Jimmy Budhi & Rekan
Registered Public Accountants

# PT ENERGI MEGA PERSADA Tbk AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 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**
**SEPTEMBER 30, 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, December 17, 2007

| | |
|---|---|
| Director | Director |
| **Christian Victor Ponto** | **Yuli Soedargo** |

**Jimmy Budhi & Rekan**
Kantor Akuntan Publik

Izin Usaha Akuntan Publik No. KEP-315/KM.6/2004 tanggal 27Juli 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. 150/2007

The Stockholders, 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 September 30, 2007 and 2006, and the related consolidated statements of income, changes in consolidated stockholders' equity, and consolidated cash flows for nine-month periods 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 a Subsidiary, whose statements reflect assets and revenues of the consolidated totals of 15.9% and 3.4% as of September 30, 2006. The financial statements of that Subsidiary were audited by another independent auditor whose report has 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 auditor.

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

In our opinion, based on our audits and the report of the other independent auditor, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and Subsidiaries as of September 30, 2007 and 2006, and the consolidated results of their operations and their cash flows for the nine-month periods 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 nine-month periods ended September 30, 2007 and 2006. 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 the prevailing regulations relating to this matter. Furthermore, the consolidated financial statements were restated as a result of the change of the Subsidiary's treatment of consolidation method and the effect of the Subsidiaries 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 a 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 shares.

**JIMMY BUDHI & REKAN**
Registered Public Accountants

**Jimmy S. Budhi**
License No. 03.1.0835

December 17, 2007

**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**
**SEPTEMBER 30, 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,5 | 541,822,834 | 843,329,766 |
| Restricted cash in bank | 2d,6 | 49,666,367 | - |
| Trade receivables | 2e,7 | 101,972,218 | 114,675,062 |
| Other receivables | 2e,8 | 367,986,980 | 481,149,565 |
| Inventories | 2f,9 | 379,503,607 | 394,359,319 |
| Prepaid expenses and advances | 2g,10 | 58,096,813 | 88,079,733 |
| Prepaid tax | 2r,27a | 983,855 | - |
| Total Current Assets | | 1,500,032,674 | 1,921,593,445 |
| **NON-CURRENT ASSETS** | | | |
| Due from related parties | 2i,11a | 1,099,678,114 | 936,408,717 |
| Restricted time deposits | 2j,12,18 | 574,457,088 | 180,462,852 |
| Fixed assets - net of accumulated depreciation of Rp 9,422,334 in 2007 and Rp 5,896,361 in 2006 | 2k | 6,178,246 | 7,828,687 |
| Oil and gas properties - net | 2l,13 | 3,930,169,520 | 4,845,078,785 |
| Site restoration fund | 32a,35 | 101,966,605 | 74,372,498 |
| Deferred tax assets | 2r,27e | 441,466,293 | 269,403,523 |
| Reimbursement of Subsidiary's dividend tax paid | 18 | - | 203,582,601 |
| Other assets | | 15,646,588 | 34,432,302 |
| Total Non-Current Assets | | 6,169,562,453 | 6,551,569,965 |
| **TOTAL ASSETS** | | 7,669,595,127 | 8,473,163,410 |

*) Total assets as of September 30, 2007 only presented 50% of total assets of EMP Inc. resulting from dilution of percentage of ownership in EMP Inc. in 2007.

(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 | 213,487,673 | 344,114,865 |
| Other payables | 15 | 63,564,861 | 87,291,264 |
| Accrued expenses | 16 | 193,271,150 | 211,738,013 |
| Taxes payable | 2r,27b | 88,000,857 | 113,351,139 |
| Current maturities of long-term loans | 17 | 2,492,784,151 | 737,312 |
| Total Current Liabilities | | 3,051,108,692 | 757,232,593 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term loans - net of current maturities | 17 | 462,170,349 | 5,059,714,455 |
| Due to related parties | 2i,11b | 59,511,191 | 60,423,956 |
| Deferred tax liabilities | 2r,27e | 338,234,051 | 230,547,676 |
| Employee benefits obligation | 2q,29 | 34,075,544 | 23,745,158 |
| Site restoration obligation | 32a,35 | 124,809,092 | 97,516,536 |
| Subsidiary's dividend tax liability | 18 | 359,550,814 | 203,582,601 |
| Total Non-Current Liabilities | | 1,378,351,041 | 5,675,530,382 |
| **MINORITY INTEREST IN NET ASSETS OF SUBSIDIARIES** | 2b | 14,429 | 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 | | | |
| 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 |
| Different 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 | 2h,22 | 1,261,714,335 | - |
| Translation adjustment | 2u | (53,704,222) | (52,320,623) |
| Deficit | | (128,074,673) | (76,719,782) |
| Total Equity | | 3,240,120,965 | 2,040,389,193 |
| **TOTAL LIABILITIES AND EQUITY** | | 7,669,595,127 | 8,473,163,410 |

*) Total liabilities and equity as of September 30, 2007 only presented 50% of total liabilities and equity of EMP Inc. resulting from dilution of percentage of ownership in EMP Inc. in 2007.

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

| | Notes | 2007 *) | 2006 (As restated - see Note 3) |
|---|---|---|---|
| **NET SALES** | 2p,23 | 726,425,844 | 1,084,479,555 |
| **COST OF GOODS SOLD** | 2p,24 | (581,557,854) | (697,121,489) |
| **GROSS PROFIT** | | 144,867,990 | 387,358,066 |
| **OPERATING EXPENSES** | | | |
| General and administrative | 2p,25 | (152,233,568) | (177,847,754) |
| **INCOME (LOSS) FROM OPERATIONS** | | (7,365,578) | 209,510,312 |
| **OTHER INCOME (CHARGES)** | | | |
| Interest income | | 24,717,699 | 25,484,392 |
| Overhead cost recovery | | 10,145,456 | 16,544,170 |
| Gain on foreign exchange - net | 2u | 110,304 | 9,661,696 |
| Financing charges | 26a | (187,187,167) | (167,893,149) |
| Loss on impairment of investment value | 2m,3 | - | (430,645,750) |
| Gain on insurance claim | 2p,26b | - | 56,500,253 |
| Others - net | | 25,778,282 | (27,901,660) |
| Other charges - Net | | (126,435,426) | (518,250,048) |
| **LOSS BEFORE TAX** | | (133,801,004) | (308,739,736) |
| **TAX BENEFIT (EXPENSE)** | 2r,27c | | |
| Current tax | | (24,154,188) | (29,117,404) |
| Deferred tax | | 243,302,460 | 190,374,195 |
| Total | | 219,148,272 | 161,256,791 |
| **INCOME (LOSS) BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES** | | 85,347,268 | (147,482,945) |
| **MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES** | 2b | (3,069) | - |
| **NET INCOME (LOSS)** | | 85,344,199 | (147,482,945) |
| **BASIC EARNINGS (LOSS) PER SHARE** (in full amount) | 2s,28 | 5.93 | (10.56) |

*) Total net income for the nine-month period ended September 30, 2007 only presented 50% of net income of EMP Inc. resulting from dilution of percentage of ownership in EMP Inc. in 2007.

**PT ENERGI MEGA PERSADA Tbk AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 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 Change of Equity in Subsidiary | Translation Adjustments | Retained Earnings (Deficit) | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2006 - restated | | 949,144,518 | 158,420,946 | 154,476,142 | (190,589,716) | - | 34,500,246 | 70,763,163 | 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 transaction 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 | 2u | - | - | - | - | - | (86,820,869) | - | (86,820,869) |
| Net loss for the period | | - | - | - | - | - | - | (147,482,945) | (147,482,945) |
| Balance as of September 30, 2006 (Restated - see Note 3) | | 1,440,081,337 | 3,354,749,228 | - | (2,625,400,967) | - | (52,320,623) | (76,719,782) | 2,040,389,193 |
| 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 | 2r,27e | - | - | - | - | - | - | (20,785,648) | (20,785,648) |
| 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 | 2h,22 | - | - | - | - | 1,261,714,335 | - | - | 1,261,714,335 |
| Translation adjustments | 2u | - | - | - | - | - | 28,367,904 | - | 28,367,904 |
| Net income for the period | | - | - | - | - | - | - | 85,344,199 | 85,344,199 |
| Balance as of September 30, 2007 *) | | 1,440,081,337 | 3,354,749,228 | - | (2,634,645,040) | 1,261,714,335 | (53,704,222) | (128,074,673) | 3,240,120,965 |

*) Total Equity for the nine-month period ended September 30, 2007 only presented 50% of total equity of EMP Inc. resulting from dilution of percentage of ownership in EMP Inc. in 2007.

*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)

| | 2007 *) | 2006 (As restated - see Note 3) |
|---|---|---|
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers | 930,001,149 | 1,242,435,001 |
| Cash paid to suppliers and employees | (893,782,527) | (1,050,566,747) |
| Cash provided from operations | 36,218,622 | 191,868,254 |
| Financing charges paid | (314,946,977) | (398,844,763) |
| Corporate income and dividend tax paid | (41,426,553) | (29,702,827) |
| Net Cash Flows Used in Operating Activities | (320,154,908) | (236,679,336) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 24,717,699 | 25,484,392 |
| Proceeds from reimbursement of Subsidiary's dividend tax | 359,550,818 | - |
| Acquisition of Subsidiaries | - | (2,599,869,500) |
| Proceeds from insurance claim | - | 57,312,634 |
| Increase in restricted cash in bank | (49,666,367) | - |
| Acquisition of fixed assets | (1,479,975) | (2,344,739) |
| Acquisition of oil and gas properties | (502,213,997) | (1,093,380,131) |
| Increase in other assets | (2,005,404) | (15,714,906) |
| Net Cash Flows Used in Investing Activities | (171,097,226) | (3,628,512,250) |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceed from issuance of capital stock of Subsidiary - net | 1,261,714,335 | - |
| Proceed from issuance of capital stock of the Company | - | 3,780,213,510 |
| Payment of stock issuance costs | - | (92,948,408) |
| Proceeds (payments) of long-term loans - net | (2,019,456,633) | 1,864,048,708 |
| Decrease (increase) of restricted time deposits | (447,610,466) | 20,452,373 |
| Payment of loan of acquired Subsidiaries | - | (348,203,384) |
| Movement of due from/to related parties - net | (314,516,589) | (529,259,162) |
| Net Cash Flows Provided by (Used in) Financing Activities | (1,519,869,353) | 4,694,303,637 |

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

| | 2007 *) | 2006 (As restated - see Note 3) |
|---|---|---|
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (2,011,121,487) | 829,112,051 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 620,896,485 | 304,986,078 |
| Effect of dilution of percentage of ownership in Subsidiary | 1,823,897,745 | - |
| Effect of foreign exchange rate changes | 108,150,091 | (290,768,363) |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 541,822,834 | 843,329,766 |

*) Total cash and cash equivalents as of September 30, 2007 only presented 50% of total cash and cash equivalents of EMP Inc. resulting from dilution of percentage of ownership in EMP Inc. in 2007.

(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 East Java Province, Riau, Jambi, North Sumatra, and East Kalimantan Province.

The Company commenced its commercial operations in February 2003.

b. *Initial Public Offering of Shares of the Company*

The Company obtaining 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.

The Company's Extraordinary General Meeting of Shareholders (EGMS) dated December 22, 2005, as recorded in Notarial Deed No. 40 of Robert Purba, S.H., Notary in Jakarta, approved the Rights Issue I to the Company's shareholders in connection 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 completed the Rights Issue I.

c. *Structure of the Company and its Subsidiaries*

The Company has ownership interest of more than 50%, 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 | 1,308,946 | 1,333,799 |
| Kondur Petroleum S.A. (KPSA) *) | Panama | 100 | 100 | 1995 | 1,308,946 | 1,207,502 |
| PT Imbang Tata Alam (ITA) | Indonesia | 99.99 | 99.99 | 2001 | 690,699 | 549,535 |
| Energi Mega Pratama Inc. (EMP Inc.) | British Virgin Islands | 50 | 100 | 2003 | 2,849,646 | 3,878,575 |
| EMP Exploration (Kangean), Ltd. (EEKL) *) | England | 100 | 100 | 1987 | 1,652,077 | 1,312,441 |

(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) |
|---|---|---|---|---|---|---|
| Kangean Energy Indonesia, Ltd. (KEIL) (formerly EMP Kangean Ltd.) *) | Delaware, USA | 100 | 100 | 1987 | 2,476,333 | 1,985,608 |
| Malacca Brantas Finance, B.V. (MBF) | Nertheland | 100 | 100 | 2005 | 1,106,734 | 1,108,824 |
| Energi Mega Persada Finance B.V. (EMP Finance) | Nertheland | 100 | 100 | - | 218 | 211 |
| PT Tunas Harapan Perkasa (THP) | Indonesia | 99.99 | 99.99 | 2005 | 1,906,770 | 1,938,902 |
| PT Semberani Persada Oil (Semco) *) | Indonesia | 99.99 | 99.99 | 1996 | 1,131,422 | 1,350,297 |
| PT Insani Mitrasani Gelam (IMG) *) | Indonesia | 99.99 | 99.99 | 2004 | 485,373 | 364,145 |
| Costa International Group Limited (Costa) *) | British Virgin Islands | 100 | 100 | 2002 | 238,061 | 243,940 |
| Kalila (Bentu) Limited (Bentu) *) | British Virgin Islands | 100 | 100 | - | 396,303 | 273,311 |
| Kalila (Korinci Baru) Limited (Korinci Baru) *) | British Virgin Islands | 100 | 100 | 2007 | 306,731 | 241,567 |
| Energy Mega Persada Pte., Ltd. (EMP PL) | Singapore | 100 | - | - | - | - |
| Tunas Harapan Perkasa Pte., Ltd. (THPPL) | Singapore | 100 | - | - | 46 | - |
| Enviroco Company Ltd. (ECL) | Sychelles | 100 | - | - | - | - |

**) Indirect ownership interest through Subsidiaries*

Based on the Corporate Management Agreement dated July 1, 2007 between the Company and Minarak Labuan Co. (L) Ltd. (ML), the Company transferred the control over the management of Kalila Energy Ltd. (KEL), Pan Asia Enterprise Ltd. (PAN) and Lapindo Brantas, Inc. (LBI) to ML 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).

All the Subsidiaries of the Company, except MBF, EMP Finance, THPPL and EMP PL, 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:

| Working area and maturity contract | Owned by | Percentage of Ownership (%) 2007 | Percentage of Ownership (%) 2006 |
|---|---|---|---|
| Malacca PSC, year 2020 | Kondur Petroleum S.A. | 34.46 | 34.46 |
| | PT Imbang Tata Alam | 26.03 | 26.03 |
| Kangean PSC, year 2030 | EMP Exploration (Kangean) Ltd. | 40 | 40 |
| | Kangean Energy Indonesia Ltd. | 60 | 60 |
| Gelam TAC, year 2017 | PT Insani Mitrasani Gelam | 100 | 100 |
| Bentu PSC, year 2021 | Kalila (Bentu) Limited | 100 | 100 |
| Korinci PSC, year 2027 | Kalila (Korinci Baru) Limited | 100 | 100 |
| Gebang PSC, year 2015 | Costa International Group Limited | 50 | 50 |
| Semberah TAC, year 2015 | PT Semberani Persada Oil | 100 | 100 |

MBF, EMP Finance, THPPL and EMP PL are involved in general commercial activities.

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

## 1. GENERAL *(Continued)*

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. *Employees, Boards of Commissioners and Directors*

As of September 30, 2007 and 2006, the members of the Company's boards of Commissioners and Directors were as follows:

| | | September 30, 2007 | September 30, 2006 |
|---|---|---|---|
| Board of Commissioners | | | |
| President Commissioner | : | Ari Saptari Hudaja | Suyitno Patmosukismo |
| Independent Commissioner | : | A. Qoyum Tjandranegara | A. Qoyum Tjandranegara |
| Commissioner | : | Suyitno Patmosukismo | Rennier Abdul Rachman Latief |
| Commissioner | : | Nalinkant Amratlal Rathod | - |
| Board of 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 September 30, 2007 was based on the decision of the annual GMS on May 11, 2007, as stated in the Minutes of Annual GMS Deed No. 37 dated May 11, 2007 of Robert Purba, S.H., notary in Jakarta.

The composition of the Board of Directors as of September 30, 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.

The composition of the Board of Commissioners and Directors as of September 30, 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.

Total remuneration paid to Commissioners and Directors of the Company for the nine-month periods ended September 30, 2007 and 2006 amounted to Rp 17.60 billion and Rp 20.7 billion, respectively.

As of September 30, 2007 and 2006, the Company and its Subsidiaries had approximately 594 and 724 employees, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. *Basis of Consolidated Financial Statements*

The consolidated financial statements have been prepared using accounting principles and reporting practices generally accepted in Indonesia.

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

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. When an enterprise owns 50% or less of voting rights, 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 Operations 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 whih the contractual arrangement.

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

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 over the years of the PSC or TAC.

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.

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

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 freely used 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" and classified under current assets.

e. *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.

f. *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.

Inventories purchased under the terms of the PSC and TAC become 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.

g. *Prepaid Expenses*

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

h. *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".

i. *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:

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

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

(2) Associated companies;

(3) Individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the 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.

j. *Restricted Time Deposits*

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

k. *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.

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

l. *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.

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", 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 amortized. Any excess over the cost is charged to expense and separately disclosed during the year.

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

The Company and its Subsidiaries have no ownership interest in the producing assets or 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.

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.

m. *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 year.

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

In accordance with the revised PSAK No. 26 (Revised 1997), "Borrowing Cost", 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.

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

o. *Shares Issuance Costs*

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

p. *Revenue and Expense Recognition*

Revenue 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 customers. 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 incurred (accrual basis). Claim from insurance will be recognized as income upon collection.

q. *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).

The Company and its Subsidiaries provide defined post-employment benefits for their employees pursuant to the terms of the Employment Work Contract/Company Policy. 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 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.

r. *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 year computed using prevailing tax rates. 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 year computed using prevailing tax rates in the related countries.

Current tax expense of the Subsidiaries engaged in exploration and production of oil and gas based on PSC and TAC is determined based on the taxable income in the related year 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 years 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.

s. *Earnings per Share*

In accordance with PSAK No. 56, "Earnings per Share", basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the year.

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

t. *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 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.

u. *Foreign Currency Transactions and Translation*

The books of accounts of the Company are maintained in Indonesian Rupiah. Transactions during the year involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At 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.

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

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

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 September 30, 2007 and 2006 were as follows:

| | 2007 (full amount) | 2006 (full amount) |
|---|---|---|
| Currency | | |
| USD | 9,137 | 9,235 |
| Euro | 12,938 | 11,372 |

v. *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.

w. *Subsequent Events*

Post year-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 year-end event that is not an adjusting event is disclosed when material to the consolidated financial statements.

x. *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. (ML), the Company agreed that ML shall have control over the management of KEL, PAN and LBI, and therefore, the Company hereby grants power and authorizes ML, unconditionally and irrecovably, to perform any acts or actions, instructions, supervision and all the rights as reasonably held by a party that controls a company, either in its capability as the shareholders or in

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

connection with a particular arrangement, and for such purpose, the Company acknowledges such power and authority vested in accordance with the agreement shall also cover the representative or such other parties so appointed or designated by ML.

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 ML. The agreement may only be terminated in the event that the conversion of receivables be entirely undertaken, by which ML 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 September 30, 2006 and recorded a loss on impairment of investment value amounting to Rp 430,645,750 in 2006.

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.

Based on the JOB agreement between Pertamina and Costa International Group Ltd. (Costa) (the "JOB"), Pertamina, assisted by Costa, is responsible for conducting the operation and carrying the risk of operating costs of the JOB's operations. Since Pertamina has not made any contributions of its 50% share as stated in the PSC and because of the fact 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 has an 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:

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

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

| | As restated | As previously reported |
|---|---|---|
| Total current assets | 1,921,593,445 | 2,214,282,379 |
| Due from related parties | 936,408,717 | 508,711,798 |
| Oil and gas properties | 4,845,078,785 | 5,759,598,063 |
| Deferred tax assets | 269,403,523 | 204,483,255 |
| Total non-current assets | 6,551,569,965 | 7,005,109,689 |
| Total assets | 8,473,163,410 | 9,219,392,068 |
| Total current liabilities | 757,232,593 | 1,388,873,223 |
| Long-term loans | 5,059,714,455 | 5,059,714,454 |
| Due to related parties | 60,423,956 | 413,400,376 |
| Deferred tax liabilities | 230,547,676 | 139,463,952 |
| Total non-current liabilities | 5,675,530,382 | 5,945,078,233 |
| Retained earnings (deficit) | (76,719,782) | 492,084,286 |
| Total equity | 2,040,389,193 | 1,885,429,252 |
| Net sales | 1,084,479,555 | 1,232,678,303 |
| Operating expenses | 177,847,754 | 185,265,144 |
| Net income (loss) | (147,482,945) | 243,884,158 |
| Basic earnings (loss) per share (in full amount) | (10.56) | 17.46 |

## 4. ACQUISITIONS OF SUBSIDIARIES

a. *PT Tunas Harapan Perkasa (THP)*

The Company (acquirer) entered into a Sales and Purchase Agreement (SPA) with PT Mitra Andalan Mandiri ("MAM", as seller) on October 25, 2005 as follows:

i. 2,598,830 shares or 99.99% of all issued shares of THP are owned by MAM amounting to Rp 2,599,869,500,000 (full amount). THP owns 100% shareholding in Costa, Bentu and Korinci Baru and 99.99% shareholding in IMG and Semco. Except for Costa, all of these subsidiaries are the operators and the owners of 100% working interest in Bentu Block PSC, Korinci Baru Block PSC, Sungai Gelam Block TAC, and Semberah Block TAC. Costa owns 50% of the working interest in Gebang Block PSC and has significant authorities in the operational activity within the Joint Operating Body (JOB), in which Pertamina acts as the operator.

ii. Trade receivables of MAM to THP's subsidiaries, which were based on the restructuring and debt acknowledgment agreement of MAM and THP's subsidiaries amounted to USD 33,497,199 or equivalent to Rp 348,203,383,605 (full amount).

The Company's Extraordinary General Meeting of Shareholders (EGMS) approved the above acquisition on December 22, 2005. On January 25, 2006, the Company completed the Rights Issue I. The acquisition became effective on January 25, 2006 whereby the proceeds were used to pay the transaction with MAM as stated above.

The acquisition represents a transaction of entities under common control, and was therefore accounted for as restructuring transactions of entities under common control in accordance with PSAK No. 38 (Revised 2004).

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

## 4. ACQUISITIONS OF SUBSIDIARIES

b. *Energy Mega Persada Pte. Ltd (EMP PL) and Enviroco Company Ltd. (ECL)*

The Company established Energy Mega Persada Pte. Ltd. in Singapore and Enviroco Company Ltd. in Sychelles, on October 19, 2006 and July 17, 2007, respectively, wholly-owned subsidiaries of the Company.

## 5. CASH AND CASH EQUIVALENTS

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Cash on hand | 433,055 | 359,936 |
| Cash in banks | | |
| Rupiah | | |
| PT Bank Negara Indonesia (Persero) Tbk | 758,490 | 1,092,187 |
| PT Bank Internasional Indonesia Tbk | 752,894 | - |
| Citibank N.A. | - | 2,421,628 |
| Others (below Rp 1 billion each) | 1,519,844 | 1,724,792 |
| US Dollar | | |
| Deutsche Bank | 92,881,178 | - |
| Credit Suisse | 71,084,853 | 56,523,660 |
| Citibank N.A. | 35,428,173 | 18,441,328 |
| Societe Generale Hongkong | 23,405,697 | 1,397,850 |
| PT Bank Internasional Indonesia Tbk | 6,259,149 | 4,840,006 |
| PT Bank Mega Tbk | 2,098,663 | 1,150,483 |
| PT Bank Negara Indonesia (Persero) Tbk | 830,527 | 12,474,745 |
| PT Bank Resona Perdania | 571,671 | 1,090,617 |
| PT Bank Mandiri (Persero) Tbk | 89,515 | 2,511,244 |
| Others (below Rp 1 billion each) | 404,918 | 1,201,842 |
| Euro | | |
| Fortis Bank | 222,246 | 137,044 |
| Time Deposits | | |
| Rupiah | | |
| PT Bank Internasional Indonesia Tbk | 3,872,848 | - |
| PT Bank Mega Tbk | 3,000,000 | - |
| Hongkong Shanghai Banking Corporation | - | 3,779,901 |
| US Dollar | | |
| PT Bank Mega Tbk | 274,110,000 | 277,050,000 |
| PT Bank Internasional Indonesia Tbk | 24,099,113 | 272,432,500 |
| Other investments | | |
| PT Danatama Makmur | - | 184,700,000 |
| Total | 541,822,834 | 843,329,766 |

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

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

## 5. CASH AND CASH EQUIVALENTS *(Continued)*

Interest rates of time deposits and other investments were as follows:

| | 2007 (%) | 2006 (%) |
|---|---|---|
| US Dollar | 2.25 - 4.75 | 2.25 - 3.75 |
| Rupiah | 7.00 - 8.75 | 9.25 - 12.75 |

## 6. RESTRICTED CASH IN BANK

The current account placed in Hongkong Shanghai Bankin Corporation (HSBC) includes an accumulated balance of Gas Transportation Fees (GTF) payable to PT Pertamina (Persero) for the gas delivered for the period August 2005 to November 2006 as per Trustee and Paying Agent Agreement (TPAA) dated November 17, 2005 for Gas Sales Purchase Agreements (the GSAs) between EEKL, KEIL and *Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi* (BPMIGAS) as sellers; PT Pembangkitan Jawa Bali (PJN), PT PGN (Persero) Tbk, and PT Petrokimia Gresik as buyers; and HSBC - Singapore Branch, as the trustee bank.

Pursuant to GSAs, buyers are to make payments for the natural gas sold thereunder to a trustee and paying agent appointed by the Contractor and BPMIGAS under the TPAA. The Trustee as the trustee and paying agent will receive, hold, manage and disburse amounts paid by buyers under the GSAs. The account balance also includes interest for the period December 2005 until September 30, 2007, which was recognized as interest income for the current period.

## 7. TRADE RECEIVABLES

This account consists of:

a. *By Debtor - Third Parties*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Local Debtors | | |
| PT Pertamina (Persero) | 73,861,719 | 56,757,706 |
| PT Perusahaan Listrik Negara (Persero) | 17,688,999 | 11,697,638 |
| PT Petrokimia Gresik | 10,114,589 | 45,571,940 |
| PT Perusahaan Gas Negara (Persero) Tbk | - | 27,372 |
| Foreign Debtor | | |
| Petro Diamond Co., Ltd. | 306,911 | 620,406 |
| Total | 101,972,218 | 114,675,062 |

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

## 7. TRADE RECEIVABLES *(Continued)*

b. *By Age Category*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Up to 30 days | 41,426,234 | 39,573,228 |
| 31 - 60 days | 43,421,462 | 68,246,074 |
| Over 60 days | 17,124,522 | 6,855,760 |
| Total | 101,972,218 | 114,675,062 |

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 September 30, 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 | 162,221,538 | 234,982,790 |
| Receivable from suppliers | 29,446,875 | 24,515,799 |
| Receivable from employees | 23,991,383 | 23,309,335 |
| Overhead receivables from PSC | 2,652,079 | 21,341,115 |
| Pacework International Ltd. | - | 62,454,864 |
| Others | 149,675,105 | 114,626,006 |
| Total | 367,986,980 | 481,229,909 |
| Allowance for doubtful accounts | - | 80,344 |
| Net | 367,986,980 | 481,149,565 |

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.

Others receivables in 2007 mainly represent receivables arising from gas delivered through PGN Offtake Porong for the period from December 2006 to September 2007 (see Note 33).

(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 | 366,147,960 | 380,112,585 |
| Fuel | 11,443,793 | 1,532,530 |
| Chemicals | 1,911,854 | 12,714,204 |
| Total | 379,503,607 | 394,359,319 |

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 | 5,394,730 | 8,230,024 |
| Insurance | 3,162,634 | 2,562,614 |
| Service charge | 310,996 | 306,017 |
| Advances | | |
| Project | 18,259,441 | 59,479,557 |
| Others | 30,969,012 | 17,501,521 |
| Total | 58,096,813 | 88,079,733 |

## 11. DUE FROM/TO RELATED PARTIES

a. *Due from Related Parties*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Lapindo Brantas, Inc. (LBI) | 565,842,949 | 390,559,615 |
| PT Energi Timur Jauh (ETJ) | 531,322,931 | 540,577,970 |
| Others | 2,512,234 | 5,271,132 |
| Total | 1,099,678,114 | 936,408,717 |

(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 received by 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 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) | 41,975,611 | 42,425,826 |
| Global Overseas Enterprise Ltd. (GOE) | 16,904,234 | 17,085,542 |
| PT Mitra Andalan Mandiri | 455,779 | 510,126 |
| Others | 175,567 | 402,462 |
| Total | 59,511,191 | 60,423,956 |

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 | 362,132,822 | - |
| Bank of New York, Singapore | 86,392,081 | 86,215,825 |
| PT Bank Mega Tbk | 74,009,700 | - |
| Credit Suisse, Singapore | 51,922,485 | 94,247,027 |
| Total | 574,457,088 | 180,462,852 |

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

Time deposits in Bank of New York, Singapore (BONY) represents 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.

(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 of the Operations Cooperation Agreement with PT Pertamina EP (see Note 37a).

Time deposits placed with 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. Time deposits 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.

All restricted time deposits are in US Dollar.

## 13. OIL AND GAS PROPERTIES

The movements of this account were as follows:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | January 1, | Addition | Deduction | Translation adjustments | September 30, |
| Cost | 10,432,736,784 | 635,602,033 | (6,969,849,536) | 120,724,977 | 4,219,214,258 |
| Accumulated depreciation, depletion and amortization | 5,211,908,020 | 84,973,368 | (5,250,947,823) | 243,111,173 | 289,044,738 |
| Net Book Value | 5,220,828,764 | | | | 3,930,169,520 |

| | 2006 (As restated - See Note 3) | | | | |
|---|---|---|---|---|---|
| | January 1, | Addition | Deduction | Translation adjustment | September 30, |
| Cost | 9,104,661,083 | 1,547,280,910 | - | (529,982,899) | 10,121,959,095 |
| Accumulated depreciation, depletion and amortization | 5,430,399,678 | 165,825,481 | - | (319,344,849) | 5,276,880,310 |
| Net Book Value | 3,674,261,405 | | | | 4,845,078,785 |

Depreciation, depletion and amortization for the nine-month periods ended September 30, 2007 and 2006 amounting to Rp 84,973,368 and Rp 165,825,481, respectively, were charged to cost of goods sold (see Note 24).

Deduction in 2007 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 2007 and 2006 amounted to USD 14.55 million and USD 28.95 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 September 30, 2007 and 2006, total sums insured were USD 390,846,735 and USD 290,587,016, respectively.

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

## 14. TRADE PAYABLES

This account consists of:

a. *By Creditors*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| PT Jasa Karya Utama | 57,671,397 | 85,430,843 |
| PT Saripari Geosains | 11,303,287 | - |
| PT Duta Energi Semesta | 7,907,722 | 55,505,778 |
| Credit Suisse | 6,890,700 | - |
| PT Alton International Indonesia | 6,839,542 | - |
| PT Agung Patria Wahana | 6,838,110 | - |
| PT Kanaka Dwimitra Manunggal | 6,390,481 | - |
| PT Dwi Prima Sembada | 5,646,408 | 6,518,075 |
| Avenir World Wide Limited | 5,482,200 | - |
| PT Radiant Utama | 4,472,586 | 2,728,696 |
| PT Jaya Wijaya Raya | 4,372,341 | 1,624,313 |
| PT Pertamina EP | 4,063,163 | 350,628 |
| PT Sarana Adikarya Utama | 3,558,665 | - |
| PT Inti Brunel Teknindo | 3,178,492 | 3,732,604 |
| PT Baruna Raya Logistics | - | 9,409,079 |
| PT Perdana Karya | - | 5,162,933 |
| PT Pacific Mitra Bersama | - | 4,469,740 |
| Pelita Air Service | - | 4,229,979 |
| PT Halliburton Indonesia | - | 3,472,360 |
| Schlumberger Geophisic Nusantara | - | 3,455,186 |
| Others (below Rp 3 billion each) | 78,872,579 | 158,024,651 |
| Total | 213,487,673 | 344,114,865 |

b. *By Age Category*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Up to 30 days | 46,501,979 | 150,221,298 |
| 31- 60 days | 46,376,708 | 34,443,467 |
| Over 60 days | 120,608,986 | 159,450,100 |
| Total | 213,487,673 | 344,114,865 |

c. *By Currency*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| US Dollar | 185,348,648 | 331,650,890 |
| Rupiah | 28,139,025 | 12,463,975 |
| Total | 213,487,673 | 344,114,865 |

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

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

## 15. OTHER PAYABLES

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Overlifting | 60,763,747 | 49,463,907 |
| Take or pay | - | 381,419 |
| Others | 2,801,114 | 37,445,938 |
| Total | 63,564,861 | 87,291,264 |

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 | 83,752,918 | 52,768,828 |
| Interest | 50,187,103 | 40,460,852 |
| Drilling | 33,224,764 | 93,237,700 |
| Support | 14,675,389 | 20,743,273 |
| Geological and geophysical | 1,258,206 | 557,832 |
| Project | 70,624 | - |
| Others | 10,102,146 | 3,969,528 |
| Total | 193,271,150 | 211,738,013 |

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

Accrued production in 2007 includes GTF payable for the period August 2005 to November 2006. As of report date, Pertamina has not signed the GTF contract with KEIL that began on August 1, 2005. Due to the absence of a signed contract for the GTF, the amount accrued for the period is still subject to change. Any addition or deduction from the accrued amount will be recognized in the income statement at the time the contract becomes effective and enforceable. The accrued production will remain outstanding, while the corresponding cash amount intended for payment is deposited in the trust account at HSBC Singapore (see Note 6).

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

## 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) | 1,395,676,750 | 3,950,271,250 |
| Merill Lynch (USD 120 million) | 1,096,440,000 | 1,108,200,000 |
| Mitsubishi Corporation (USD 25.27 million) | 230,856,180 | - |
| Japan Petroleum Exploration Co., Ltd. (USD 25.27 million) | 230,856,180 | - |
| PT Bank Niaga Tbk | 698,690 | 1,368,717 |
| PT Bank Permata Tbk | 426,700 | 439,386 |
| PT Bank Internasional Indonesia | - | 172,414 |
| Total | 2,954,954,500 | 5,060,451,767 |
| Less Current Maturity | (2,492,784,151) | (737,312) |
| Long-term Loans - Net | 462,170,349 | 5,059,714,455 |

*Credit Suisse (CS)*

The loan from CS as of September 30, 2007 represents the loan obtained by Semco. While on September 30, 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, EMP Exploration (Kangean) Ltd. shares, Kangean Energy Indonesia Ltd. (formerly EMP Kangean Ltd.) shares, 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.

Interest will be paid on a monthly basis within 60 months after the first drawdown has been made, and the principal repayment will be on a monthly basis within 24 months from the grace period.

The loan agreement relating to the above facility contains covenants that, among others, require EMP Inc. to increase its equity amount to USD 60 million no later than 18 months after the first utilization date and to maintain certain financial ratios computed based on EMP Inc.'s financial statements.

On May 16, 2007, EMP Inc. had 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 to be used as follows:

(1) Repayment of Semco's loan of USD 19 million obtained from PT Bank Mandiri (Persero) Tbk and IMG's loan of USD 7.8 million obtained from PT Bank Syariah Mandiri;
(2) Funding for capital expenditures for the Operating Companies (Korinci Baru, IMG, Semco and Costa) amounting to USD 9 million; and
(3) Funding for inter-company loan.

## 17. LONG-TERM LOANS *(Continued)*

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 is due 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 is as follows:

- THP and Operating Companies' shares.
- Receivable of IMG and Semco.
- 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 become 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 reinsureance 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 irrecovable payment instructions over dividends from the Subsdiaries.

*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 to be used as follows:

- Payment for the LBI loan from PMA Investment Advisory Ltd. and ITA's loan from PT Bank Mandiri (Persero) Tbk;
- Funding for the development and exploration of oil and gas fields in Malacca Straits PSC Block and Brantas PSC Block; and
- Funding for the operations of ITA, LBI and KPSA.

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.

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

## 17. LONG-TERM LOANS *(Continued)*

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 were as follows:

a. Interest date and maturity date

| Type of Loan | Interest Rate | Maturity Date |
|---|---|---|
| Tranche A | LIBOR plus 8.5% | 36 months from the date of the agreement |
| Tranche B | LIBOR plus 8.0% | 36 months from the date of the agreement |

b. Term of Repayment

The repayment will be executed at the date of maturity.

*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:

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 become 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.

## 17. LONG-TERM LOANS *(Continued)*

b. Loan facilities for EEKL and KEIL

MC and Japex agreed to provide a loan facility to EEKL and KEIL in respect of company'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 become 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 become 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.

*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 Permata Tbk*

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

*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 fully paid.

## 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. received reimbursement amounting to USD 39,351,080 based on BP's calculation and adjusted the balance of dividend tax liability in accordance with the calculation accordingly.

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

## 19. CAPITAL STOCK

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

| | 2007 | | |
|---|---|---|---|
| Name of Stockholder | Number of Shares | Percentage of Ownership | Total Paid-up Capital |
| PT Kondur Indonesia | 4,673,191,942 | 32.45% | 467,319,194 |
| PT Brantas Indonesia | 3,918,226,595 | 27.20% | 391,822,659 |
| Julianto Benhayudi | 314,488,667 | 2.18% | 31,448,867 |
| Rennier Abdul Rachman Latief | 165,886,786 | 1.15% | 16,588,679 |
| Public (below 5% each) | 5,329,019,382 | 37.02% | 532,901,938 |
| 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 | 4,752,855,486 | 33.00% | 475,285,549 |
| PT Brantas Indonesia | 4,280,376,242 | 29.72% | 428,037,624 |
| 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) | 4,606,180,691 | 31.99% | 460,618,069 |
| 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).

## 20. ADDITIONAL PAID-IN CAPITAL

This account consists of:

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

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

## 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 | 155,814,176 | 2,599,869,500 | (2,444,055,324) |
| Total | 443,044,460 | 3,077,689,500 | (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) |

## 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.

## 23. NET SALES

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Itochu Petroleum Co., Pte., Ltd. | 389,514,688 | - |
| PT Pertamina (Persero) | 206,173,068 | 130,091,599 |
| PT Perusahaan Gas Negara (Persero) Tbk | 68,310,536 | 46,295,020 |
| PT Petrokimia Gresik (Persero) | 38,417,915 | 222,967,509 |

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

## 23. NET SALES *(Continued)*

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| PT Perusahaan Listrik Negara (Persero) | 24,009,637 | 38,809,687 |
| Mitsubishi Corporation | - | 591,783,108 |
| Petro Diamond Co., Ltd. | - | 54,532,632 |
| Total | 726,425,844 | 1,084,479,555 |

## 24. COST OF GOODS SOLD

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Production | 290,188,760 | 278,567,812 |
| Production support | 123,965,621 | 215,898,608 |
| Depreciation, depletion and amortization | 84,973,368 | 165,825,481 |
| Workover | 82,430,105 | 36,829,588 |
| Total | 581,557,854 | 697,121,489 |

## 25. OPERATING EXPENSES

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Salaries, allowance and employee benefits | 68,442,770 | 59,572,146 |
| Professional fees | 45,096,611 | 74,548,009 |
| Rent | 9,239,386 | 10,268,941 |
| Representation and donation | 6,653,621 | 4,959,111 |
| Business traveling | 4,559,261 | 2,872,613 |
| Telephone, facsimile and internet | 2,559,077 | 2,441,471 |
| Depreciation | 1,804,060 | 1,750,962 |
| Office expenses | 1,284,963 | 3,045,743 |
| Insurance | 1,278,676 | 1,119,163 |
| Others (below Rp 500 million each) | 11,315,143 | 17,269,595 |
| Total | 152,233,568 | 177,847,754 |

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

## 26. OTHER INCOME (CHARGES)

a. *Financing Charges*

This account consists of:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Interest and financing charges | 175,422,988 | 165,047,439 |
| Others | 11,764,179 | 2,845,710 |
| Total | 187,187,167 | 167,893,149 |

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 56,500,253 (USD 6,158,737) in relation to pipeline damage in the Pagerungan field in the North Bali Sea in 2002.

## 27. TAXATION

a. *Prepaid Tax*

This account represents overpayment of corporate income tax.

b. *Taxes Payable*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Corporate income and dividend tax | - | 13,104,342 |
| Income tax | | |
| Article 4 (2) | 182,096 | 355,783 |
| Article 21 | 8,268,943 | 7,632,406 |
| Article 22 | 35,537 | - |
| Article 23 | 14,895,637 | 19,461,974 |
| Article 26 | 21,423,576 | 10,027,313 |
| Value Added Tax | 43,195,068 | 62,769,321 |
| Total | 88,000,857 | 113,351,139 |

EEKL and KEIL are registered as UK and USA tax residents, respectively. No UK and USA tax liability was recognized as of September 30, 2007 based on the Subsidiaries' calculation.

RHI has no taxable income, hence the management believes that RHI has no income tax liability as of September 30, 2007.

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

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

## 27. TAXATION *(Continued)*

MBF and EMP Finance are registered in the Netherlands. The MBF and EMP Finance's estimated income tax liability is nil as of September 30, 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 a lawsuit to the State Administration Court opposing such SKPKB. As of September 30, 2007, there has been no reply from the Tax Office regarding this matter.

Management believes that the Subsidiaries will have favorable outcomes from all the objection and lawsuit proceedings.

In October and November 2007, Bentu 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.

c. *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 | (24,154,188) | (29,117,404) |
| Deferred tax | | |
| The Company | 22,049,299 | 57,132,089 |
| Subsidiaries | 221,253,161 | 133,242,106 |
| Sub-total | 243,302,460 | 190,374,195 |
| Total | 219,148,272 | 161,256,791 |

d. *Current Tax - The Company*

Reconciliation between loss before tax as shown in the consolidated statements of income and estimated fiscal losses for the nine-month periods ended September 30, 2007 and 2006, calculated with the effective tax rate, is as follows:

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Loss before tax per consolidated statements of income | (133,801,004) | (308,739,736) |
| Deduct: loss before tax - the Subsidiaries | (64,473,671) | (121,478,784) |
| Loss before tax - the Company | (69,327,333) | (187,260,952) |

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

## 27. TAXATION *(Continued)*

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Loss before tax - the Company | (69,327,333) | (187,260,952) |
| Timing difference: | | |
| Employee benefits | (2,558,001) | 395,161 |
| Permanent differences: | | |
| Representation and donations | 5,459,688 | 4,360,811 |
| Interest income | (10,206,276) | (8,253,927) |
| Others | 576,257 | 713,772 |
| Total | (6,728,332) | (2,784,183) |
| Estimated fiscal loss | (76,055,665) | (190,045,135) |
| Estimated cumulative fiscal losses beginning of period | (276,592,400) | (56,306,379) |
| Dividend received | 69,285,424 | - |
| Cumulative tax loss carried forward - the Company | (283,362,570) | (246,351,514) |

e. <u>*Deferred Tax*</u>

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 and Equity | September 30, |
| <u>Deferred tax assets</u> | | | | | |
| Employee benefit | 7,142,912 | (1,501,943) | 72,274 | 564,891 | 6,278,134 |
| Fiscal loss | 83,038,648 | - | - | (20,741,251) | 62,297,397 |
| Depreciation, depletion and amortization | (605,646,340) | 223,102,978 | (7,571,174) | (133,665,201) | (523,779,737) |
| Non-capital inventory | (63,425,094) | 28,701,420 | (721,938) | 2,944,307 | (32,501,305) |
| Unrecovered charges | 840,114,043 | (279,035,020) | 11,072,957 | 357,019,824 | 929,171,804 |
| Total | 261,224,169 | (28,732,565) | 2,852,119 | 206,122,570 | 441,466,293 |
| <u>Deferred tax liabilities</u> | | | | | |
| Employee benefit | 5,519,158 | - | 75,530 | 1,237,467 | 6,832,155 |
| Depreciation, depletion and amortization | (317,910,982) | - | (4,071,086) | 16,517,750 | (305,464,318) |
| Non-capital inventory | (37,746,947) | - | (493,966) | (1,360,975) | (39,601,888) |
| Total | (350,138,771) | - | (4,489,522) | 16,394,242 | (338,234,051) |
| Deferred Tax Benefit credited to Income | | | | 243,302,460 | |
| Deferred Tax Expense charged to Equity | | | | 20,785,648 | |

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

## 27. TAXATION *(Continued)*

| | 2006 (As restated - see Note 3) | | | |
|---|---|---|---|---|
| | January 1, | Translation Adjustments | Credited (charged) to Income | September 30, |
| Deferred tax assets | | | | |
| Employee benefit | 3,818,187 | (557,532) | 264,919 | 3,525,574 |
| Fiscal loss | 16,943,175 | 393,939 | 57,020,834 | 74,357,948 |
| Depreciation, depletion and amortization | (156,023,529) | 9,336,743 | (16,122,672) | (162,809,458) |
| Non-capital inventory | (1,280,780) | 70,374 | (1,075,404) | (2,285,810) |
| Unrecovered charges | 298,529,029 | (17,566,641) | 75,652,881 | 356,615,269 |
| Total | 161,986,082 | (8,323,117) | 115,740,558 | 269,403,523 |
| Deferred tax liabilities | | | | |
| Employee benefit | 2,581,527 | (139,887) | 2,460,815 | 4,902,455 |
| Depreciation, depletion and amortization | (386,859,709) | 21,698,446 | (258,344,684) | (623,505,947) |
| Non-capital inventory | (29,841,660) | 1,772,038 | (5,149,430) | (33,219,052) |
| Unrecovered charges | 88,747,816 | (3,139,883) | 335,666,936 | 421,274,869 |
| Total | (325,372,026) | 20,190,714 | 74,633,637 | (230,547,676) |
| Deferred Tax Benefit | | | 190,374,195 | |

## 28. BASIC EARNINGS 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 | 85,344,199 | (147,482,945) |
| Number of shares | | |
| Weighted average number of shares for the calculation of basic earnings per share | 14,400,813,372 | 13,966,035,377 |
| Basic earnings (loss) per share (in full amount) | 5.93 | (10.56) |

The Company did not calculate diluted earnings per share since the Company had no shares that had a potential dilutive effect for the nine-month periods ended September 30, 2007 and 2006.

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

## 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 | 7,354,535 | 4,857,359 |
| Interest cost | 6,590,447 | 4,234,522 |
| Expected return on plan assets | (5,757,843) | (1,940,633) |
| Net actuarial losses recognized | 4,168,810 | 4,359,954 |
| Past-service cost | (74,431) | (100,624) |
| Total | 12,281,518 | 11,410,578 |

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 | 99,118,613 | 99,570,040 |
| Fair value of employee benefit plan assets | (53,981,073) | (51,456,547) |
| Funding status | 45,137,540 | 48,113,493 |
| Unrecognized actuarial loss | (11,146,743) | (24,453,990) |
| Unrecognized past-service liability | 84,747 | 85,655 |
| Employee benefits obligation | 34,075,544 | 23,745,158 |

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

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

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

| | 2007 | 2006 (As restated - see Note 3) |
|---|---|---|
| Balance at beginning of the period | 32,501,528 | 18,281,839 |
| Contribution for the period | (10,323,055) | - |
| Benefit paid | (384,447) | (5,947,259) |
| Amount charged to consolidated statements of income | 12,281,518 | 11,410,578 |
| Balance at end of the period | 34,075,544 | 23,745,158 |

The employee benefits obligations as of September 30, 2007 for the Company, KPSA, ITA and KEIL were computed based on the actuarial report for the year ended December 31, 2007, which were prepared by PT Bumi Persada Aktuaria, an independent actuarial firm, in its reports dated October 29, 2007, and for September 30, 2006 in its reports dated July 20, 2006. 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 | : Old 18-45 = 1% per annum and old > 46 = 0% |
| Normal retirement age | : 56 years (all employees are assumed to retire at normal retirement age) |

The employee benefits obligation for September 30, 2007 for Costa was computed based on the actuarial report for the year ended December 31, 2007, which were prepared by PT Dian Artha Tama, an independent actuarial firm, in its reports dated September 24, 2007. 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 | : Old 18-45 = 1% per annum and old > 46 = 0% |
| Normal retirement age | : 56 years (all employees are assumed to retire at normal retirement age) |

Korinci Baru, Bentu, Semco and IMG, the Subsidiaries, did not make employee benefits computation for the nine-month periods ended September 30, 2007 because the amount is not material.

## 30. NATURE OF RELATIONSHIP WITH RELATED PARTIES

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.

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

## 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.

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

| | 2007 | | | |
|---|---|---|---|---|
| | Trading | Mining | Eliminations | Consolidated |
| **SALES** | | | | |
| External sales | - | 726,425,844 | - | 726,425,844 |
| **RESULT** | | | | |
| Segment result | - | 144,867,990 | - | 144,867,990 |
| Unallocated expenses | | | | (152,233,568) |
| Loss from operations | | | | (7,365,578) |
| Financing charges | | | | (24,717,699) |
| Other charges | | | | (101,717,727) |
| Loss before tax | | | | (133,801,004) |
| Tax benefit - net | | | | 219,148,272 |
| Income before minority interest | | | | 85,347,268 |
| Minority interest | | | | (3,069) |
| Net income | | | | 85,344,199 |
| **OTHER INFORMATION** | | | | |
| **Assets** | | | | |
| Segment assets | 6,508,142,797 | 7,507,317,861 | (6,787,331,824) | 7,228,128,834 |
| Unallocated assets | | | | 441,466,293 |
| Consolidated total assets | | | | 7,669,595,127 |
| **Liabilities** | | | | |
| Segment liabilities | (586,088,454) | (5,258,035,047) | 1,752,897,818 | (4,091,225,683) |
| Unallocated liabilities | | | | (338,234,051) |
| Consolidated total liabilities | | | | (4,429,459,733) |
| Capital expenditure | - | 635,602,033 | - | 635,602,033 |
| Depreciation, depletion, and amortization | 1,774,728 | 85,002,700 | - | 86,777,428 |

| | 2006 (As restated - see Note 3) | | | |
|---|---|---|---|---|
| | Trading | Mining | Eliminations | Consolidated |
| **SALES** | | | | |
| External sales | - | 1,084,479,555 | - | 1,084,479,555 |
| **RESULT** | | | | |
| Segment result | - | 387,358,066 | - | 387,358,066 |
| Unallocated expenses | | | | (177,847,754) |
| Income from operations | | | | 209,510,312 |
| Financing charges | | | | (167,893,149) |
| Other charges | | | | (350,356,899) |

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

## 31. SEGMENT INFORMATION *(Continued)*

| | 2006 (As restated - see Note 3) | | | |
|---|---|---|---|---|
| | Trading | Mining | Eliminations | Consolidated |
| Loss before tax | | | | (308,739,736) |
| Tax benefits - net | | | | 161,256,791 |
| Loss before minority interest | | | | (147,482,945) |
| Minority interest | | | | - |
| Net loss | | | | (147,482,945) |
| **OTHER INFORMATION** | | | | |
| **Assets** | | | | |
| Segment assets | 4,741,385,064 | 8,615,566,443 | (5,153,191,620) | 8,203,759,887 |
| Unallocated assets | | | | 269,403,523 |
| Consolidated total assets | | | | 8,473,163,410 |
| **Liabilities** | | | | |
| Segment liabilities | (97,825,668) | (7,712,418,036) | 1,608,028,405 | (6,202,215,299) |
| Unallocated liabilities | | | | (230,547,676) |
| Consolidated total liabilities | | | | (6,432,762,975) |
| Capital expenditure | - | 1,547,280,910 | - | 1,547,280,910 |
| Depreciation, depletion, and amortization | 1,658,549 | 165,917,894 | - | 167,576,443 |

*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 | 206,173,068 | 130,091,599 |
| East Java | 130,738,088 | 308,072,215 |
| International | | |
| Singapore | 389,514,688 | 646,315,741 |
| Total | 726,425,844 | 1,084,479,555 |

## 32. COMMITMENTS

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

The Subsidiaries entered into agreements in 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:

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 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 will 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 September 30, 2007 and 2006, the estimated site restoration liabilities amounted to USD 13.66 million and USD 10.56 million, respectively, and the provision funding amounted to USD 11.16 million and USD 8.05 million, respectively.

10. Participation

    BPMIGAS shall have the right to demand from the Subsidiaries a 10% working interest in the total rights and obligations under the PSC. 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 not exceeding 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, as approval from PLN's shareholders to carry out the agreement had not yet been received. The Mutual Agreement stated, among others, that from 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 become 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 December 2005, KEIL and EEKL entered Sales and Purchase Gas Agreement with:

a. PT Perusahaan Listrik Negara (Persero), which shall expire on the earlier of December 31, 2024 or the volume of 368.7 TBTU having been fulfilled;
b. PT Perusahaan Gas Negara (Persero), which shall expire on the earlier of September 30, 2007 or the volume of 6.38 TBTU having been fulfilled;
c. PT Petrokimia Gresik (Persero), which shall expire on the earlier of December 31, 2015 or the volume of 241.86 BSCF having been fulfilled;
d. PT Pembangkitan Jawa Bali, which shall expire on the earlier of September 30, 2007 or the volume of 12.99 BBTU having been fulfilled;
e. Pertamina, which shall expire on the earlier of December 31, 2016 or the volume of 221 TBTU having been fulfilled; and
f. PT Indogas Kriya Dwiguna, which shall expire on the earlier of December 31, 2017 or the volume of 79.2 TBTU having been fulfilled.

(2) Semco

On September 30, 2005, PT Pertamina (Persero) signed the Gas Sales and Purchase 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, and 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.

## 33. CONTINGENCIES *(Continued)*

*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 was subject to a blownout 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 the delivery by Santos and PGN should pay to Santos for all gas delivery. Santos shall repay EEKL and KEIL in kind with gas equivalent to 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 disputed situation 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.

The negotiations between EEKL, KEIL and Santos to settle the issue are still ongoing. No agreement had been reached on the settlement of the account as of the date of this report.

As per confirmation received from PGN dated December 7, 2007, wherein there was a discrepancy in quantity of 578,952.75 MMBTU at a price of USD 2.59 in the amount of USD 1,499,487.62, it was also confirmed that the sales of gas for the period December 2006 to January 2007 with a quantity of 1,157,988.38 MMBTU in the amount of USD 2,999,189.90 had already been paid to Santos.

As of audit date, the account is considered as being past due and with the difference in the confirmation from PGN, 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 risks inherent in drilling for and production and transportation of natural gas and oil, such as fires, natural disasters, explosions, encountering formations with abnormal pressures, 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

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

## 34. OPERATING HAZARDS AND UNSECURED RISKS *(Continued)*

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 maintain coverage for 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 signed by Kondur Petroleum S.A. - IJV, and Kangean Energy Indonesia Ltd. - IJV (formerly EMP Kangean Ltd – IJV) 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. Expenditures incurred in the abandonment of exploratory wells and the restoration of their drill sites shall be charged as operating cost in accordance with PSC, calculated based on the total estimated cost of abandonment and site restoration for each discovery divided by the total estimated number of economic years of each discovery. The estimates shall be reviewed on an annual basis and shall be adjusted each year as required.

## 36. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As of September 30, 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 | 58,176,432 | 531,558,058 | USD | 89,888,776 | 830,122,855 |
| | Euro | 17,178 | 222,246 | Euro | 12,051 | 137,044 |
| Restricted cash in bank | USD | 5,435,741 | 49,666,367 | USD | - | - |
| Restricted time deposits | USD | 62,871,521 | 574,457,088 | USD | 19,541,186 | 180,462,852 |
| Trade receivables | USD | 11,160,361 | 101,972,218 | USD | 12,417,440 | 114,675,062 |
| Other receivable | USD | 33,394,291 | 305,123,635 | USD | 52,100,657 | 481,149,565 |
| Due from related parties | USD | 120,354,223 | 1,099,676,537 | USD | 101,397,804 | 936,408,717 |
| Site restoration fund | USD | 11,159,747 | 101,966,604 | USD | 8,053,330 | 74,372,498 |
| Subsidiary's dividend tax | USD | - | - | USD | 22,044,678 | 203,582,601 |
| Total Assets | | | 2,764,642,753 | | | 2,820,911,194 |
| **Liabilities** | | | | | | |
| Trade payable | USD | 20,330,190 | 185,756,948 | USD | 35,912,386 | 331,650,890 |
| Other payable | USD | 6,956,863 | 63,564,861 | USD | 9,452,221 | 87,291,264 |
| Accrued expense | USD | 21,152,583 | 193,271,150 | USD | 22,927,776 | 211,738,013 |
| Due to related parties | USD | 6,513,209 | 59,511,191 | USD | 6,542,930 | 60,423,956 |
| Long-term loans | USD | 323,282,162 | 2,953,829,111 | USD | 547,750,000 | 5,058,471,250 |
| Site restoration obligations | USD | 13,659,745 | 124,809,091 | USD | 10,559,452 | 97,516,536 |
| Subsidiary divident tax | USD | 39,351,080 | 359,550,814 | USD | 22,044,678 | 203,582,601 |
| Total Liabilities | | | 3,940,293,166 | | | 6,050,674,510 |
| Net Liabilities | | | (1,175,650,413) | | | (3,229,763,316) |

## 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 take over the shares.

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 the 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 initial payment of these amounts, and the other 50% shall be a 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 a 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 Bapepam 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 had been satisfied. Therefore, the transaction of EMP Inc.'s new shares issuance was effective on May 16, 2007.

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 Perusahaan Gas Negara (PGN), Porong distribution pipeline. The gas is to be used by Gresik Petrochemical (PKG). As the PGN Porong distribution pipeline can handle a maximum flow of 67 MMCFD gas, the remaining 22 MMCFD gas is being supplied by the Santos Maleo's field.

## 38. SUBSEQUENT EVENT

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

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

(i) 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;
(ii) PT Petrokimia Gresik (Persero), which shall expire on the earlier of June 30, 2018 or the volume of 241.86 BSCF having been fullfiled;
(iii) Pertamina/PT Pertagas, which shall expire on the earlier of March 31, 2019 or the volume of 221 TBTU having been fullfiled; and
(iv) PT Indogas Kriya Dwiguna, which shall expire on the earlier of February 6, 2021 or the volume of 79.2 TBTU having been fullfiled.

b. *The Subsidiary's Loan Agreement*

At October 18, 2007, Enviroco Company Ltd. (ECL), a Subsidiary, has obtained a term loan facility from PMA Capital Management Ltd. as a facility agent with maximum of USD 108 million. This loan will be used for the company's general working capital purposes and is secured by the entire EMP Inc. shares and ECL shares owned by the Company.

## 39. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the consolidated financial statements for September 30, 2006 have been reclassified to conform to the presentation of accounts in the consolidated financial statement for September 30, 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 December 17, 2007.

## RESERVE ESTIMATION

The following information on gross proven developed, undevelopen 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 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 |
| | MBOE | MBOE | MBOE | MBOE | MBOE | MBOE | MBOE |
| *Proven developed, undeveloped and probable reserves* | | | | | | | |
| Balance as of January 1, 2006 | 34,529 | 211,922 | 5,116 | 22,399 | 335 | 12,595 | 48,273 |
| Revision to previous estimation | - | (16,667) | - | - | 882 | - | - |
| Production during the period | (2,549) | (2,751) | (78) | (101) | (157) | - | - |
| Balance as of September 30, 2006 | 31,980 | 192,504 | 5,038 | 22,298 | 1,060 | 12,595 | 48,273 |
| Balance as of January 1, 2007 | 31,177 | 243,435 | 4,993 | 22,233 | 1,021 | 12,595 | 48,273 |
| Production during the period | (2,276) | (2,141) | (100) | (427) | (91) | (169) | - |
| Balance as of September 30, 2007 | 28,901 | 241,294 | 4,893 | 21,806 | 930 | 12,426 | 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 |
| | MBOE | MBOE | MBOE | MBOE | MBOE | MBOE | MBOE |
| *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 | - | (16,667) | - | - | 38 | - | - |
| Production during the period | (2,549) | (2,571) | (78) | (101) | (157) | - | - |
| Balance as of September 30, 2006 | 21,319 | 142,624 | 909 | 6,446 | 68 | 2,661 | 23,062 |
| Balance as of January 1, 2007 | 20,516 | 135,207 | 864 | 6,381 | 29 | 2,661 | 23,602 |
| Production during the period | (2,276) | (2,141) | (100) | (427) | (29) | (169) | - |
| Balance as of September 30, 2007 | 18,240 | 133,066 | 764 | 5,954 | - | 2,492 | 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 September 30, 2005, were certified by Gaffney, Cline and Associates (GCA), independent petroleum engineering consultants in their report dated May 5, 2006.

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.