537,798	(128,591,713)
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	46,010,884	17,578,003
Proceeds from reimbursement of Subsidiary's dividend tax	370,647,822	-
Proceeds from insurance claim	-	56,438,666
Restricted cash in bank	(51,642,013)	-
Short-term investment	(723,155,499)	-
Acquisition of Subsidiaries	-	(2,599,869,500)
Acquisition of fixed assets	(2,612,258)	(1,612,127)
Acquisition of oil and gas properties	(833,396,589)	(1,785,804,942)
Decrease (increase) in other assets	(72,789,168)	5,076,210
Net Cash Flows Used in Investing Activities	(1,266,936,821)	(4,308,193,690)
NET CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock of Subsidiary - net	1,262,994,439	-
Proceeds from issuance of capital stock of the Company	-	3,780,213,508
Payment of stock issuance costs	-	(92,948,408)
Proceeds (payments) of long-term loan - net	(1,171,016,898)	1,850,530,574
Decrease (increase) of restricted time deposits	(421,392,913)	74,068,603
Payment of loan of acquired Subsidiaries	-	(348,203,384)
Movement of due from/to related parties - net	(407,440,076)	(378,924,735)
Net Cash Flows Provided by (Used in) Financing Activities	(736,855,448)	4,884,736,158

(Figures in Rupiah expressed in thousands, unless otherwise stated)

	2007 *)	2006 (As restated - see Note 3)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,953,254,471)	447,950,755
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	620,896,485	304,986,078
Effect of dilution of percentage of ownership in Subsidiary	1,695,921,815	-
Effect of foreign exchange rate changes	91,524,242	(132,040,348)
CASH AND CASH EQUIVALENTS AT END OF YEAR	455,088,071	620,896,485

*) In 2007, total cash and cash equivalents is presented as percentage of ownership in EMP Inc., a Subsidiary, by applying the proportionate consolidation method (see Note 22).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

1. GENERAL

a. *Establishment and General Information*

PT Energi Mega Persada Tbk (the "Company") was established based on notarial deed No. 16 dated October 16, 2001 of H. Rakhmat Syamsul Rizal, S.H., Notary in Jakarta. The deed of establishment was approved by the Minister of Justice and Human Rights of the Republic of Indonesia in his decision letter No. C-14507.HT.01.01.TH.2001 dated November 29, 2001 and published in State Gazette No. 31, Supplement No. 3684 dated April 16, 2002. The Company's Articles of Association have been amended several times, the most recent being based on Notarial Deed No. 48, dated April 20, 2007 of Humberg Lie, S.H., S.E., MKn., notary in Tangerang concerning the change of the Company's Articles of Association articles 21 (3). The Amendment has been received by the Ministry of Law and Human Rights of the Republic of Indonesia in their Letter No. W29.HT.01.04-583 dated April 23, 2007.

In accordance with Article 3 of the Company's Articles of Association, the scope of its activities comprises of, among others: trading, services and mining, and providing management services in the oil and gas industry.

The Company's head office is located at Wisma Mulia, 33rd Floor, Jl. Jend. Gatot Subroto, Kav. 42, Jakarta. The Subsidiaries of the Company are engaged in oil and gas exploration, and its activities are located in Kangean Island, East Java Province, Riau, Jambi, North Sumatra, and East Kalimantan Provinces.

The Company commenced its commercial operations in February 2003.

b. *Public Offering of Shares of the Company*

The Company obtained the effective notice of its initial public offering from the Chairman of the Capital Market Supervisory Agency (Bapepam) in his letter No. S.1480/PM/2004 dated May 26, 2004. On June 7, 2004, the shares were listed on the Jakarta Stock Exchange (currently the Indonesia Stock Exchange).

Based on Extraordinary General Meeting of Shareholders (EGMS) dated December 22, 2005, the Company obtained the Effectivity Notice of its Rights Issue I to the public with the Exercise Rights (ER) of 4,909,368,195 shares with nominal value Rp 100 (full amount) per share, which were offered at Rp 770 (full amount) per share totaling Rp 3,780,213,510,150 (full amount). On January 25, 2006, the Company listed the shares of Right Issue I on the Jakarta Stock Exchange (currently the Indonesia Stock Exchange).

c. *Structure of the Company and its Subsidiaries*

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

Subsidiaries	Domicile	Percentage of Ownership (%) 2007	2006	Year of Commercial Operation	Total Assets (in million Rp) 2007	2006 (As restated - see Note 3)
RHI Corporation (RHI)	Delaware, USA	100	100	1984	1,543,445	1,376,656
Kondur Petroleum S.A. (KPSA) *)	Panama	100	100	1995	1,543,445	1,367,847
PT Imbang Tata Alam (ITA)	Indonesia	99.99	99.99	2001	831,706	719,422
Energi Mega Pratama Inc. (EMP Inc.)	British Virgin Islands	50	100	2003	6,357,814	4,386,352

(Figures in Rupiah expressed in thousands, unless otherwise stated)

1. GENERAL *(Continued)*

Subsidiaries	Domicile	Percentage of Ownership (%) 2007	Percentage of Ownership (%) 2006	Year of Commercial Operation	Total Assets (in million Rp) 2007	Total Assets (in million Rp) 2006 (As restated - see Note 3)
EMP Exploration (Kangean) Ltd. (EEKL) *)	England	100	100	1987	2,057,703	1,427,792
Kangean Energy Indonesia Ltd. (KEIL) (formerly EMP Kangean Ltd.) *)	Delaware, USA	100	100	1987	3,086,465	2,173,407
Kalila Energy Ltd (KEL)	Hong Kong	99.99	99.99	1997	751,552	925,839
Lapindo Brantas, Inc (LBI) *)	Delaware, USA	100	100	1999	709,324	861,315
Pan Asia Enterprise Ltd (PAN)	Hong Kong	99.99	99.99	1997	-	31,605
Malacca Brantas Finance, B.V. (MBF)	Netherlands	100	100	2005	1,141,072	1,091,642
Energi Mega Persada Finance B.V. (EMP Finance)	Netherlands	100	100	-	225	211
PT Tunas Harapan Perkasa (THP)	Indonesia	99.99	99.99	2005	2,051,715	1,765,316
PT Semberani Persada Oil (Semco) *)	Indonesia	99.99	99.99	1996	1,208,711	1,327,325
PT Insani Mitrasani Gelam (IMG) *)	Indonesia	99.99	99.99	2004	462,271	361,121
Costa International Group Ltd (Costa) *)	British Virgin Islands	100	100	2002	255,078	210,126
Kalila (Bentu) Ltd (Bentu) *)	British Virgin Islands	100	100	-	438,709	294,169
Kalila (Korinci Baru) Ltd (Korinci Baru) *)	British Virgin Islands	100	100	2007	313,061	243,326
Energy Mega Persada Pte., Ltd. (EMP PL)	Singapore	100	-	-	47	-
Tunas Harapan Perkasa Pte., Ltd. (THPPL)	Singapore	100	-	-	47	46
Enviroco Company Ltd. (ECL)	Sychelles	100	-	2007	723,155	-

**) Indirect ownership interest through Subsidiaries*

Based on the Corporate Management Agreement dated July 1, 2007 between the Company and Minarak Labuan Co. (L) Ltd. (MLC), the Company transferred the control over the management of Kalila Energy Ltd. (KEL), Pan Asia Enterprise Ltd. (PAN) and Lapindo Brantas Inc. (LBI) to MLC starting July 1, 2007. In accordance with the transfer of control over KEL, PAN and LBI, the financial statements of KEL, PAN and LBI were no longer consolidated in the Company's consolidated financial statements starting July 1, 2007 (see Note 3).

The Company established wholly-owned subsidiaries, Energy Mega Persada Pte. Ltd. (EMPPL) in Singapore and Enviroco Company Ltd. (ECL) in Sychelles on October 19, 2006 and July 17, 2007, respectively. All shares of EMPPL and ECL are owned by the Company.

The Company's EGMS dated March 14, 2008 agreed with respect to the conversion of MLC receivables to KEL and PAN in stockholders to shares ownership in KEL and PAN by way of issuance of new shares in KEL and PAN. After the conversion, the Company's ownership interest in KEL and PAN will be diluted from 99.99% and 99.99% into 0.0117783% and 0,00099989% respectively (see Note 38).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

1. GENERAL *(Continued)*

All the Subsidiaries of the Company, except MBF, EMP Finance, THPPL, EMP PL and ECL are holders of working interest of the following oil and gas production blocks directly or indirectly through Production Sharing Contracts (PSC) with *Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi (BPMIGAS)* or Technical Assistance Contract (TAC) with PT Pertamina (Persero) ("Pertamina") as follows:

						Quantity of Production		
Name of Location	Blocks' Owner	Acquisition Date of Exploration	Due Date	Percentage of Ownership	Quantity of Proven Reserve	Current Year	Total Accu-mulated Production	Ending Proven Reserve
Malacca Strait Block	Kondur Petroleum S.A	August 5, 2000	August 4, 2020	60.49%	244,149	3,069	216,100	28,049
Kangean Block	Kangean Energy Inconesia (formerly EMP Kangean Ltd)	November 14, 1980	November, 13, 2030	50.00%	327,818	2,922	195,533	132,285
Sungai Gelam Block	PT Insani Mitra Gelam	May 15, 1997	May 14, 2017	100.00%	1,447	117	700	747
Semberah Block	PT Semberani Persada Oil	November 17, 1995	November 16, 2015	100.00%	7,067	647	1,333	5,734
Gebang Block	Costa International Group Ltd	November 29, 1985	November 28, 2015	50.00%	16,233	121	16,233	-
Korinci Baru Block	Kalila (Korinci Baru) Ltd	May 15, 1997	May 14, 2027	100.00%	2,654	357	350	2,304
Bentu Block	Kalila (Bentu) Ltd	May 20, 1991	Mei 19, 2021	100.00%	23,602	-	-	23,602

On May 31, 2007, the Company signed the Conditional Sales and Purchase Agreement of acquisition of 75% interest in shares of PT Indelberg Indonesia Perkasa (IIP). IIP has an Operations Cooperation Agreement with PT Pertamina EP to operate the Suci operating area for a period of 20 years from April 25, 2007 (see Note 37a).

d. *Boards of Commissioners, Directors and Audit Committee*

As of December 31, 2007 and 2006, the members of the Company's boards of Commissioners and Directors were as follows:

		2007	2006
Commissioners			
President Commissioner	:	Ari Saptari Hudaya	Suyitno Patmosukismo
Commissioner	:	Suyitno Patmosukismo	Rennier Abdul Rachman Latief
Commissioner	:	Nalinkant Amratlal Rathod	-
Independent Commissioner	:	A. Qoyum Tjandranegara	A. Qoyum Tjandranegara
Directors			
President Director	:	Christian Victor Ponto	Christopher Basil Newton
Director	:	Yuli Soedargo	Yuli Soedargo
Director	:	Imam Pria Agustino	Faiz Shahab
Director	:	-	Norman Hafiz Harahap
Director	:	-	Thomas Leo Soulsby

The composition of the Board of Commissioners as of December 31, 2007 was based on the decision of the EGMS on May 11, 2007, as stated in the Minutes of EGMS Deed No. 37 dated May 11, 2007 of Robert Purba, S.H., Notary in Jakarta.

The composition of the Board of Directors as of December 31, 2007 was based on the decision of the EGMS on April 19, 2007, as stated in the Minutes of EGMS Deed No. 48 dated April 20, 2007 of Humberg Lie, S.H., S.E., MKn., Notary in Tangerang.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

1. GENERAL *(Continued)*

The composition of the Board of Commissioners and Directors as of December 31, 2006 was based on the decision of the EGMS on December 22, 2005, as stated in the Minutes of EGMS Deed No. 46 on December 23, 2005 of Robert Purba, S.H., Notary in Jakarta.

The compositions of the audit committee as of December 31, 2007 and 2006 based on the Minutes of Meeting of the Board of Commissioners dated October 11, 2005 were as follows:

Chairman	: A. Qoyum Tjandranegara
Members	: Drs. Hertanto
	: Toha Abidin

Total remuneration paid to the Commissioners and Directors of the Company for the years ended December 31, 2007 and 2006 amounted to Rp 20.30 billion and Rp 25.30 billion, respectively.

As of December 31, 2007 and 2006, the Company and its Subsidiaries had approximately 626 and 501 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Indonesia (Indonesian GAAP), Regulation of Capital Market and Financial Institution Supervisory Board (*Bapepam-LK*) and Financial Statements Presentation Guidelines issued by Indonesia Stock Exchange (formerly Jakarta Stock Exchange). Significant accounting policies applied consistently by the Company are as follows:

a. *Basis of Consolidated Financial Statements*

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

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

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

b. *Principles of Consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its Subsidiaries wherein:

- the Company has direct or indirect ownership of more than 50% with the ability to control; or

- the Company has 50% or less ownership, but the Company has the ability to control.

Under Statement of Financial Accounting Standards (PSAK) No. 4, “Consolidated Financial Statement”, control is presumed to exist when the parent enterprise owns, directly or indirectly through subsidiaries, more than 50% or less of the voting rights of an enterprise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Control is still presumed to exist if:

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

A subsidiary is excluded from consolidation when:

(1) A control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; and
(2) It operates under long-term restrictions that significantly impair its ability to transfer funds to the parent enterprise.

The financial statements of Subsidiaries are consolidated commencing from the date on which control is acquired and cease to be consolidated from the date on which control is transferred out of the Company. The results of acquired or disposed of Subsidiaries during the year are included in the consolidated statements of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of Subsidiaries that are involved in joint operations with other venturers under a contractual arrangement are consolidated by using the proportionate consolidation method from the commencement date of joint operations in accordance with PSAK No. 12, "Financial Reporting of Interest in Jointly Controlled Operation and Assets." The contractual arrangement may identify one venturer as the operator or the manager of the joint venture. The operator does not control the joint venture, but acts within the financial and operating policies that have been agreed by the venturers in accordance with the contractual arrangement.

The interest of the minority shareholders is stated as the minority's proportion of the historical cost of the net assets. The minority interest is subsequently adjusted for the minority's share of movements in equity. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

Where necessary, adjustments are made to the financial statements of the Subsidiaries to bring the accounting policies used in line with those used by the Company.

All inter-company transactions and account balances are eliminated to reflect the financial position and the results of operations of the Company and its Subsidiaries as a single business entity.

c. *Business Acquisitions*

Acquisitions are accounted for using the purchase method in accordance with the requirements of PSAK No. 22, "Business Combination." On acquisition date, the assets and liabilities of a Subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Goodwill from the acquisition of oil and gas properties is recorded in the oil and gas properties and amortized using the unit of production method during the years of PSC or TAC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

When the cost of acquisition is less than the interest in the fair values of the identifiable assets and liabilities acquired as at the date of acquisition (i.e. discount on acquisition), fair values of the acquired non-monetary assets are reduced proportionately until all the excess is eliminated. The remaining excess after reducing the fair values of non-monetary assets acquired is recognized as negative goodwill, treated as deferred revenue and recognized as revenue on a straight-line method over twenty (20) years.

Acquisitions of Subsidiaries that represent a restructuring transaction of entities under common control are accounted for in accordance with PSAK No. 38 (Revised 2004), "Accounting for Restructuring Transactions of Business Under Common Control." Based on this standard, acquisition of a subsidiary is accounted based on the pooling of interest, wherein assets and liabilities of a subsidiary are recorded at their book values. The difference between the transfer price and the Company's interest in the subsidiary's book values, if any, is recorded as "Difference in Value from Restructuring Transactions of Entities Under Common Control" and presented as a separate component in the Company's equity. Accordingly, the consolidated financial statements prior to acquisitions are restated, wherein the beginning balance of equity of the Subsidiary is presented separately as proforma equity arising from restructuring transactions of entities under common control. The balance of "Difference in Value from Restructuring Transactions of Entities Under Common Control" can be realized to gain or loss from the time the common control no longer exists between the entities that entered into the transaction.

Long-term investments are usually carried at cost. However, when there is a decline in value of a long-term investment, other than temporarily, the carrying amount is reduced to recognize the decline. Indicators of the value of an investment may be obtained by reference to its market value, the investee's assets and results and the expected cash flows from investment.

In applying the pooling of interest method, the components of the financial statements of the restructured company for the period, during which the restructuring occurred and for other periods presented for comparison purposes, must be presented in such a manner as if the companies were combined from the beginning of the period presented.

d. *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and in banks and investment with maturities of three months or less that can be used freely to finance operating activities.

Cash in bank that is not freely available to the Company in relation to the accrued production payable is presented as "Restricted Cash in Bank" classified under current asset.

e. *Short-Term Investment*

Time deposits and placements with maturities of more than three months that are realizable within one year from balance sheet date are presented as short-term investment and are stated at their nominal value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f. *Receivables*

Receivables are stated at face value less allowance for doubtful accounts. The level of this allowance is based on management's evaluation of collection experience and other factors that may affect collectibility.

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

g. *Inventories*

Inventories of spare-parts, chemicals and fuel are classified into capital and non-capital inventories. Capital inventories represent spare-parts, chemicals, and fuel that are consumed or used as components of construction or capitalized as assets.

Non-capital inventories represent inventories being consumed for the purpose of repair and maintenance of assets or used for operations. The costs of the consumed inventories are charged when used.

Inventory purchased under the terms of the PSC and TAC becomes the property of BPMIGAS or Pertamina when landed in Indonesia.

Inventories of spare-parts, chemicals and fuel are valued at the lower of cost or net realizable value. Cost is determined using the weighted average method. Provision for obsolete and/or slow-moving inventories is provided based on review of the condition of the inventories at the end of the period.

h. *Prepaid Expenses*

Prepaid expenses are amortized over the period benefited using the straight-line method.

i. *Investment - Change of Equity in Subsidiary*

Change in the value of investment due to changes in the equity of a Subsidiary arising from capital transactions of such Subsidiary with other parties are recognized in equity as "Difference Due to Change of Equity in Subsidiary," and recognized as income or expense in the period the investments are disposed of under PSAK No. 40, "Accounting For A Change In The Value Of Equity Of A Subsidiary/Associate Company."

j. *Transactions with Related Parties*

The Company and its Subsidiaries have transactions with certain parties, which are related to them. In accordance with the PSAK No. 7, "Related Party Disclosures," related parties are defined as follows:

(1) Enterprises that, through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (including holding companies, subsidiaries and fellow subsidiaries);

(2) Associated companies;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, and close members of the family of any such individual (close members of a family are defined as those members who are able to exercise influence or can be influenced by such individuals, in conjunction with their transactions with the Company);

(4) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including commissioners, directors and managers of the enterprise and close members of the families of such individuals; and,

(5) Enterprises 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. This definition includes enterprises owned by the commissioners, directors or major stockholders of the Company and enterprises that have a member of key management in common with the Company.

All significant transactions with related parties are disclosed in the notes to the consolidated financial statements.

k. *Restricted Time Deposits*

Time deposits that are restricted in use are presented under non-current assets.

l. *Fixed Assets*

Fixed assets are stated at cost, less accumulated depreciation and any impairment in value.

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

	Years
Machinery and equipment	4
Transportation and office equipment	4

The costs of maintenance and repairs are charged to expense as incurred; expenditures that extend the useful life of the asset or result in an increase of future economic benefits such as increase in capacity and improvement in the quality of output or standard of performance are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the current operations.

m. *Oil and Gas Properties*

The Company and its Subsidiaries adopted the full cost method of accounting in recording oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized. All costs arising from production activities are recorded at the time they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Under the full cost method, a Cost Center is used to "pool" costs to be later matched with revenues generated from the cost center's operations. The Company considers a country as a single cost center in accordance with PSAK No. 29, "Accounting for Oil and Gas Industry," and, therefore, cost centers are established on a country-by-country basis.

The capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of (1) the "estimated present value," discounted at a 10% interest rate of future net revenues from estimated future production based on current economic and operating conditions; (2) the cost of unproven properties and major development projects not being amortized, and (3) the lower of cost or estimated fair value of unproven properties included in cost being depreciated and amortized. Any excess over the cost is charged to expense and disclosed during the period.

All capitalized costs relating to oil and gas properties, including the estimated future costs of developing proven reserves, are depreciated and amortized using the unit-of-production method based on the total estimated proven reserves. Investments in unproven properties and major development projects are not depreciated and amortized until proven reserves associated with the projects can be determined or until indication impairment occurs.

The Company and its Subsidiaries have no ownership interest in the producing assets nor in the oil and gas reserves, but rather have the right to operate the assets and receive a share of production and/or revenues from the sale of oil and gas in accordance with the PSC and TAC agreements.

Sale of proven and unproven properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly change the relationship between capitalized costs and proven reserves of oil and gas, in which case, the gain or loss is recognized in statements of income.

n. *Impairment of Assets Value*

In compliance with PSAK No. 48, "Impairment of Asset Values," asset values are reviewed for any impairment and possible write-down to fair values whenever events on changes in circumstances indicate that their carrying values may not be fully recovered. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statement of income of the current period.

o. *Capitalization of Borrowing Cost and Foreign Exchange Losses*

In compliance with PSAK No. 26 (Revised 1997), "Borrowing Costs," interest cost, foreign exchange differences and other costs incurred from borrowings obtained to finance the construction or installation of major facilities are capitalized. Capitalization of these borrowing costs ceases when the acquisition, construction or installation activities are substantially completed and the assets are ready for their intended use.

p. *Shares Issuance Costs*

Based on Bapepam's Decision Letter dated March 13, 2000 No. KEP-06/PM/2000, all cost incurred in relation to Initial Public Offering and Rights Issue are presented as part of equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q. *Revenue and Expense Recognition*

Revenue from crude oil and/or gas is recognized on the basis of the entity's interest in a producing field ('entitlements' method) when the crude oil and/or gas are delivered and title has passed to customer. Revenue earned under a PSC and TAC is recognized on a net entitlements basis according to the terms of the PSC and TAC. Expenses are recognized when the benefit incurred in the same period (accrual basis). Claim from insurance will be recognized as income upon collection.

r. *Employee Benefits*

Liabilities relating to employee benefits covering retirement benefits, short-term (e.g. paid annual leave, paid sick leave) and other long-term benefits (e.g. long-service leave, post-employement medical benefits) are computed based on the provision stated in PSAK No. 24 (Revised 2004), "Employee Benefits."

The Company and its Subsidiaries provide defined post-employment benefits for their employees pursuant to the terms of the Employment Work Contract/Company Policy. Subsidiaries, KPSA and ITA, Subsidiaries, also provide post-employment benefits from defined contribution pension plans. The contribution charged to the Subsidiaries is recognized as expense in the current period.

The cost of providing post-employment benefits is determined using the projected unit credit method. The accumulated unrecognized actuarial gains and losses that exceed 10% of the greater of the present value of the Company's defined benefit obligations and the 10% fair value of plan assets are recognized on a straight-line basis over the expected average remaining working lives of the participating employees. Past-service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The benefit obligation recognized in the balance sheet represents the present value of the defined obligation, adjusted for unrecognized actuarial gains and losses, unrecognized past-service cost and fair value of the plan assets.

s. *Income Tax*

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

Current tax expense of the Company is determined based on the taxable income for the period computed using prevailing tax rates in Indonesia. Current tax expense of Subsidiaries that are domiciled and registered as tax subjects in other countries is determined based on the taxable income for the period computed using prevailing tax rates in the related countries.

Current tax expense of the Subsidiaries that are engaged in exploration and production of oil and gas based on PSC and TAC is determined based on the taxable income in the related period using the prevailing tax rates as stated in the PSC and TAC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, to the extent it is probable that taxable income will be available in future period against which the deductible temporary differences can be utilized.

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

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

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

t. *Earnings per Share*

In accordance with PSAK No. 56, "Earnings per Share." basic earning 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.

u. *Segment Information*

Segment information is prepared using the accounting policies adopted for preparing and presenting the consolidated financial statements. The Company and its Subsidiaries' primary reporting segment information is based on business segment, while its secondary reporting segment information is based on geographical segment.

A business segment is a distinguishable component of an enterprise that is engaged in providing products or services (individual services or a group of products or services), which are 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, which are subject to risks and returns that are different from those of components operating in other economic environments.

Assets and liabilities that relate jointly to one or more segments are allocated to their respective segments, if and only if, their related revenues and expenses are also allocated to those segments and the relative autonomy of those segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v. *Foreign Currency Transactions and Translation*

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

The books of accounts of the Subsidiaries are maintained in United States Dollar. For consolidation purposes, assets and liabilities of the Subsidiaries at balance sheet date are translated into Rupiah using the exchange rates at balance sheet date, while revenue and expenses are translated at the average exchange rates for the period. Resulting translation adjustments are shown as part of Equity as "Translation Adjustments".

Middle rates of Bank Indonesia prevailing on December 31, 2007 and 2006 were as follows:

	2007 (full amount)	2006 (full amount)
Currency		
USD	9,419	9,020
Euro	13,760	11,858

w. *Provisions and Contingencies*

Provision is recognized only when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements, but disclosed when an inflow of economic benefits is probable.

x. *Subsequent Events*

Post period-end events that provide additional information about the Company and its Subsidiaries' position at the balance sheet date (adjusting events) are reflected in the financial statements. Any post period-end event that is not an adjusting event is disclosed when material to the consolidated financial statements.

y. *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in Indonesia requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. DECONSOLIDATION OF SUBSIDIARIES AND RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Based on the Corporate Management Agreement (CMA) dated July 1, 2007 between the Company and Minarak Labuan Co. (L) Ltd. (MLC), the Company agreed that MLC shall have control over the management of KEL, PAN and LBI, and therefore, the Company hereby grants power and authorizes MLC, unconditionally and irrecovably, to perform any acts or actions, instructions, supervision and all the right as reasonably held by a party that controls a company, either in its capability as the shareholders or in connection with a particular arrangement.

The agreement shall become effective as from the date of the agreement, dated July 1, 2007, whereafter the Company shall no longer hold any function and control over KEL, PAN and LBI. Subsequently as from the effective date, the entire function for the control over all matters, including but not limited to the business, financial and operational activities, as well as personnel affairs in KEL, PAN and LBI shall be transferred and become under MLC. The agreement may only be terminated in the event that the conversion of receivable be entirely undertaken, by which MLC shall own more than 50% of the total number of shares subscribed in KEL and PAN.

Under the terms of the CMA, the Company no longer has more than 50% of the voting rights, the rights to govern the financial and operating policies, the ability to appoint or remove the majority of the members of the management, or the ability to control the majority of votes of meetings of management of KEL, PAN and LBI.

On the effective date of the transfer, the financial statements of KEL, PAN and LBI will no longer be consolidated into the consolidated financial statements of the Company. This consolidation change was applied retroactively and, accordingly, the 2006 comparative figures were restated.

Based on the valuation report of Truscel Capital dated January 22, 2007, the fair value of KEL's and PAN's shares as of December 31, 2006 amounted to negative USD 60,654,782 and USD 1,743,282, respectively. Since the permanent impairment of carrying investment value of KEL and PAN has been incurred, accordingly, the Company impaired the carrying investment value of KEL and PAN to nil on December 31, 2006 and recorded a loss on impairment of investment value amounting to Rp 430,645,750 in 2006. Subsequently, based on the valuation report of Truscel Capital dated February 8, 2008, the fair value of KEL's and PAN's shares as of October 31, 2007 amounted to negative USD 65,176,712 and USD 1,758,954, respectively.

Since July 1, 2007, the Company has discontinued taking up further its share of losses in KEL and PAN when its accumulated losses exceeded the carrying amount of the investment. The Company will resume taking up its investments including its share of those profits only after its share of the profits equals the share of net losses not recognized.

The Company has reported the deconsolidation to *Badan Pengawas Pasar Modal dan Lembaga Keuangan* (Bapepam-LK) and the management believed that they are in compliance with prevailing regulations relating to this matter. Subsequently, based on EGMS dated March 14, 2008, the stockholders of the Company agreed with the conversion of MLC receivables to KEL and PAN into shares ownership in KEL and PAN by way of issuance of new shares in KEL and PAN. With the conversion of receivables, the Company's ownership interest in KEL and PAN will be diluted to minority accordingly (see Note 38).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

3. DECONSOLIDATION OF SUBSIDIARIES AND RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Based on the Joint Operating Body (JOB) agreement between Pertamina and Costa International Group Ltd. (Costa) (the "JOB"), Pertamina, is responsible to carry the risk of operating costs of the JOB's operations amounted to its participating interest. Since Pertamina has not made any contributions of its participating interest of 50% of total operating cost, because of the facts that Costa had been bearing all the cash calls to JOB and receiving the amount of the proceeds from sales to cover the operating costs, Costa recognized 100% of the JOB's revenue and expense. Starting 2007, Costa decided to apply the participating method, whereby assets, liabilities, as well as revenue and expenses of the JOB, are recognized according to its share (50%). The change was applied retrospectively, and therefore, the previous financials statements were restated.

The restatement of consolidated financial statements also effect on the Subsidiary's deferred taxes.

Following is a summary of the significant accounts in the 2006 consolidated financial statements before and after the restatement:

	December 31, 2006	
	As restated	As previously reported
Total current assets	1,913,639,094	2,433,375,505
Due from related parties	946,672,828	500,587,596
Oil and gas properties	5,220,828,764	5,990,632,043
Deferred tax assets	261,224,169	492,309,688
Total non-current assets	6,860,203,719	7,450,016,417
Total assets	8,773,842,813	9,883,391,922
Total current liabilities	1,031,183,622	1,335,800,758
Long-term loans	4,941,733,089	4,941,733,089
Due to related parties	221,022,494	793,314,356
Deferred tax liabilities	350,138,771	350,138,776
Total non-current liabilities	5,847,923,701	6,714,412,758
Retained earnings (deficit)	(192,633,224)	451,205,366
Total equity	1,894,724,248	1,833,167,046
Net sales	1,459,460,289	1,646,538,248
Operating expenses	222,494,671	233,360,933
Net income (loss)	(263,396,384)	203,005,238
Basic earnings (loss) per share (in full amount)	(18.71)	14.42

(Figures in Rupiah expressed in thousands, unless otherwise stated)

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2007	2006 (As restated - see Note 3)
Cash on hand	180,962	449,452
Cash in banks		
Rupiah		
PT Bank Internasional Indonesia Tbk	1,126,470	133,222
PT Bank Negara Indonesia (Persero) Tbk	665,567	2,019,320
PT Bank Syariah Mandiri	105	-
Others (below Rp 1 billion each)	1,064,521	1,444,093
United States Dollar		
Credit Suisse	81,420,459	86,308,870
Citibank N.A.	32,369,759	13,861,649
PT Bank Internasional Indonesia Tbk	20,994,897	10,189,433
PT Bank Mega Tbk	6,859,535	712,222
Societe Generale Hongkong	6,635,545	-
PT Bank Negara Indonesia (Persero) Tbk	2,355,636	1,211,614
PT Bank Resona Perdania	546,713	224,529
Fortis Bank	398,151	932,677
PT Bank Mandiri (Persero) Tbk	91,953	2,647,745
Others (below Rp 1 billion each)	112,574	2,217,176
Euro		
Fortis Bank	95,354	81,635
Time Deposits		
Rupiah		
PT Bank Internasional Indonesia Tbk	3,872,848	3,872,848
PT Bank Mega Tbk	3,000,000	3,000,000
United States Dollar		
PT Bank Mega Tbk	291,989,000	270,600,000
PT Bank Internasional Indonesia Tbk	1,308,022	4,510,000
Other investments		
PT Danatama Makmur	-	216,480,000
Total	455,088,071	620,896,485

A short-term investment placed in PT Danatama Makmur amounting to USD 20 million in 2006 for a term of 30 days is subject to extension upon written instruction from the Company and its Subsidiaries. All income earned from the investment will be credited to the Company and its Subsidiaries account less any necessary expenses incurred including taxes, commissions, and discounts.

Interest rates of time deposits were as follows:

	2007 (%)	2006 (%)
United States Dollar	2.25% - 4.75%	2.25% - 3.75%
Rupiah	7.00% - 8.75%	9.25% - 12.75%

(Figures in Rupiah expressed in thousands, unless otherwise stated)

5. RESTRICTED CASH IN BANK

The account represents a current account placed in Hongkong Shanghai Banking Corporation (HSBC) which used as escrow account in respect with HSBC as Trustee pursuant to Gas Sales Purchase Agreement (GSA) dated July 7, 2005 (see Note 32).

Balance of the account as of December 31, 2007 represents a fund available for payment of Gas Transportation Fees (GTF) to PT Pertamina (Persero) that has not yet been transferred for the gas delivered for the period from August 2005 to November 2006, and includes interest income, was credited by bank for the period December 2005 until December 31, 2007.

6. SHORT-TERM INVESTMENT

On October 22, 2007, ECL, a Subsidiary placed a time deposit in Riseley Management Limited (RML) amounting to USD 75 million. Based on the placement agreement with RML, ECL earns interest at the rate of 7% above LIBOR and may terminate the deposit at any time during the period of the agreement. The agreement will expire on 18 (eighteen) months after placement date, or otherwise may be extended, subject to written instruction by the Subsidiary.

7. TRADE RECEIVABLES

This account consists of:

a. *By Debtor - Third Parties*

	2007	2006 (As restated - see Note 3)
Local Debtors		
PT Pertamina (Persero)	86,211,954	61,195,198
PT Perusahaan Listrik Negara (Persero)	26,282,300	6,183,429
PT Petrokimia Gresik (Persero)	7,058,227	13,023,539
PT Riau Andalan Pulp & Paper	3,182,842	-
Foreign Debtors		
Petro Diamond Co., Ltd.	39,165,662	51,548,688
Itochu Petroleum Co., Pte., Ltd.	30,335,684	-
Mitsubishi Corporation (MC)	-	158,590,340
Total	192,236,669	290,541,194

b. *By Age Category*

	2007	2006 (As restated - see Note 3)
Up to 30 days	87,964,799	224,018,313
31 - 60 days	98,613,792	31,913,525
Over 60 days	5,658,078	34,609,356
Total	192,236,669	290,541,194

(Figures in Rupiah expressed in thousands, unless otherwise stated)

7. TRADE RECEIVABLES *(Continued)*

All trade receivables are in US Dollar. The Company and its Subsidiaries did not provide any allowance for doubtful accounts as the management believes that the trade receivables are fully collectible.

Receivables of Subsidiaries as of December 31, 2007 and 2006 were pledged as collateral for the long-term loans (see Note 17).

8. OTHER RECEIVABLES

This account consists of:

	2007	2006 (As restated - see Note 3)
Reimbursable value added tax	190,346,262	166,132,583
Receivable from delivered gas	79,434,878	15,006,329
Receivable from vendors	96,719,486	43,787,414
Receivable from employees	23,295,085	23,031,802
Overhead receivables from PSC participant	3,307,167	3,992,114
Pacework International Ltd.	-	61,000,889
Others	154,580,422	83,140,879
Total	547,683,300	396,092,010

Reimbursable value added tax represents value added tax that has been paid by Subsidiaries and is reimbursable from BPMIGAS or Pertamina in accordance with the terms of PSC and TAC agreements.

Paceworks International Ltd. (PI) is a company that assists MBF in general financial strategy and planning activity for obtaining capital expenditure funds (fund raising). Receivable from PI represents a portion of funds originating from a loan by Merrill Lynch, which was temporarily transferred to PI in line with its capacity as financial advisor in accordance with the agreement between PI and MBF (see Note 32c). In 2007, this receivable has been transferred to LBI based on the Restructuring Agreement and Acknowledgement of Indebtedness dated July 18, 2007.

Receivable from delivered gas in 2007 and 2006 represents receivables arising from gas delivered through PGN Offtake Porong for the period from December 2006 to December 2007 (see Note 33). The Company and its Subsidiaries did not provide any allowance for doubtful accounts as the management believes that receivables are fully collectible.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

9. INVENTORIES

This account consists of capital and non-capital inventories as follows:

	2007	2006 (As restated - see Note 3)
Spare-parts	326,357,412	508,392,536
Fuel	45,421,025	9,525,960
Chemicals and others	6,129,899	1,951,696
Total	377,908,336	519,870,192

Inventories were insured in an insurance package with Oil and Gas Properties (see Note 13).

Based on the evaluation of the inventory condition at year-end, management believes that no provision for obsolete and slow-moving inventories was required.

10. PREPAID EXPENSES AND ADVANCES

This account consists of:

	2007	2006 (As restated - see Note 3)
Prepaid expenses		
Rental	4,455,623	8,183,720
Insurance	1,918,772	1,801,526
Service charge	312,679	306,110
Advances		
Project	11,965,597	14,109,009
Others	39,336,805	61,838,848
Total	57,989,476	86,239,213

11. DUE FROM/TO RELATED PARTIES

a. *Due from Related Parties*

	2007	2006 (As restated - see Note 3)
Lapindo Brantas Inc. (LBI)	620,722,894	448,063,161
PT Energi Timur Jauh (ETJ)	569,408,371	498,585,705
Others	176,983	23,962
Total	1,190,308,248	946,672,828

(Figures in Rupiah expressed in thousands, unless otherwise stated)

11. DUE FROM/TO RELATED PARTIES *(Continued)*

Due from LBI mainly represents a portion of funds originating from a loan by Merrill Lynch that was received by LBI. MLC guaranteed the receivable from LBI as the new majority owner of LBI (see Note 17).

Due from ETJ mainly represents advances made based on the agreement dated August 1, 1998 (see Note 32b). Out of the funds advanced to ETJ, an amount of USD 28 million was paid by KPSA to ETJ for the settlement of the loan obtained by Ladinda from PT Bank Internasional Indonesia Tbk. The loan was made available to finance the development in Brantas PSC by LBI, one of the subsidiaries and is guaranteed by LBI's working interest in the Brantas Block.

b. *Due to Related Parties*

	2007	2006 (As restated - see Note 3)
Asian Worldwide Group Ltd. (AWG)	43,271,126	41,438,110
Global Overseas Enterprise Ltd. (GOE)	17,425,958	16,687,774
PT Mitra Andalan Mandiri	485,319	445,884
Kalila Energy Ltd.	-	157,658,843
Pan Asia Enterprise Ltd .	-	4,451,275
Others	180,989	340,608
Total	61,363,392	221,022,494

Due to AWG and GOE represent payables from taking over the working interest in Bentu PSC and Korinci Baru PSC from Petroz Korinci Baru Ldc. and Petroz Bentu Ldc. on August 7, 2005. Due to AWG and GOE represent payables arising before acquisition of THP.

12. RESTRICTED TIME DEPOSITS

This account consists of:

	2007	2006 (As restated - see Note 3)
Societe Generale Hongkong	377,606,247	-
PT Bank Mega Tbk	76,293,900	-
Credit Suisse, Singapore	50,992,607	82,645,531
Bank of New York, Singapore	43,346,782	44,201,091
Total	548,239,536	126,846,622

Time deposits placed with Societe Generale Hongkong represent placement of time deposits in respect to the Share Subscription Agreement dated March 6, 2007, whereby the Company, EMP Inc., Mitsubishi Corporation and Japan Petroleum Exploration Co., Ltd. agreed that EMP Inc. shall keep the proceeds from BP under the term of Amendement Agreement in a separate account to be dedicated to the payment of the Subsidiary's dividend tax only (see Note 18).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

12. RESTRICTED TIME DEPOSITS *(Continued)*

Time deposits placed with PT Bank Mega Tbk represent placement of time deposits that are used as a bank guarantee for PT Indelberg Indonesia Perkasa in respect to the Operations Cooperation Agreement with PT Pertamina EP (see Note 37a).

Time deposits in Credit Suisse (CS) represent placement of time deposits pursuant to:

a. The Cash and Account Management Agreement (CAMA) between EMP Inc. and CS, which will serve as collateral for the loan obtained from CS on May 19, 2005 and will mature on a monthly basis and earn interest at a rate of LIBOR less 0.25%, or zero, whichever is higher. This agreement was terminated on May 16, 2007 (see Note 17).

b. The Credit Agreement between Semco and CS, which will serve as collateral for the loan obtained from CS on October 27, 2005 (see Note 17) and earn interest at a rate of LIBOR.

Time deposits in Bank of New York (BONY) represent placement of time deposits pursuant to the CAMA between MBF, LBI, KPSA and ITA with BONY, to serve as collateral for credit facility received from Merrill Lynch on July 27, 2005 (see Note 17). Time deposits mature on a quarterly basis and earn interest at a rate of LIBOR.

All restricted time deposits are in US Dollar.

13. OIL AND GAS PROPERTIES

This account was as follows:

	2007	2006 (As restated - see Note 3)
Wells and equipment and their facilities	5,648,653,683	7,458,208,111
Wells and equipment and their facilities in progress	1,041,379,735	486,574,177
Total	6,690,033,418	7,944,782,288
Accumulated depreciation, depletion and amortization	(2,150,166,719)	(2,723,953,524)
Net Book Value	4,539,866,699	5,220,828,764

The detail of movement oil and gas properties based on area of interest:

	2007				
Area of Interest	January 1,	Addition	Deduction	Translation adjustment	December 31,
Malacca PSC	785,147,259	216,453,738	99,220,912	38,322,786	940,702,871
Kangean PSC	3,335,125,920	564,523,255	1,757,516,877	110,978,556	2,253,110,854
Gelam TAC	234,042,628	24,309,018	24,128,403	10,358,417	244,581,660
Bentu PSC	260,592,811	14,208,587	-	11,962,654	286,764,052
Korinci Baru PSC	200,323,584	22,528,153	30,227,900	8,625,416	201,249,253
Gebang PSC	13,362,495	8,559,532	8,338,713	597,856	14,181,170
Semberah TAC	278,290,628	124,227,453	30,300,655	15,187,899	387,405,325
Total	5,106,885,325	974,809,736	1,949,733,460	196,033,584	4,327,995,185
Cost Pool effect	113,943,439	-	(97,928,075)	-	211,871,514
Net Book Value	5,220,828,764				4,539,866,699

(Figures in Rupiah expressed in thousands, unless otherwise stated)

13. OIL AND GAS PROPERTIES *(Continued)*

	2006 (As restated - see Note 3)				
Area of Interest	January 1,	Addition	Deduction	Translation adjustment	December 31,
Malacca PSC	566,137,726	396,964,819	126,771,522	(51,183,764)	785,147,259
Kangean PSC	2,187,951,144	1,441,672,901	93,016,845	(201,481,280)	3,335,125,920
Gelam TAC	228,256,001	56,904,912	31,043,185	(20,075,100)	234,042,628
Bentu PSC	277,577,407	5,982,007	-	(22,966,603)	260,592,811
Korinci Baru PSC	164,921,478	49,773,900	-	(14,371,794)	200,323,584
Gebang PSC	34,855,007	3,637,257	22,554,954	(2,574,815)	13,362,495
Semberah TAC	162,852,125	156,550,571	25,635,758	(15,476,310)	278,290,628
Total	3,622,550,888	2,111,486,367	299,022,264	328,129,666	5,106,885,325
Cost Pool effect	51,710,528	-	(62,232,911)	-	113,943,439
Net Book Value	3,674,261,416				5,220,828,764

Depreciation, depletion and amortization for the years ended December 31, 2007 and 2006 amounting to Rp 127,053,232 and Rp 236,789,369, respectively, were charged to cost of goods sold (see Note 24).

Deduction in 2007 of Rp 1,724,752,165 represents the effect of proportionate consolidation of 50% EMP Inc.'s oil and gas properties.

The additions mainly consisted of costs of development and exploration and capitalization of borrowing cost. Total capitalized borrowing cost in December 31, 2007 and 2006 amounted to USD 15.47 million and USD 37.76 million, respectively (see Note 17).

The oil and gas properties, as well as inventories were insured with several third party insurance companies, against risk of loss and damage. As of December 31, 2007 and 2006, total sums insured were USD 455,211,032 and USD 420,961,947, respectively. Total sums insured after December 31, 2007 as follows:

	Next 3 Months (USD)	Next 4 - 6 Months (USD)	Next 7 - 9 Months (USD)	Next 10 - 12 Month (USD)	Next Over 12 Months (USD)
Inventory and Oil and Gas Properties	455,211,032	455,211,032	455,211,032	-	-

14. TRADE PAYABLES

This account consists of:

a. <u>By Creditors</u>

	2007	2006 (As restated - see Note 3)
PT Jasa Karya Utama	59,994,718	66,706,631
PT Jaya Wijaya Raya	11,508,020	1,918,097
PT Intimas Prima Pratama	9,157,698	-
PT Radiant Utama Interinsco	8,494,917	3,766,448
PT Duta Energi Semesta	8,337,049	33,104,400
PT Alton International Indonesia	7,050,634	7,077,583

(Figures in Rupiah expressed in thousands, unless otherwise stated)

14. TRADE PAYABLES *(Continued)*

	2007	2006 (As restated - see Note 3)
PT Saripari Geosains	6,942,646	-
Credit Suisse, Singapura	6,890,700	-
PT Dwi Prima Sembada	6,282,204	20,356,875
PT Agung Patria Wahana	5,625,681	-
PT Pertamina (Persero)	5,188,951	1,570,000
BJ Service Indonesia	3,953,305	-
PT Sarana Adikarya Utama	3,668,498	6,134,718
PT Lubrisindo Jaya Gemilang	3,351,859	-
PT Adiguna Cakra Semesta	3,160,742	-
PT Inti Brunel Teknindo	2,915,541	7,976,488
Schlumberger Geophisic Nusantara	1,847,139	4,462,472
PT Baker Atlas Indonesia	1,798,667	6,557,110
PT Kanaka Dwi Mitra Manunggal	1,634,304	-
PT Perdana Karya	1,078,079	7,552,979
PT Halliburton Logging Service Indonesia	719,612	29,090,457
PT Promatcon Tepat Guna	370,762	8,181,290
PT Medici Citra Nusa	282,035	7,254,535
PT Wira Insani	110,238	4,096,686
PT Supraco Indonesia	50,557	6,143,609
PT Indoturbine	15,757	45,432,030
PT Batam Dwi Karya	-	19,885,609
PT Baruna Raya Logistics	-	10,758,335
Ficorinvest	-	9,269,491
Halliburton Indonesia	-	8,674,197
Dowell Anadril Schlumberger	-	8,557,612
PT Unichem Candi Industri	-	8,162,350
PT Apexindo Pratama Duta Tbk	-	6,106,810
PT Nana Yamano Technik	-	5,706,741
PT Pilar Dwi Perkasa	-	5,451,345
PT Pacific Mitra Bersama	-	4,365,680
PT Kutilang Paksi Mas	-	4,809,599
Travia Air	-	3,712,637
Others (below Rp 3 billion each)	146,611,295	97,389,403
Total	307,041,608	460,232,217

b. By Age Category

	2007	2006 (As restated - see Note 3)
Up to 30 days	63,836,123	137,105,582
31 - 60 days	37,433,388	73,172,075
Over 60 days	205,772,097	249,954,560
Total	307,041,608	460,232,217

(Figures in Rupiah expressed in thousands, unless otherwise stated)

14. TRADE PAYABLES *(Continued)*

c. *By Currency*

	2007	2006 (As restated - see Note 3)
US Dollar	274,618,618	433,344,075
Rupiah	32,422,990	26,888,142
Total	307,041,608	460,232,217

Credit terms for the purchase of goods and services, both from local and foreign suppliers, ranged from 30 to 90 days.

15. OTHER PAYABLES

This account consists of:

	2007	2006 (As restated - see Note 3)
Overlifting	71,775,863	67,465,095
Take or pay	-	2,122,669
Others	39,899,271	20,323,021
Total	111,675,134	89,910,785

Overlifting represents liability to BPMIGAS or Pertamina on differences between lifting of oil and gas and the Subsidiaries' entitlement.

Take or pay liabilities represent payments received by EEKL and KEIL from PT Perusahaan Gas Negara (Persero) Tbk (PGN) in 1999 and 2000 arising from underlifting of natural gas volumes based on the provision of the gas sales agreement between EEKL, KEIL and PGN. Since 2005 such liabilities were paid through deduction from the invoice amount of EEKL and KEIL to PGN.

16. ACCRUED EXPENSES

This account consists of:

	2007	2006 (As restated - see Note 3)
Production	240,354,858	119,485,373
Drilling	183,553,377	145,492,958
Support	78,829,878	41,481,641

(Figures in Rupiah expressed in thousands, unless otherwise stated)

16. ACCRUED EXPENSES *(Continued)*

	2007	2006 (As restated - see Note 3)
Interest	55,730,677	44,558,877
Project	565,140	1,144,008
Geological and geophysical	144,323	12,324,315
Others	8,584,293	21,676,943
Total	567,762,546	386,164,115

Accrued drilling and production expenses mainly represent expenditures for drilling services in the Malacca PSC Block and development of oil and gas facilities and offshore drilling in the Kangean PSC Block.

Accrued production in 2007 includes Gas Transportation Fee (GTF) payable to Pertamina for the period August 2005 to December 2007 amounting to USD 5,158,434. As of this report date, Pertamina has not signed the GTF contract with EEKL and KEIL. Therefore, the GTF accrual calculated based on the estimation may differ from the payable amount, when the GTF agreement is finally agreed. The fund for GTF payments that has already been paid by the gas buyer, regarding the gas sales agreement, is deposited in a specific HSBC account at Singapore branch. (see Note 5).

17. LONG-TERM LOANS

This account consists of:

	2007	2006 (As restated - see Note 3)
Credit Suisse (USD 152.75 million in 2007 and USD 427.75 million in 2006)	1,438,752,250	3,858,305,000
Merrill Lynch (USD 120 million)	1,130,280,000	1,082,400,000
PMA Capital Management Ltd. (USD 75 million)	706,425,000	-
Japan Petroleum Exploration Co., Ltd. (USD 32 million)	302,036,637	-
Mitsubishi Corporation (USD 32 million)	302,036,637	-
PT Bank Niaga Tbk	339,343	1,211,042
PT Bank Permata Tbk	439,868	421,235
PT Bank Internasional Indonesia Tbk	-	162,106
Total	3,880,309,735	4,942,499,383
Less Current Maturities	(2,569,371,593)	(766,294)
Long-term Loans - Net	1,310,938,142	4,941,733,089

17. LONG-TERM LOANS *(Continued)*

Credit Suisse (CS)

The loan from CS as of December 31, 2007 represents the loan obtained by Semco. While on December 31, 2006, the loans from CS were those obtained by EMP Inc. and Semco amounting to USD 275,000,000 and USD 152,750,000, respectively.

On May 19, 2005, EMP Inc. entered into another credit facility agreement with CS, whereby CS agreed to provide a loan of a maximum USD 275 million, of which USD 78.5 million was used to settle the outstanding balance of the existing CS facility, and the remaining USD 196.5 million was used to finance the development of Kangean PSC Block. The loan bears interest at 7% above LIBOR per annum and is secured by the entire EMP Inc. shares, EEKL shares, KEIL shares (formerly EKL), receivables, and sales contract of EMP Inc. and subsidiaries' oil and gas. The loan is due in five (5) years with a three (3) year grace period.

On May 16, 2007, EMP Inc. fully paid the loan amounting to USD 275 million.

On October 27, 2005, Semco obtained a credit facility from CS amounting to USD 52.75 million. The loan bears interest at 5% above LIBOR for the first six (6) months, 7% above LIBOR for the following three (3) months and 9% above LIBOR up to maturity.

The loan period is three (3) years with two installments. The first installment is due on the ninth month, while the second installment on the thirty-sixth month, both amounting to USD 26,375,000. The first installment was paid on August 16, 2006.

Collateral used for this credit facility are THP and Operating Companies' shares, receivable of IMG and Semco and Work contract of Operating Companies.

On August 16, 2006, Semco obtained an additional loan from CS amounting to USD 126,375,000, which may only be used for the following purposes:

(1) Paying fees and expenses due under the credit facility;
(2) Making payments of the outstanding loan and unpaid interest obtained from loan Tranche A;
(3) Deposit into the debt service account;
(4) Funding for capital expenditures of THP and Operating Companies.

The loan bears interest at 5% above LIBOR for the first twelve (12) months and 9% above LIBOR up to the maturity date. The total loan will be due on August 15, 2008.

Collateral used for this credit facility is as follows:

- First ranking pledge of 100% of the issued share capital of the following: THP, Korinci Baru, Bentu, IMG, Semco and Costa (THP and Operating Companies);
- Corporate guarantees of THP and Operating Companies;
- Work contracts of Operating Companies;
- Irrevocable payment instructions in relation to payments under all existing and future contracts from Operating Companies;
- Assignment of all proceeds of insurance policies and reinsurance policies maintained by or on behalf of each of THP and Operating Companies where the beneficiary is THP or Operating Companies; and
- Security over bank accounts, assignments of dividends and irrevocable payment instructions over dividends from the Subsdiaries.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

17. LONG-TERM LOANS *(Continued)*

Merrill Lynch, Singapore (ML)

On July 27, 2005, MBF obtained a credit facility, Equity Collateralized Leveraged Securities (ECOLES) that consists of Series A Notes & Series B Notes from Merrill Lynch, Singapore (as placing agent) amounting to USD 120 million.

Series A Notes of USD 25 million and Series B Notes USD 95 million bear interest at 8.5% above LIBOR and at 8% above LIBOR, respectively. Notes will mature on July 2, 2008 with three (3) monthly interest payments starting October 27, 2005.

Collateral used for this credit facility is as follows:

- Corporate guarantees from ITA, LBI and KPSA.
- Stocks, directly or indirectly owned by the Company.
- Collection Accounts, Debt Service Account, and Reserve Account.
- Receivables of ITA, LBI and KPSA.
- Inter-company loan between MBF with ITA, LBI and KPSA.
- Proceeds of claim of insurance in reference to operational obstacles in Malacca Straits PSC Block and Brantas PSC Block.

MBF entered into Stock Appreciation Rights (SAR) agreement that includes a Call Option with the holders of Series B Notes. The call option will be paid in cash by MBF for the difference between the Settlement Price and the Company's basic share price (based on the weighted average price of shares during the 20 days prior to the issuance date of the notes).

Subsequently, MBF transferred the loan to ITA, LBI and KPSA based on an agreement signed by each party on July 27, 2005. The loan received by each Subsidiary was as follows:

Type of Loan	ITA (USD)	LBI (USD)	KPSA (USD)	Total (USD)
Tranche A	5,632,045	12,624,490	6,743,466	25,000,001
Tranche B	21,401,769	47,973,060	25,625,170	94,999,999
Total	27,033,814	60,597,550	32,368,636	120,000,000

Specific terms and conditions applying to the loan obtained by ITA, LBI and KPSA are similar to the terms of loan from MBF and Merril Lynch.

PMA Capital Management Ltd. (PMA)

At October 18, 2007, ECL has entered into a term loan facility from PMA as a facility agent with maximum of USD 108 million. This loan will be used for the subsidiary's general working capital purpose. The loan bears interest at 7% above LIBOR per annum and is secured by the entire EMP Inc. shares and ECL shares owned by the Company. The loan is due in 18 months from date of first drawn of the facility.

Mitsubishi Corporation (MC) and Japan Petroleum Exploration Co., Ltd. (Japex)

In accordance with the term sheet agreed under the Share Subscription Agreement (SSA) dated March 6, 2007, MC and Japex agreed to provide loan facilities to the Company, EMP Inc., EEKL and KEIL for capital expenditures. The following loan facilities were entered into under the SSA:

17. LONG-TERM LOANS *(Continued)*

a. Loan facilities for the Company

MC and Japex agreed to provide a loan facility to the Company for 50% of KEIL and EEKL's expended capital expenditures for the period from July 1, 2006 to May 16, 2007, capped at a combined total of USD 21.55 million as stipulated in the Facility Agreements dated May 16, 2007. This loan will be due on June 30, 2017, bears interest at LIBOR plus 3.75% for time deposits for six (6) months, has a five (5) year repayment grace period and will be repaid by semi-annual installments thereafter.

b. Loan facilities for EEKL and KEIL

MC and Japex agreed to provide a loan facility to EEKL and KEIL in respect of subsidiary's funding obligations for capital expenditures, capped at a combined total of USD 215 million as stipulated in the Carry Agreement dated May 16, 2007. These loans will become due on June 30, 2017, bear interest at LIBOR plus 3.75% for time deposits for six (6) months, have a five (5) year repayment grace period and will be repaid by semi-annual installments thereafter.

c. Loan facility for EMP Inc.

In addition to the above, MC, Japex and the Company agreed to provide a loan facility to EMP Inc. to finance operating expenditures capped at USD 30 million as stipulated in the Loan Agreement dated May 25, 2007. This loan will be due on May 16, 2009, bears interest at LIBOR plus 4.25% for time deposits for 6 months and will be repaid by semi-annual installments starting December 2007.

Subsequently, in accordance with a Loan Agreement dated May 25, 2007, EMP Inc. agreed to provide a loan facility to EEKL and KEIL to finance operating expenditure, capped at USD 30 million (consisting of USD 18 million for KEIL and USD 12 million for EEKL).

This loan will be due on May 16, 2009, bears interest at LIBOR plus 4.25% for time deposits for six months and will be repaid by semi-annual installments starting December 2007.

PT Bank Permata Tbk

On February 8, 2005, IMG obtained a credit facility from PT Bank Permata Tbk for the purchase of Subsidiary vehicles. The loan bears interest at 8.8% per annum over its 5-year period.

PT Bank Niaga Tbk

In 2005, the Company obtained a credit facility from PT Bank Niaga Tbk with a maximum amount of Rp 2.02 billion to be used for the purchase of Company vehicles. The loan bears interest at 6.93% - 9.62% per annum and is collateralized by the vehicles. The loan will be paid in 36 monthly installments.

PT Bank Internasional Indonesia Tbk (BII)

On February, 2006, the Company obtained a loan facility from BII for the purchase of Company vehicles. This loan bears interest at 10.5% per annum over its 36-month period. This loan has been fully paid.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

18. SUBSIDIARY'S DIVIDEND TAX LIABILITY

This account represents the EEKL and KEIL dividend tax and penalty liability at the time of acquisition of both Subsidiaries. Based on the Sales and Purchase Agreement, EMP Inc. has a right for reimbursement from BP for the payment of the tax payable if this is paid by EMP Inc. EMP Inc. recognized this right for reimbursement as an identifiable asset and thus accordingly include it in the value of the acquired net assets. In 2007, EMP Inc. has received the reimbursement amounting to USD 39,351,080 based on BP's calculation and adjusted the balance of dividend tax liability in accordance with such calculation accordingly.

19. CAPITAL STOCK

Composition of the Company's stockholders and their respective shareholdings were as follows:

	2007		
Name of Stockholder	Number of Shares	Percentage of Ownership	Total Paid-up Capital
PT Kondur Indonesia	3,768,183,184	26.17%	376,818,318
PT Brantas Indonesia	3,505,609,718	24.35%	350,560,972
Julianto Benhayudi	314,488,667	2.18%	31,448,867
Rennier Abdul Rachman Latief	149,992,286	1.05%	14,999,228
Public (below 5% each)	6,662,539,517	46.25%	666,253,952
Total	14,400,813,372	100.00%	1,440,081,337

	2006		
Name of Stockholder	Number of Shares	Percentage of Ownership	Total Paid-up Capital
PT Kondur Indonesia	4,741,855,486	32.93%	474,185,549
PT Brantas Indonesia	4,088,864,035	28.39%	408,886,403
Rennier Abdul Rachman Latief	446,912,286	3.11%	44,691,229
Julianto Benhayudi	314,488,667	2.18%	31,448,867
Public (below 5% each)	4,808,692,898	33.39%	480,869,289
Total	14,400,813,372	100.00%	1,440,081,337

Based on EGMS dated December 22, 2005, the shareholders of the Company approved the Rights Issue I to the Company's shareholders in connection with the Exercise Rights of 4,909,368,195 shares with a nominal value of Rp 100 (full amount) per share, which were offered at Rp 770 (full amount) per share totaling Rp 3,780,213,510,150 (full amount). The Company completed all the requirements for the Rights Issue I on January 25, 2006.

Based on the Meeting Statement deed No. 45 dated January 25, 2006 of Robert Purba, S.H., notary in Jakarta, the shareholders agreed to change the Articles of Association due to the increase in the authorized capital stock of the Company to Rp 5,500,000,000,000 (full amount).

(Figures in Rupiah expressed in thousands, unless otherwise stated)

20. ADDITIONAL PAID-IN CAPITAL

This account consists of:

	2007	2006
Sale of the Company shares through public offering		
Proceeds from issuance of 4,909,368,195 shares in 2006 and 2,847,433,500 in 2005	4,235,802,870	4,235,802,870
Share issuance cost	(105,373,472)	(105,373,472)
The balance is recognized as paid-up capital	(775,680,170)	(775,680,170)
Net	3,354,749,228	3,354,749,228

21. DIFFERENCE IN VALUE FROM RESTRUCTURING TRANSACTIONS OF ENTITIES UNDER COMMON CONTROL

	2007		
	Net Book Value	Acquisition Cost	Difference in Value from Restructuring Transactions of Entities Under Common Control
RHI Corporation	92,458,079	200,000,000	(107,541,921)
PT Imbang Tata Alam	(43,635,241)	38,400,000	(82,035,241)
Energi Mega Pratama Inc.	238,407,446	239,420,000	(1,012,554)
PT Tunas Harapan Perkasa	165,058,249	2,609,113,573	(2,444,055,324)
Total	452,288,533	3,086,933,573	(2,634,645,040)

	2006 (As restated - see Note 3)		
	Net Book Value	Acquisition Cost	Difference in Value from Restructuring Transactions of Entities Under Common Control
RHI Corporation	92,458,079	200,000,000	(107,541,921)
PT Imbang Tata Alam	(43,635,241)	38,400,000	(82,035,241)
Energi Mega Pratama Inc.	238,407,446	239,420,000	(1,012,554)
PT Tunas Harapan Perkasa	165,058,249	2,599,869,500	(2,434,811,251)
Total	452,288,533	3,077,689,500	(2,625,400,967)

(Figures in Rupiah expressed in thousands, unless otherwise stated)

22. DIFFERENCE DUE TO CHANGE OF EQUITY IN SUBSIDIARY

In 2007, EMP Inc. issued 26,000,010 new shares to Mitsubishi Corporation (MC) and Japan Petroleum Exploration Co., Ltd. (Japex) resulting in a decrease in the Company's interest in EMP Inc. from 100% to 50%. The difference between the Company's interest in EMP Inc. after the new share issuance and the carrying value of the investment before the new share issuance was recorded under this account and is presented as part of the Company's equity. Due to that dilution, since January 1, 2007, the Company has proportionately consolidated EMP Inc.

23. NET SALES

This account consists of:

	2007	2006 (As restated - see Note 3)
Itochu Petroleum Co., Pte., Ltd.	621,667,715	-
PT Pertamina (Persero)	288,286,932	123,254,175
PT Perusahaan Gas Negara (Persero) Tbk	83,125,513	64,739,657
PT Petrokimia Gresik (Persero)	53,629,047	267,694,792
PT Perusahaan Listrik Negara (Persero)	50,050,834	51,970,565
Petro Diamond Co., Ltd.	37,694,399	99,487,960
PT Riau Andalan Pulp & Paper	3,088,226	-
Mitsubishi Corporation (MC)	-	852,313,140
Total	1,137,542,666	1,459,460,289

24. COST OF GOODS SOLD

This account consists of:

	2007	2006 (As restated - see Note 3)
Production	387,027,140	324,753,565
Production support	203,190,082	321,312,547
Depreciation, depletion and amortization	127,053,232	236,789,369
Workover	77,939,333	47,694,909
Total	795,209,787	930,550,390

(Figures in Rupiah expressed in thousands, unless otherwise stated)

25. OPERATING EXPENSES

This account consists of:

	2007	2006 (As restated - see Note 3)
Salaries, allowance and employee benefits	96,172,079	91,460,025
Professional fees	71,215,797	86,642,347
Rental	11,434,368	15,077,587
Representation and donation	10,699,315	8,879,427
Business traveling	6,006,642	3,634,723
Telephone, facsimile and internet	3,209,940	2,867,444
Depreciation	2,464,455	2,344,706
Insurance	2,187,132	1,377,897
Office expenses	1,647,512	2,341,352
Others (below Rp 500 million each)	14,300,090	7,869,163
Total	219,337,330	222,494,671

26. OTHER INCOME (CHARGES)

a. *Financing Charges*

This account consists of:

	2007	2006 (As restated - see Note 3)
Interest and financing charges	301,725,122	241,907,293
Others	16,761,139	10,380,360
Total	318,486,261	252,287,653

b. *Income from Insurance Claim*

On January 27, 2006, KEIL and EEKL, Subsidiaries, received the insurance claim from PT Tugu Pratama Indonesia amounting to Rp 56,438,666 (USD 6,158,737) in respect of pipeline damage in the Pagerungan field in the North Bali Sea in 2002.

c. *Other income - Net*

This account mainly represents allocation cost to Subsidiaries that were not eliminated due to the Subsidiaries' proportionate consolidation.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

27. TAXATION

a. *Taxes Payable*

This account consists of:

	2007	2006 (As restated - see Note 3)
Corporate income and dividend tax	16,116,163	17,272,365
Income tax		
Article 4 (2)	239,040	131,949
Article 21	13,471,959	17,760,937
Article 23	17,137,060	25,670,478
Article 26	31,787,658	15,977,356
Value added tax	44,951,434	17,297,126
Others	8,895,511	-
Total	132,598,825	94,110,211

EEKL and KEIL are registered as UK and USA tax residents, respectively. No UK and USA tax liability was recognized as of December 31, 2007 based on the Subsidiaries' calculation.

RHI has no taxable income; hence the management believes that RHI has no income tax liability as of December 31, 2007.

The estimated income tax of KEIL and RHI assumes that the US IRS will accept such calculation.

MBF and EMP Finance are registered in the Netherlands. The MBF and EMP Finance's estimated income tax liability is USD nil as of December 31, 2007 and 2006, respectively.

On November 28, 2006, the Directorate General of Taxation issued SKPKB for corporate income tax and income tax article 26 (4) for Costa for the years 1997, 1998, 2000, 2001 and 2002 totaling USD 8,860,992.

On February 27, 2007, Costa submitted their Objection Letter to the Tax Service Office and filed the lawsuit to the State Administration Court opposing such SKPKB. As of this report date, the Tax Service Office has rejected the Objection Letter. However, the completion of the lawsuit is under process.

In October and November 2007, Bentu has received tax assessment letters for interest penalty on late payment of value added tax and article 23 witholding tax assessment letters amounting to Rp 4,153,062 and Rp 3,054, respectively. While in June 2007, the Directorate General of Taxation issued an additional tax assessment letter of value added tax of IMG amounting to Rp 1,384,078. The Subsidiaries provided the provisions for those tax assessment letters in the current year.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

27. TAXATION *(Continued)*

b. *Tax Benefit (Expense)*

Details of tax benefit (expense) of the Company and its Subsidiaries were as follows:

	2007	2006 (As restated - see Note 3)
Current tax		
The Company	-	-
Subsidiaries	(44,483,763)	(39,050,544)
Deferred tax		
The Company	16,037,292	66,515,790
Subsidiaries	195,876,726	(7,106,122)
Sub-total	211,914,018	59,409,668
Total	167,430,255	20,359,124

c. *Current Tax - The Company*

Reconciliation between income (loss) before tax as shown in the consolidated statements of income and estimated taxable income (fiscal losses) of the Company for the years ended December 31, 2007 and 2006, calculated with the effective tax rate, is as follows:

	2007	2006 (As restated - see Note 3)
Loss before tax per consolidated statement of income	(15,670,002)	(283,755,508)
Deduct: Income (loss) before tax - the Subsidiaries	55,756,904	(59,683,791)
Loss before tax - the Company	(71,426,906)	(224,071,717)
Timing difference:		
Employee benefits	-	1,433,281
Permanent differences:		
Representation and donation	9,176,505	6,971,418
Interest income subject to final tax	(12,123,292)	(5,514,092)
Others	18,814,200	895,089
Total	15,867,413	3,785,696
Estimated fiscal loss - the Company	(55,559,493)	(220,286,021)
Estimated cumulative fiscal losses beginning of year	(276,592,400)	(56,306,379)
Dividend received	70,774,229	-
Cumulative tax loss carried forward - the Company	(261,377,664)	(276,592,400)

(Figures in Rupiah expressed in thousands, unless otherwise stated)

27. TAXATION *(Continued)*

No provision for current income tax was made for the years ended December 31, 2007 and 2006 because the Company is still in a fiscal loss position.

d. *Deferred Tax*

Details of the Company and its Subsidiaries' deferred tax assets and liabilities were as follows:

	2007				
	January 1,	Deduction	Translation Adjustments	Credited (Charged) to Income Statements and Equity	December 31,
Deferred tax assets					
Employee benefit	7,142,903	(1,507,053)	238,725	563,464	6,438,039
Fiscal loss	83,038,648	-	-	(21,186,630)	61,852,018
Depreciation, depletion and amortization	(605,646,340)	223,862,332	(26,203,840)	(204,704,182)	(612,692,030)
Non-capital inventory	(63,425,095)	28,799,109	(1,815,045)	3,532,251	(32,908,780)
Unrecovered charges	840,114,051	(279,984,744)	42,343,004	465,739,907	1,068,212,218
Total	261,224,167	(28,830,356)	14,562,844	243,944,810	490,901,465
Deferred tax liabilities					
Employee benefit	5,519,158	-	288,925	1,461,737	7,269,820
Depreciation, depletion and amortization	(317,910,982)	-	(15,802,315)	(56,776,092)	(390,489,389)
Non-capital inventory	(37,746,950)	-	(1,606,890)	2,051,303	(37,302,537)
Total	(350,138,774)	-	(17,120,280)	(53,263,052)	(420,522,106)
Deferred Tax Benefit credited to Income				211,914,018	
Deferred Tax Expense charged to Equity				21,232,260	

	2006 (As restated - see Note 3)			
	January 1,	Translation Adjustments	Credited (Charged) to Income Staements	December 31,
Deferred tax assets				
Employee benefit	3,818,187	(273,822)	3,598,547	7,142,912
Fiscal loss	16,943,175	-	66,095,473	83,038,648
Depreciation, depletion and amortization	(156,023,529)	20,239,726	(469,862,537)	(605,646,340)
Non-capital inventory	(1,280,780)	1,099,327	(63,243,641)	(63,425,094)
Unrecovered charges	298,529,029	(33,637,905)	575,222,919	840,114,043
Total	161,986,082	(12,572,674)	111,810,761	261,224,169
Deferred tax liabilities				
Employee benefit	2,581,527	(263,006)	3,200,637	5,519,158
Depreciation, depletion and amortization	(386,859,709)	31,285,741	37,662,986	(317,910,982)
Non-capital inventory	(29,841,660)	2,624,436	(10,529,723)	(37,746,947)
Unrecovered charges	88,747,816	(6,012,823)	(82,734,993)	-
Total	(325,372,026)	27,634,348	(52,401,093)	(350,138,771)
Deferred Tax Benefit			59,409,668	

(Figures in Rupiah expressed in thousands, unless otherwise stated)

28. BASIC EARNINGS (LOSS) PER SHARE

The computation of basic earnings per share is based on the following data:

	2007	2006 (As restated - see Note 3)
Earnings		
Net earnings (loss) used for calculation	115,637,762	(263,396,384)
Number of shares		
Weighted average number of shares for the calculation of basic earnings (loss) per share (in full amount)	14,400,813,372	14,077,118,776
Basic earnings per share (loss) (in full amount)	8.03	(18.71)

The Company did not calculate diluted earnings per share since the Company had no shares that had a potential dilutive effect for the years ended December 31, 2007 and 2006.

29. PENSION PLANS AND EMPLOYEE BENEFITS

Pension Plans

The Company's Subsidiaries (KEIL, KPSA and ITA) provide defined contribution pension plans covering all their permanent employees.

Pension plans for KPSA and ITA are managed by PT Tugu Mandiri, the contribution amounting to 9% of employee's salary, of which 6% is paid by the Company and 3% by the employee. While for KEIL the pension plans are managed by Manulife, the contribution amounting to 8% of employee's salary, of which 6% is paid by the Company and 2% by the employee.

Employee Benefits

The Company and its Subsidiaries provide post-employment benefits for all of its permanent employees based on Employment Working Agreement/Company Policy. No funding has been made by the Company and its Subsidiaries, except by KPSA and ITA, which funds are administrated and managed by the Board of Trustees Contribution Fund of the Strait Malacca Employees Foundation and Trust Fund Agreement with several banks.

Amounts recognized in respect of these employee benefits were as follows:

	2007	2006 (As restated - see Note 3)
Current-service cost	10,351,792	9,217,092
Interest cost	9,093,848	8,546,747
Expected return on plan assets	(6,795,564)	(3,881,266)
Net actuarial losses recognized	5,599,285	12,552,051
Past-service cost	304,346	(98,282)
Total	18,553,707	26,336,342

(Figures in Rupiah expressed in thousands, unless otherwise stated)

29. PENSION PLANS AND EMPLOYEE BENEFITS *(Continued)*

The amounts included in the consolidated balance sheets, arising from the Company and certain Subsidiaries obligations in respect of these employment benefits were as follows:

	2007	2006 (As restated - see Note 3)
Benefit obligation	105,296,122	92,996,652
Fair value of employee benefit plan assets	(54,610,322)	(52,093,325)
Funding status	50,685,800	40,903,327
Unrecognized actuarial loss	(14,913,256)	(8,485,464)
Unrecognized past-service liability	71,624	83,665
Employee benefits obligation	35,844,168	32,501,528

Amounts recognized in consolidated balance sheets in respect of these employment benefits were as follows:

	2007	2006 (As restated - see Note 3)
Balance at beginning of the year	32,501,528	18,870,191
Contribution for the year	(12,514,920)	(10,752,767)
Benefit paid	(2,696,147)	(1,952,238)
Amount charged to consolidated statement of income	18,553,707	26,336,342
Balance at end of the year	35,844,168	32,501,528

The employee benefits obligations for the Company, KPSA, ITA and KEIL were computed based on the actuarial reports that were prepared by PT Bumi Persada Aktuaria, an independent actuarial firm, in its reports for the years ended December 31, 2007 and 2006 dated dated October 29, 2007 and February 15, 2007, respectively. The computations used the following assumptions:

Discount rate	:	10% per annum
Future salary increases	:	10% per annum
Mortality rate	:	Commissioner Standard Ordinary (CSO) - 1980
Disability rate	:	10% of Commissioner Standard Ordinary (CSO) - 1980
Actuarial method	:	Projected Unit Credit
Resignation rate	:	Age 18-45 = 1% per annum and age > 46 = 0%
Normal retirement age	:	56 years (all employees are assumed to retire at normal retirement age)

(Figures in Rupiah expressed in thousands, unless otherwise stated)

29. PENSION PLANS AND EMPLOYEE BENEFITS *(Continued)*

The employee benefits obligation for Costa was computed based on the actuarial reports that were prepared by PT Dian Artha Tama, an independent actuarial firm, in its reports for the years ended December 31, 2007 and 2006 dated September 24, 2007 and January 22, 2007, respectively. The computations used the following assumptions:

Discount rate	:	10% per annum
Future salary increases	:	5% per annum
Mortality rate	:	Commissioner Standard Ordinary (CSO) - 1980
Disability rate	:	0.1% of Commissioner Standard Ordinary (CSO) - 1980
Actuarial method	:	Projected Unit Credit
Resignation rate	:	Age 18-45 = 1% per annum and age > 46 = 0%
Normal retirement age	:	56 years (all employees are assumed to retire at normal retirement age)

The employee benefit obligation for Semco was computed based on the actuarial reports that were prepared by PT Padma Radya Aktuaria, an independent actuarial firm, in its reports for the years ended December 31, 2007 and 2006 dated February 29, 2008 and January 22, 2007, respectively. The computations used the following assumptions:

Discount rate	:	10% per annum
Future salary increases	:	5% per annum
Mortality rate	:	100% TM 12
Normal retirement age	:	56 years old

Korinci Baru, Bentu, and IMG did not calculate estimated employee benefits since the management believed that the amount is not material.

30. NATURE OF RELATIONSHIP WITH RELATED PARTIES

Nature of relationship

a. PT Brantas Indonesia and PT Kondur Indonesia are the Company's stockholders.

b. PT Energi Timur Jauh, Asian Worldwide Group Ltd., Global Overseas Enterprise and PT Mitra Andalan Mandiri are companies whose indirect stockholders are the same as the indirect stockholders of the Company.

31. SEGMENT INFORMATION

Primary Segment

For management purposes, the Company and its Subsidiaries are currently organized into two (2) business divisions consisting of trading and mining. These divisions are the basis on which the Company and its Subsidiaries report their primary segment information.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

31. SEGMENT INFORMATION *(Continued)*

Business segment information of the Company and its Subsidiaries was as follows:

	2007			
	Trading	Mining	Elimination	Consolidated
SALES				
External sales	-	1,137,542,666	-	1,137,542,666
RESULT				
Segment result	-	342,332,879	-	342,332,879
Unallocated expenses				(219,337,330)
Income from operations				122,995,549
Financing charges				(318,486,261)
Other income-net				143,698,219
Loss before tax				(51,792,493)
Tax benefit - net				167,430,255
Income before minority interest				115,637,762
Minority interest				-
Net income				115,637,762
OTHER INFORMATION				
Assets				
Segment assets	6,594,841,573	9,247,533,373	(6,955,081,998)	8,887,292,948
Unallocated assets				490,901,465
Consolidated total assets				9,378,194,413
Liabilities				
Segment liabilities	(635,979,504)	(6,833,944,392)	1,864,501,795	(5,605,422,101)
Unallocated liabilities				(420,522,106)
Consolidated total liabilities				(6,025,944,207)
Capital expenditure	-	974,809,736	-	974,809,736
Depreciation, depletion, and amortization	2,464,455	127,053,232	-	129,517,687

	2006 (As restated - see Note 3)			
	Trading	Mining	Elimination	Consolidated
SALES				
External sales	-	1,459,460,289	-	1,459,460,289
RESULT				
Segment result	-	528,909,899	-	528,909,899
Unallocated expenses				(222,494,671)
Income from operations				306,415,228
Financing charges				(252,287,653)
Other charges				(337,883,083)
Loss before tax				(283,755,508)
Tax benefits				20,359,124
Loss before minority interest				(263,396,384)
Minority interest				-
Net loss				(263,396,384)

(Figures in Rupiah expressed in thousands, unless otherwise stated)

31. SEGMENT INFORMATION *(Continued)*

	2006 (As restated - see Note 3)			
	Trading	Mining	Elimination	Consolidated
OTHER INFORMATION				
Assets				
Segment assets	5,023,884,828	9,162,882,512	(5,674,148,696)	8,512,618,644
Unallocated assets				261,224,169
Consolidated total assets				8,773,842,813
Liabilities				
Segment liabilities	(505,622,577)	(8,143,783,443)	2,120,437,468	(6,528,968,552)
Unallocated liabilities				(350,138,771)
Consolidated total liabilities				(6,879,107,323)
Capital expenditure	-	2,111,486,367	-	2,111,486,367
Depreciation, depletion, and amortization	2,344,706	236,789,368	-	239,134,074

Secondary Segment

The Company and its Subsidiaries are operating in two main geographical areas; domestic and international.

Sales Based on Market

The following are the Company and its Subsidiaries sales based on geographical market, regardless of the location of the production of oil and gas:

	2007	2006 (As restated - see Note 3)
Domestic		
Jakarta	421,463,279	123,254,175
East Java	53,629,047	384,405,013
Riau	3,088,226	-
International		
Singapore	659,362,114	951,801,101
Total	1,137,542,666	1,459,460,289

32. COMMITMENTS

a. *Production Sharing Contract (PSC) and Technical Assistance Contract (TAC)*

The Subsidiaries entered into agreements for the exploration and production of crude oil and gas contract area based on PSC with BPMIGAS or TAC with PT Pertamina (Persero). A summary of the significant provisions of the PSC and TAC are as follows:

32. COMMITMENTS *(Continued)*

1. Sales

   The oil and gas production shall be shared based on an agreed formula between the Subsidiaries and BPMIGAS.

   After deducting first tranche petroleum and recoverable operating cost, the Subsidiaries are required to pay their own Indonesian income tax for the revenues from the remaining crude oil and gas at the PSC effective rates, consisting of income tax and dividend tax.

2. Entitlement to Production

   Crude oil produced, net of cost recovery and investment credit is allocated at 73.2143% for Pertamina and 26.7857% for the Subsidiaries before consideration of tax and adjustment in domestic market obligation, if any. Pertamina's share of production from its properties in the TAC contract area represents the entitlement of Pertamina to a portion of the crude oil production. Costs related to the oil production are recoverable from Pertamina.

3. Domestic Market Obligation

   The Subsidiaries are required to supply the domestic market in Indonesia with a portion of the share of the crude oil to which the Subsidiaries are entitled. This portion is not to exceed 25% of the total quantity of crude oil produced from the contract area. For the initial period of sixty months starting from the month of the first delivery of crude oil produced and saved from each field in the contract area, the fee per barrel for the quantity of crude oil supplied to the domestic market from each field shall be equal to the net realized Indonesian Crude Price. Subsequent to the initial period of sixty months, crude oil production supplied to the domestic market in Indonesia is priced at 15% of the Indonesian crude oil price.

   Nonetheless, if for any year, the recoverable operating costs exceed the difference of the total sales proceeds from crude oil produced minus the investment credit, the Subsidiaries shall be relieved from this supply obligation for such year.

4. Cost Recovery

   The Subsidiaries shall recover all operating costs whether capital or non-capital cost out of the sales proceeds or other disposition of the required quantity of crude oil equal in value to such operating costs with a maximum of 65% per annum of crude oil produced and saved hereunder and not used in petroleum operations.

5. Investment Credit

   The Subsidiaries are entitled to recover an investment credit of the capital investment cost directly required for developing crude oil production facilities of new producing field from Tertiary or pre-Tertiary reservoir rock out of deduction from gross production before recovering operating costs and tax deductions, commencing in the earliest production year.

32. COMMITMENTS *(Continued)*

6. Compensation, Assistance and Production Bonuses

   The Subsidiaries shall pay bonus and assistance to BPMIGAS for equipment and services, ranging between USD 50,000 - USD 25 million within 30 - 60 days after the production of petroleum has reached between 3 million - 325 million barrels. Such bonus payments shall be borne solely by the Subsidiaries and shall not be included in the recoverable operating costs.

7. Exclusion of Areas

   The Subsidiaries have the obligation to relinquish certain areas to BPMIGAS within a certain period based on the agreement between the Subsidiaries and BPMIGAS. This obligation shall not apply to any part of the surface area of any field in which petroleum has been discovered.

8. Claim Insurance

   Operating cost shall include premium paid for insurance normally required to be carried for petroleum operation, together with all expenditures incurred or paid in settlement of any and all losses, claims, damages, judgment and other expenses.

9. Abandonment and Site Restoration

   The Subsidiaries are required to perform an environmental baseline assessment on the contract area at the commencement of their activities. Upon the expiration or termination or relinquishment of part of the contract area, or abandonment of any fields, the Subsidiaries are required to remove all equipment and installations that have been installed in the contract area, and perform all necessary site restoration activities. As of December 31, 2007 and 2006, the estimated site restoration liabilities amounted to USD 14.67 million and USD 11.49 million, respectively and the provision funding amounted to USD 11.69 million and USD 9.49 million, respectively.

10. Participation

    BPMIGAS shall have the right to demand from the Subsidiaries a 10% working interest from total rights and obligations in the contract. In consideration for the acquisition of the 10% working interest, BPMIGAS shall reimburse the Subsidiary an amount equal to a certain percentage of the cumulative operating costs that the Subsidiary has incurred over a determined period and of the amount of the bonus and assistance for procurement of equipment or services paid to BPMIGAS as referred to in the PSC.

11. Interest Recovery

    Interest on loans for capital investments in petroleum operations that does not exceed the prevailing commercial rates for capital investments in petroleum operations may be recovered as a component of operating costs with the approval of Pertamina.

b. *Agreement with PT Energi Timur Jauh (ETJ)*

KPSA, IMG, Semco, Costa, Bentu and Korinci Baru, the Subsidiaries, appointed ETJ as operational and administrative coordinator, provider of general and administrative assistance and as cash manager for the period commencing on August 1, 1998 until July 31, 1999, which shall be automatically extended unless terminated by either party.

32. COMMITMENTS *(Continued)*

Based on the agreement, ETJ shall assist Subsidiaries in keeping the required books of accounts and other records applicable in Indonesia for oil and gas industries. ETJ shall also deliver to Subsidiaries a monthly report of operational and administrative matters and activities and provide access to duly authorized parties of Subsidiaries to examine or inspect the books of accounts and records prepared by ETJ. ETJ was also appointed as cash manager and authorized signatory in respect of each of Subsidiaries' bank accounts, without limitation, in making payment of expenditures on behalf of Subsidiaries. ETJ shall arrange the use of Subsidiaries' funds as necessary and use any of Subsidiaries' money being managed by ETJ to fund expenditures of other related parties having a similar agreement with ETJ as deemed necessary. ETJ shall also maintain separate and individual clean records of the inter-company payables and receivables status of Subsidiaries and update them on a regular basis.

All costs and expenses incurred by ETJ in relation to the above mentioned purposes shall be chargeable to Subsidiaries. All interest arising from Subsidiaries' funds in ETJ's bank account shall be credited to Subsidiaries.

c. *Financial Advisory and Financial Management*

Based on the agreement between PI and MBF dated July 28, 2005, MBF appointed PI in connection with the general strategic and financial planning activities of MBF in respect to funding MBF's capital expenditure. PI will provide advisory services and financial arrangement to MBF. In accordance with the agreement PI will arrange to channel MBF funds received from its creditors to other companies within the Company's group.

d. *Agreement with PT Perusahaan Listrik Negara (Persero) (PLN)*

On May 17, 2005, Bentu entered into an agreement with PLN whereby Bentu will supply gas to PLN. The gas supplied will originate from the Bentu PSC and Korinci Baru PSC fields. This agreement shall be effective when the following conditions precedent have been fulfilled:

- Bentu has signed the Seller Appointment Agreement with BPMIGAS,
- Bentu has signed the Trustee and Paying Agent agreement with BPMIGAS for transactions in regard to this agreement, and
- PLN has obtained the approval from its shareholders to carry out this agreement.

The agreement shall be effective until July 15, 2020, or when the volume of gas supplied has reached 146 BCF (Billion Cubic Feet), whichever occurs earlier.

On August 1, 2006, Bentu and PLN signed the Mutual Agreement on Delivery and Taking of the Gas since approval from PLN's shareholders to carry out the agreement had not yet been received. The Mutual Agreement stated, among others, that since July 15, 2006 or on any other agreed date, Bentu based on the reasonable endeavor principle will deliver the gas in the the daily delivery amount in accordance with the nominations agreed by both parties up to December 31, 2006, or until the conditions precedent have been met, whichever occurs earlier. This agreement was effective from December 22, 2006 as the approval from PLN's shareholders had been received.

32. COMMITMENTS *(Continued)*

e. *The Subsidiaries' Sale and Purchase Gas Agreements*

(1) KEIL and EEKL

On October 30, 2007, KEIL entered into certain amendments of the Sales and Purchase Gas Agreements that had been agreed in December 2005 with:

a. PT Perusahaan Listrik Negara (Persero), which shall expire on the earlier of: March 31, 2027, or the volume of 368.7 TBTU having been fullfiled;
b. PT Petrokimia Gresik (Persero), which shall expire on the earlier of: June 30, 2018, or the volume of 241.86 BSCF having been fullfiled;
c. Pertamina/PT Pertagas, which shall expire on the earlier of: March 31, 2019, or the volume of 221 TBTU having been fullfiled; and
d. PT Indogas Kriya Dwiguna, which shall expire on the earlier of following: February 6, 2021, or the volume of 79.2 TBTU having been fullfiled.

On July 7, 2005 for Gas Sales Purchase Agreements (the GSAs) between EEKL, KEIL and BPMIGAS as sellers; PT Pembangkitan Jawa Bali, PT Perusahaan Gas Negara (Persero) Tbk, and PT Petrokimia Gresik as buyers. Pursuant to GSA, the Trustee shall receive, hold, manage and disburse amounts paid by buyers under the GSAs.

(2) Bentu

On October 30, 2007, Bentu entered into the Sales and Purchase Gas Agreements with PT Riau Andalan Pulp & Paper that shall expire on the earlier of: January 31, 2020, or the volume of 86.7 BCF having been fullfiled.

(3) Semco

On October 31, 2005, PT Pertamina (Persero) signed the Sales and Purchase Gas Agreement with PT Perusahaan Listrik Negara (Persero) in the amount of 79,026 BBTU from Semberah field (Semco), which shall end on November 16, 2015, or when total contract volume has been reached, whichever occurs earlier.

f. *Joint Operating Agreement (JOA)*

In 1985, Japan Petroleum Exploration Co., Ltd. (Japex) approved the JOA. Under the JOA, Costa as the successor of Japex and Japan North Sumatera (JNS), as the assistant operator of the Joint Operating Body, (Gebang) (JOB-G) will recover its participating interest share of all operating costs and one half (1/2) of the amount of the reimbursement having been made by Costa pursuant to the reimbursement out of the sale proceeds or other disposition of the required quantity of its participating interest share of crude oil equal in value to such operating cost and reimbursement that is produced and saved and not used in the petroleum operation. The intent is that the Operator shall neither have gain nor loss as a result of being the assistant operator that wholly finances the JOB-G activities.

33. CONTINGENCIES

The Company and its Subsidiaries' operations are subject to Indonesian laws and regulations governing 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 in certain lands lying within wilderness, wetlands and other protected areas, require remedial measures to prevent pollution resulting from the Company and Subsidiaries' operations. The Government has imposed environmental regulations on oil and gas companies operating in Indonesia and in Indonesian waters. Operators are prohibited from allowing oil into the environment and must ensure that the area surrounding any onshore well is restored to its original state insofar as this is possible after the operator has ceased to operate on the site.

Management believes that the Company and its Subsidiaries are in compliance with current applicable environmental laws and regulations.

EEKL and KEIL Gas Sales to PGN

In November 2006 the East Java Gas Pipeline (EJGP), which was transporting the gas from EEKL and KEIL to the customer suffered a blow-out due to the mud incident in Sidoarjo. In accordance with the governmental instruction, EEKL and KEIL delivered gas to PT Petrokimia Gresik (PKG) and PT Perusahaan Gas Negara (Persero) Tbk (PGN) through PGN's Offtake Porong, at that time solely utilized to transport the gas from Santos-operated Maleo field located in Madura Offshore PSC.

The minutes of meeting dated January 25, 2007 between EEKL, KEIL, Santos, PGN, BPMIGAS and other suppliers and customers in East Java specifically states that the quantity of gas delivery by EEKL and KEIL to PGN will be measured based on the meter reading at PGN's Offtake Porong and Santos Maleo's field.

Regarding the delivery by EEKL and KEIL to PGN, Santos claimed that all gas delivered by EEKL and KEIL to PGN for the period December 2006 to June 2007 should be considered as delivery by Santos and PGN should pay to Santos for all gas delivered. Santos shall repay EEKL and KEIL in kind of gas equivalent for the quantity of gas delivered by EEKL and KEIL after EJGP resumes normal operations. EEKL and KEIL's position is that they shall be entitled to receive the payment for all the gas delivered by EEKL and KEIL.

The quantity of gas delivery by EEKL and KEIL through the EJGP was measured by PT Pertamina (Persero) as the owner and operator of EJGP, but PGN has not signed the Volume of Gas Delivery Statement due to the difference of opinion between EEKL, KEIL and Santos. PGN will not make any payment for the gas delivery by EEKL and KEIL unless EEKL, KEIL and Santos agree on who shall be paid for the gas delivered by EEKL and KEIL.

As of June 30, 2007, the agreement between EEKL, KEIL and PGN for the Sales and Purchase of Gas had already expired. The continuing delivery of gas to PGN was based on extraordinary circumstances under the direction of BPMIGAS.

As of the audit date, no new sales and purchase of gas agreement has been signed by the parties.

33. CONTINGENCIES *(Continued)*

The sales of gas for the period December 2006 to January 2007 with a volume of 1,157,988.38 MMBTU at a price of USD 2.59 per MMBTU with the total price amounting to USD 2,999,189.90 had already been paid to Santos. As of December 31, 2007, total receivable of EEKL and KEIL amounting to USD 16,604,225, including the amount of USD 2,999,189.90 paid by PGN to Santos. According to minutes of meeting dated February 1, 2008 between PGN, Pertamina and KEIL, all parties agreed on the volume sent by EEKL and KEIL to PGN, which up to December 31, 2007, was 8,395,870 MMBTU. There was difference of 90,058 MMBTU less than the volume booked by EEKL and KEIL.

As of this report date, the amount is considered past due and with the difference in the volume as of December 31, 2007; no provision for probable losses will be recognized as the management believes that the whole account is collectible. Any losses or gain that will result from any mode of settlement that both parties agree to in the future will be recognized in the books at the date the transaction is consummated.

34. OPERATING HAZARDS AND UNSECURED RISKS

The Company and its Subsidiaries' operations are subject to hazards and inherent risks in drilling for and production and transportation of natural gas and oil, such as fires, natural disasters, explosions, encountering formations with abnormal pressures, blowout, cratering, pipeline ruptures and spills, and which can result in the loss of hydrocarbons, environmental pollution, personal injury claims and other damage to properties of the Company and its Subsidiaries. Additionally, certain natural gas and oil operations of the Company and its Subsidiaries' are subject to tropical weather disturbances, some of which can be severe enough to cause substantial damage to facilities and possibly interrupt production. As protection against operating hazards, the Company and its Subsidiaries maintain insurance coverage against some, but not all for the potential losses. The Company and Subsidiaries' coverage for the oil and gas exploration and production activities include, but is not limited to, loss of wells, blowouts and certain cost of pollution control, physical damage on certain assets, employer's liability, comprehensive general liability, automobile and worker's compensation.

The Company and its Subsidiaries insured their drilling rigs, equipment and machinery for their replacement value and insure against third party liability and worker's compensations. However, they do not 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 a term of the refinancing for such rig is that insurance coverage be in place for the benefit of the lender.

35. ABANDONMENT AND SITE RESTORATION OBLIGATIONS

Under the renewal and extension of PSC with BPMIGAS, the Subsidiaries are required to provide for abandonment of all exploration wells and the restoration of their drill sites, together with all estimates of money required for the funding of any abandonment and site restoration program established in conjunction with an approved plan of development for a commercial discovery.

As of the audit report date, regulation for mechanism of site restoration obligations has not yet been issued by the government.

Even so centain Subsidiaries have provided provision for abandonements and site restoration. The amount of annual provision is calculated by estimating all restoration costs divided by the PSC or TAC period.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

35. ABANDONMENT AND SITE RESTORATION OBLIGATIONS *(Continued)*

The movements of site restoration obligation were as follows:

	2007				
Area of Interest	January 1,	Addition	Deduction	Translation adjustment	December 31,
Malacca PSC	85,644,827	20,047,086	-	4,402,703	110,094,616
Kangean PSC	18,040,000	17,942,786	8,971,393	1,072,865	28,084,258
Total	103,684,827				138,178,874

	2006				
Area of Interest	January 1,	Addition	Deduction	Translation adjustment	December 31,
Malacca PSC	73,214,347	18,758,161	-	(6,327,681)	85,644,827
Kangean PSC	9,830,000	9,164,000	-	(954,000)	18,040,000
Total	83,044,347				103,684,827

36. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As of December 31, 2007 and 2006, the Company and its Subsidiaries had monetary assets and liabilities denominated in foreign currencies as follows:

	2007			2006 (As restated - see Note 3)		
	Foreign Currency		Equivalent in Rupiah	Foreign Currency		Equivalent in Rupiah
Assets						
Cash and cash equivalents	USD	47,257,599	445,119,328	USD	67,650,786	610,210,093
	Euro	6,930	95,354	Euro	6,884	81,635
Restricted cash in bank	USD	5,482,749	51,642,013	USD	-	-
Short-term investment	USD	76,776,250	723,155,499	USD	-	-
Restricted time deposits	USD	58,205,705	548,239,536	USD	14,062,818	126,846,622
Trade receivables	USD	20,409,456	192,236,669	USD	33,874,448	305,547,523
Other receivables	USD	35,024,567	329,896,400	USD	40,700,454	367,118,093
Due from related parties	USD	126,813,229	1,194,453,802	USD	104,952,642	946,672,828
Site restoration fund	USD	11,688,567	110,094,615	USD	9,494,992	85,644,826
Subsidiary's dividend tax	USD	-	-	USD	22,044,678	198,842,996
Total Assets			3,594,933,216			2,640,964,616
Liabilities						
Trade payables	USD	29,155,814	274,618,618	USD	48,042,580	433,344,074
Other payables	USD	11,856,368	111,675,134	USD	9,967,936	89,910,786
Short-term loan	USD	272,750,000	2,569,032,250	USD	-	-
Accrued expense	USD	60,278,431	567,762,546	USD	42,811,986	386,164,115
Due to related parties	USD	6,514,852	61,363,392	USD	22,044,678	198,842,992
Long-term loans	USD	139,133,483	1,310,938,142	USD	547,750,000	4,940,705,000
Site restoration obligation	USD	14,670,228	138,178,874	USD	11,494,992	103,684,827
Subsidiary's dividend tax	USD	39,351,080	370,647,819	USD	22,044,678	198,842,992
Total Liabilities			5,404,216,775			6,351,494,786
Net Liabilities			(1,809,283,559)			(3,710,530,170)

37. OTHER SIGNIFICANT INFORMATION

Other significant information in relation to the operational activities of the Company and its Subsidiaries is as follows:

a. *Acquisition of PT Indelberg Indonesia Perkasa*

On May 31, 2007, the Company signed the Conditional Sales and Purchase Agreement (CSPA) with Eka Sinto Kasih Tjia (ESKT) and Ir. Utaryo Suwanto (USW) whereby it was agreed that the Company will acquire 75% ownership interest in PT Indelberg Indonesia Perkasa (IIP) owned by ESKT and USW at an agreed price of USD 10,000 upon the completion of either one of the following conditions:

(i) At least 3 years period after the effectiveness of the Operations Cooperation Agreement (OCA) dated April 25, 2007 and the approval from PT Pertamina EP is obtained, or

(ii) IIP has obtained the approval from PT Pertamina EP to takeover the share.

The agreement stipulates among others a condition for IIP to issue a bank guarantee amounting to USD 8,100,000, which subsequently will be used for IIP.

IIP has the OCA with PT Pertamina EP dated April 25, 2007 to operate exploration and production of oil and gas in Suci operating area, East Java. The OCA agreement stipulates, among others, a condition to issue a bank guarantee on the part of IIP amounting to USD 8,100,000 for the period of three (3) years starting from the date of OCA agreement.

As of this report date, the management is still reviewing the effect of the transaction on the Company's consolidated financial statements. The consolidated financial statements do not include adjustments that might result from the outcome of signing the CSPA.

b. *New Shares Subscription on EMP Inc.*

On March 6, 2007, the Company signed binding agreements with Mitsubishi Corporation (MC) and Japan Petroleum Exploration Co., Ltd. (Japex) whereby MC and Japex will assume new subscription shares in EMP Inc. Based on these agreements, MC and Japex will assume, in aggregate, an indirect 50% working interest in the Kangean PSC block, as well as agreeing to carry a substantial portion of the remaining development capital expenditure for Kangean PSC block. The total subscription proceeds from this transaction amounts to USD 360 million.

The total proceeds from share subscription of USD 360 million will be used for the following items:

(i) Repay credit facility under the Credit Facility Agreement dated May 19, 2005 between EMP Inc., the Company, Credit Suisse - Singapore Branch and several financial institutions, which represent part of Credit Suisse syndication. The payment consists of total principal plus accrued interest, settlement value and agent fee totalling approximately USD 292 million.

(ii) Repay all EMP Inc., KEIL and EEKL's receivables from and payables to companies in the Company's group at December 31, 2006 in the amount of approximately USD 48 million; and

(iii) The remaining balance will be paid by EMP Inc. to the Company in the form of dividend payment based on the declaration of dividend payment at before Closing date.

37. OTHER SIGNIFICANT INFORMATION *(Continued)*

Based on the Agreement, the Company and EMP Inc. shall use their best endeavors to reschedule payment of the outstanding trade account payables. In such circumstances, 50% of the amount in the Debt Service Reserve Account (DSRA) at before Closing Date shall be retained by EMP Inc. for part of payment of these amounts, and the other 50% shall be dividend (additional) to the Company. If, the rescheduled payment cannot be made, the Company shall ensure those payables are cleared on or prior to Closing Date. The total amount in the DSRA shall be available as dividend to the Company. Based on the amendment letter dated May 10, 2007, it has been agreed that the amount to be retained by EMP Inc. as part payment of trade account payables should be USD 5 million.

The completion of the transaction shall depend upon the following conditions precedent having been fulfilled:

- The approval from the Company's stockholders at a general meeting of stockholders and the Bapepam-LK in respect of the transaction.

- Receipt of a letter from the facility agent acknowledging that on payment by EMP Inc. of the facility amount, EMP Inc.'s debt will be discharged in full under the credit facility agreement.

- Termination of the old joint operating agreement (JOA) and execution of new JOA, Shareholders Agreement, Definitive Agreement and other completion agreements.

The transaction involves MC and Japex subscribing for new shares in EMP Inc. to dilute the Company's current 100% shareholding to 50%.

Based on the opinion of legal consultant Hadiputranto, Hadinoto & Partner dated May 15, 2007, the specific conditions precedent as stipulated in the agreement dated March 6, 2007 have been satisfied. Therefore, the transaction of EMP Inc.'s new shares issuance was effective on May 16, 2007.

Based on the EMP Inc's director resolution dated February 21, 2008, EMP Inc declared the final dividend to the Company in respect with the Agreement amounting to USD 7,791,944.22.

c. *East Java Gas Pipeline incident*

On November 22, 2006, IJV-K shut down gas production at the Pagerungan field in the Kangean PSC due to the rupture of the East Java Gas Pipeline ("EJGP"), which unfortunately resulted in several fatalities and serious injuries. The EJGP failure occurred at KM 38 of the Porong - Gempol Tollway, Sidoarjo, East Java, as a result of land subsidence in the surrounding area of the mud flow and over-burdening created by the bund-wall built along the top of the pipeline. EJGP is the main gas transmission line connecting Pagerungan gas production facilities (IJV-Kangean) and Maleo gas production facilities (Santos) to various industries and power plants in East Java. This pipeline is owned and operated by PT Pertamina (Persero).

On December 1, 2006 based on the BPMigas Letter No. 388/BPB0000.2006-S1, IJV-K commenced supply of up to 45 MMCFD of gas using the PT Perusahaan Gas Negara (Persero) Tbk (PGN), Porong distribution pipeline. As the PGN Porong distribution pipeline can handle a maximum flow of 67 MMCFD gas, the remaining 22 MMCFD gas being supplied by the Santos Maleo field.

(Figures in Rupiah expressed in thousands, unless otherwise stated)

37. OTHER SIGNIFICANT INFORMATION *(Continued)*

d. *New Accounting Standard Pronouncements*

The Indonesian Institute of Accountants released revisions to several accounting standards that may have certain impacts to the Company and Subsidiaries' consolidated financial statements. These are:

- PSAK No. 13 (Revision 2007) - Investment Properties (effective for financial statements for the period commencing from on or after January 1, 2008)
- PSAK No. 16 (Revision 2007) - Fixed Assets (effective for financial statements for the period commencing from on or after January 1, 2008)
- PSAK No. 30 (Revision 2007) - Rental (effective for financial statements for the period commencing from on or after January 1, 2008)
- PSAK No. 50 (Revision 2006) - Financial Instruments: Presentation and Disclosure (effective for financial statements for the period commencing from on or after January 1, 2009)
- PSAK No. 55 (Revision 2006) - Financial Instruments: Recognition and Measurements (effective for financial statements for the period commencing from on or after January 1, 2009)

The Company and Subsidiaries are evaluating the impact on the consolidated financial statements as a result of the adoption of the above new accounting standards.

38. SUBSEQUENT EVENT

Based on the Notarial Deed No. 44 of the Minutes of EGMS dated March 14, 2008 of Robert Purba, S.H., Notary in Jakarta, the Company's stockholders agreed to:

- Convert of MLC receivables to KEL and PAN into shares ownership in KEL and PAN by way of issuance of new shares in KEL and PAN. MLC as the holder of receivables plans to convert its receivables to KEL and PAN amounting to USD 29 million and USD 1 million, respectively, into shares ownership in KEL and PAN, therefore MLC shall owned in the 99.99% shares in KEL and PAN. Once the conversion is effective, the Company's ownership interest in KEL and PAN will be diluted accordingly (see Note 1c).

- Alter the composition of the Company's commissioners, therefore the members of the Company's board of commissioners since March 14, 2008 were as follows:

President Commissioner	:	Ari Saptari Hudaya
Commissioner	:	Suyitno Patmosukismo
Commissioner	:	Nalinkant Amratlal Rathod
Independent Commissioner	:	A. Qoyum Tjandranegara
Independent Commissioner	:	Sulaiman Zuhdi Pane

- Encumber the entire and/or a substantial part of the Company's assets and/or its Subsidiaries or to issue Corporate Guarantee(s) with respect to financing and/or refinancing.

The conversion transaction has obtained the approval from the Subsidiary's lenders in respect to MBF's loan from Merril Lynch.

39. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the consolidated financial statements for December 31, 2006 have been reclassified to conform to the presentation of accounts in the consolidated financial statement for December 31, 2007.

40. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its Subsidiaries have been approved for release by the Boards of Directors and Commissioners on March 26, 2008.

RESERVE ESTIMATION

The following information on gross proven developed, undeveloped and probable reserve quantities are estimates only, and do not purport to reflect realizable values or fair market values of Subsidiaries' oil and gas 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 oil and gas reserves including many factors beyond the control of the Subsidiaries.

Management believes that the reserve quantities (in MBOE) shown below are reasonable estimates based on available engineering and geological data, as follows:

	Malacca [1)]	Kangean [2)]	Gelam [3)]	Semberah [4)]	Gebang [5)]	Korinci [6)]	Bentu [7)]
	Crude Oil	Crude Oil, Gas and Condensate *)	Crude Oil	Gas and Crude Oil	Crude Oil, Gas and Condensate *)	Gas	Gas
Proven developed undeveloped and probable reserves							
Balance as of January 1, 2006	34,529	211,923	5,116	22,399	335	12,595	48,273
Revision to previous estimation	-	35,000	-	-	882	-	-
Production during the year	(3,352)	(3,488)	(123)	(166)	(196)	-	-
Balance as of December 31, 2006	31,177	243,435	4,993	22,233	1,021	12,595	48,273
Balance as of January 1, 2007	31,177	243,435	4,993	22,233	1,021	12,595	48,273
Revision to previous estimation	4,352	-	-	-	-	-	-
Production during the year	(3,069)	(2,922)	(117)	(647)	(121)	(357)	-
Balance as of December 31, 2007	32,460	240,513	4,876	21,586	900	12,238	48,273

RESERVE ESTIMATION *(Continued)*

	Malacca [1]	Kangean [2]	Gelam [3]	Semberah [4]	Gebang [5]	Korinci [6]	Bentu [7]
	Crude Oil	Crude Oil, Gas and Condensate *)	Crude Oil	Gas and Crude Oil	Crude Oil, Gas and Condensate *)	Gas	Gas
Proven developed and undeveloped reserves							
Balance as of January 1, 2006	23,868	161,862	987	6,547	187	2,661	23,062
Revision to previous estimation	-	(23,167)	-	-	38	-	-
Production during the year	(3,352)	(3,488)	(123)	(166)	(196)	-	-
Balance as of December 31, 2006	20,516	135,207	864	6,381	29	2,661	23,062
Balance as of January 1, 2007	20,516	135,207	864	6,381	29	2,661	23,602
Revision to previous estimation	10,602	-	-	-	92	-	-
Production during the year	(3,069)	(2,922)	(117)	(647)	(121)	(357)	-
Balance as of December 31, 2007	28,049	132,285	747	5,734	-	2,304	23,602

*) Units for gas and condensate have been converted from Billion Cubic Feet (BCF) and Million Barrels of Oil (MMBO) to Thousand Barrels Oil Equivalent (MBOE).

RESERVE ESTIMATION *(Continued)*

1) Estimated oil and gas reserves in the Malacca Block as of October 31, 2007, were certified by Gaffney, Cline and Associates (GCA), independent petroleum engineering consultants in their report dated January 2008.

2) Estimated oil and gas reserves in Kangean Block were certified by:
   - DeGoyler and MacNaughton (D&M), independent petroleum engineering consultants, as of September 30, 2004, in their report dated November 12, 2004 for the Pagerungan Field and the Rancak Field;
   - Gaffney, Cline and Associates (GCA), independent petroleum engineering consultants, as of September 30, 2005, in their report dated May 5, 2006 for the Pagerungan Utara Field and the Sepanjang Field; and
   - Sproule International, independent petroleum engineering consultants, as of July 31, 2006, in their report dated November 3, 2006 for the Terang Field, Sirasun Field and Batur Field.

3) Estimated oil and gas reserves in Gelam Block as of September 30, 2005 were certified by Gaffney, Cline and Associates (GCA), independent petroleum engineering consultants in their report dated February 24, 2006.

4) Estimated oil and gas reserves in Semberah Block as of September 30, 2005 were certified by Gaffney, Cline and Associates (GCA), independent petroleum engineering consultants in their report dated March 9, 2006.

5) Estimated oil and gas reserves in Gebang Block as of January 1, 2006 were certified by Gaffney, Cline and Associates (GCA), independent petroleum engineering consultants in their report dated March 16, 2006.

6) Estimated oil and gas reserves in Korinci Block as of September 2005 were certified by Malkewicz Hueni and Associates (MHA), independent petroleum engineering consultants in their report dated September 13, 2005.

7) Estimated oil and gas reserves in Bentu Block as of September 2005 were certified by Malkewicz Hueni and Associates (MHA), independent petroleum engineering consultants in their report dated September 13, 2005.