# IMPORTANT NOTICE

**You must read the following disclaimer before continuing**. The following disclaimer applies to the attached Offering Memorandum (the "Offering Memorandum"). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED UNDER REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.**

**Restrictions:** The attached Offering Memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Memorandum. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law.

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You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

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The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the issuer of the securities and the Dealers nor any of their employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

**Confirmation of Your Representation:** You have accessed the attached document on the basis that you have confirmed your representation that (1) you and any customers you represent are (i) qualified institutional buyers (as defined under Rule 144A under the Securities Act), or (ii) neither resident in the United States nor a U.S. person (as defined under Regulation S under the Securities Act) and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, (2) you consent to delivery of the attached Offering Memorandum and any amendments or supplements thereto by electronic transmission and (3) you agree to the foregoing terms and conditions.

**OFFERING MEMORANDUM**

# PT PERTAMINA (PERSERO)

*(a state-owned company incorporated in the Republic of Indonesia with limited liability)*

## US$10,000,000,000

## Global Medium Term Note Program

Under this US$10,000,000,000 Global Medium Term Note Program (the "Program"), PT Pertamina (Persero) (the "Issuer"), a state-owned company established with limited liability under the laws of the Republic of Indonesia, subject to compliance with all relevant laws, regulations and directives, may, from time to time, issue notes in bearer or registered form (the "Notes").

The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed US$10,000,000,000 (or its equivalent in other currencies determined at the time of agreement to issue), subject to any duly authorized increase. The Notes may be denominated in U.S. dollars, Euros and such other currencies as may be agreed between the Issuer and the Relevant Dealers (as defined below), subject to all legal and regulatory requirements applicable to issuances in particular currencies. The Notes may bear interest on a fixed or floating rate basis, be issued on a fully discounted basis and not bear interest, or be indexed.

The Notes may be issued on a continuing basis to the Dealers and any additional Dealer(s) appointed under the Program from time to time pursuant to the terms of a Program Agreement dated May 3, 2013 (as same may be amended from time to time, the "Program Agreement"), which appointment may be for a specific issue or on an ongoing basis (each, a "Dealer" and, together, the "Dealers"). References in this Offering Memorandum to the "Relevant Dealer", in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, shall be to all Dealers agreeing to subscribe for such Notes.

Notes will be issued in Series (each, a "Series"), with all Notes in a Series having the same maturity date and terms otherwise identical (except in relation to issue dates, interest commencement dates, issue prices and related matters). Notes of each Series may be issued in one or more tranches (each, a "Tranche") on different issue dates. Details applicable to each particular Series or Tranche will be supplied in a pricing supplement to this Offering Memorandum (each, a "Pricing Supplement"), which will contain the aggregate principal amount of the Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche. This Offering Memorandum may not be used to consummate sales of Notes, unless accompanied by a Pricing Supplement.

The price and amount of Notes to be issued under the Program will be determined by the Issuer and the Relevant Dealer at the time of issue in accordance with prevailing market conditions.

Application has been made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to deal in and for the listing of and quotation of any Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission of any Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer and its respective subsidiaries and associated companies, the Program or the Notes. Unlisted Notes may be issued under the Program. The relevant Pricing Supplement in respect of any Series will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that an application to the SGX-ST for the listing of the Notes of any Series will be approved.

Notes of each Series to be issued in bearer form ("Bearer Notes") will initially be represented by interests in a temporary global Note or by a permanent global Note, in either case in bearer form (each a "Temporary Global Note" and a "Permanent Global Note", respectively), without interest coupons, which may be deposited on the relevant date of issue (the "Issue Date") with a common depositary on behalf of Clearstream Banking, société anonyme ("Clearstream") and Euroclear Bank S.A./N.V. ("Euroclear") (the "Common Depositary") or any other agreed clearance system compatible with Euroclear and Clearstream and will be sold in an "offshore transaction" within the meaning of Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act"). The provisions governing the exchange of interests in Temporary Global Notes and Permanent Global Notes (each, a "Bearer Global Note") for other Bearer Global Notes and individual definitive Bearer Notes ("Definitive Bearer Notes") are described in "Forms of the Notes". Definitive Bearer Notes will only be available in the limited circumstances as described herein.

Notes of each Series to be issued in registered form ("Registered Notes") sold in an offshore transaction will initially be represented by interests in a global unrestricted Note, without interest coupons (each an "Unrestricted Global Security"), which may be deposited on the issue date with the Common Depositary unless otherwise specified in the applicable Pricing Supplement. Beneficial interests in an Unrestricted Global Security will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear or Clearstream unless otherwise specified in the applicable Pricing Supplement. Notes of each Series sold to a qualified institutional buyer ("QIB") within the meaning of Rule 144A under the Securities Act ("Rule 144A"), as referred to in, and subject to the transfer restrictions described in, "Plan of Distribution" and "Transfer Restrictions" will initially be represented by interests in a global restricted Note, without interest coupons (each a "Restricted Global Security" and together with any Unrestricted Global Security, the "Registered Global Securities"), which will be deposited on the relevant issue date with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC"). Beneficial interests in a Restricted Global Security will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Global Clearance and Settlement Systems".

Notes in definitive registered form will be represented by registered certificates (each, a "Certificated Security"), one Certificated Security being issued in respect of each Noteholder's entire holding of Notes of one Series and will only be available in the limited circumstances as described herein.

Notes of any Series issued under the Program may be rated or unrated. When an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Program. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Investing in the Notes involves risk. See "Risk Factors" beginning on page 14 for a discussion of risks relevant to an investment in the Notes.**

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws in the United States or any other jurisdiction, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may be offered and sold (i) in the United States only to QIBs or to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) ("Institutional Accredited Investors"), in each case in transactions exempt from registration under the Securities Act and/or (ii) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. In addition, subject to certain exceptions, Bearer Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code")). See "Transfer Restrictions".

*Arrangers*

**Barclays** **Citigroup** **The Royal Bank of Scotland**

*Dealers*

**Barclays** **Citigroup** **The Royal Bank of Scotland**

**Deutsche Bank** **HSBC** **Mitsubishi UFJ Securities** **Mizuho Securities**

The date of this Offering Memorandum is March 13, 2014

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## NOTICE TO INVESTORS

**This Offering Memorandum is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below).**

No action has been or will be taken to permit a public offering of any Notes in any jurisdiction where action would be required for that purpose. No Notes may be offered or sold, directly or indirectly, and this Offering Memorandum may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction.

Neither this Offering Memorandum nor any other information supplied in connection with the Program or the Notes constitutes an offer of, or an invitation by or on behalf of our Company, Barclays Bank PLC ("Barclays"), Citigroup Global Markets Limited ("Citi") and The Royal Bank of Scotland plc ("RBS") as the arrangers of this Program (the "Arrangers"), any of the Dealers, or The Bank of New York Mellon, as trustee (the "Trustee") to subscribe for or purchase, any Notes. Subject as provided in the applicable Pricing Supplement, the only persons authorized to use this Offering Memorandum in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the Relevant Dealer or any other persons named in the section "Non-exempt Offer" of the Pricing Supplement (if any), as the case may be.

No person has been authorized to give any information or to make any representation other than those contained in this Offering Memorandum, and any information or representation not contained in this Offering Memorandum must not be relied upon as having been authorized by us, the Arrangers, any of the Dealers, the Trustee, the Paying Agent or the Registrar (each as defined herein) or any other person. Neither the delivery of this Offering Memorandum nor any sale of any Notes in connection therewith shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

No representation, warranty or undertaking, express or implied, is made by any of the Arrangers, any of the Dealers, or the Trustee, and no responsibility or liability is accepted by any thereof to the accuracy, adequacy, reasonableness or completeness of the information contained in this Offering Memorandum or any other information provided by us in connection with the Notes, their distribution or their future performance.

Neither this Offering Memorandum nor any other information supplied in connection with the Program or the Notes should be considered as a recommendation by us, the Arrangers, any of the Dealers or the Trustee that any recipient of this Offering Memorandum should purchase any of the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of our business, financial condition and affairs, and its own appraisal of our creditworthiness.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission ("SEC"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.

In connection with the issue of Notes in any Series or Tranche under the Program, the Relevant Dealer or Relevant Dealers (if any) named as the stabilizing manager(s) (the "Stabilizing Manager(s)") in the applicable pricing supplement, or any person acting for the Stabilizing Manager(s), may purchase and sell such Notes in the open market. These transactions may, to the extent permitted by applicable laws and regulations, include short sales, stabilizing transactions and purchases to cover positions created by short sales. These activities may stabilize, maintain or otherwise affect the market price of such Notes. As a result, the price of such Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time and must in any event be brought to an end after a limited time. There is no obligation on the Stabilizing Manager(s) or any of the Relevant Dealers to carry out such activities. These activities will be undertaken solely for the account of Stabilizing Manager(s) and/or the Relevant Dealers and not for or on our behalf.

## DOCUMENTS INCORPORATED BY REFERENCE

This Offering Memorandum should be read and construed in conjunction with each relevant Pricing Supplement and all other documents which are deemed to be incorporated by reference in the relevant Offering Memorandum and in the relevant Pricing Supplement. The relevant Offering Memorandum and the relevant Pricing Supplement shall, save as specified herein and therein, be read and construed on the basis that such documents are so incorporated by reference and form part of the relevant Offering Memorandum and the relevant Pricing Supplement.

This Offering Memorandum should also be read and construed in conjunction with the most recently published audited consolidated financial statements, and any interim consolidated financial statements (whether audited or unaudited) published subsequently to such consolidated financial statements, of our Company from time to time, which are included elsewhere in this Offering Memorandum and/or published on the website of the SGX-ST (www.sgx.com) and/or published on our Company's website (www.pertamina.com), which shall be deemed to be incorporated in, and to form part of, this Offering Memorandum and which shall be deemed to modify or supersede the contents of this Offering Memorandum to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of documents deemed to be incorporated by reference in this Offering Memorandum may be obtained without charge from the registered office of our Company.

## SUPPLEMENTAL OFFERING MEMORANDUM

If at any time we shall be required to prepare a supplemental Offering Memorandum, we will prepare and make available an appropriate amendment or supplement to this Offering Memorandum or a further Offering Memorandum.

## NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

The Notes may not be offered or sold to any person in the United Kingdom, other than to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire revised statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under Chapter 421-B of the New Hampshire revised statutes is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the secretary of state has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.**

## NOTICE TO PROSPECTIVE INDONESIAN INVESTORS

This offering does not constitute a public offering in Indonesia under Law Number 8 of 1995 regarding Capital Markets. This Offering Memorandum may not be distributed in Indonesia and the Notes may not be offered or sold, directly or indirectly, in Indonesia or to Indonesian citizens wherever they are domiciled, or to Indonesia residents in a manner which constitutes a public offering under the laws and regulations of Indonesia.

## ENFORCEABILITY OF FOREIGN JUDGMENTS IN INDONESIA

The Issuer is a state-owned limited liability company incorporated in Indonesia. All of our commissioners, directors and executive officers reside in Indonesia. Substantially all of the assets of the Issuer and these other persons are located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons within the United States, or to enforce against us in court, judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

We have been advised by our Indonesian legal advisor, Ali Budiardjo, Nugroho, Reksodiputro, that judgments of courts outside Indonesia are not enforceable in Indonesian courts. A foreign court judgment could be offered and accepted into evidence in a proceeding on the underlying claim in an Indonesian court and may be given such evidentiary weight as the Indonesian court may deem appropriate in its sole discretion. A claimant may be required to pursue claims in Indonesian courts on the basis of Indonesian law. Re-examination of the underlying claim would be required before the Indonesian court. There can be no assurance that the claims or remedies available under Indonesian law will be the same, or as extensive as those available in other jurisdictions.

## INDONESIAN REGULATION OF OFFSHORE BORROWINGS

Pursuant to Presidential Decree No. 39/1991, we are required to obtain prior approval from the Offshore Commercial Borrowing Team ("PKLN Team") to receive offshore borrowings and must submit periodic reports to the PKLN Team. However, the decree does not stipulate either the time frame or the format and the content of the periodic report that must be submitted. Under Presidential Decree No. 59/1972, dated October 12, 1972 ("PD 59/1972"), we are required to obtain approval from the Minister of Finance of Indonesia and report the particulars of our offshore commercial borrowings to the Minister of Finance of Indonesia and Bank Indonesia, on the acceptance, implementation, and repayment of principal and interest. In practice, this approval from the Minister of Finance under PD 59/1972 is considered to have been obtained when approval from the PKLN Team is received because the Minister of Finance of Indonesia is a member of the PKLN Team. Ministry of Finance Decree No. KEP-261/MK/IV/5/1973 dated May 3, 1973, as amended by the Ministry of Finance Decree No. 417/KMK.013/1989 dated May 1, 1989 and the Ministry of Finance Decree No. 279/KMK.01/1991 dated March 18, 1991, as the implementing regulation of this PD 59/1972, further sets forth the requirement to submit periodic reports to the Minister of Finance of Indonesia and Bank Indonesia on the effective date of the contract and each subsequent three-month period.

See "Indonesian Regulatory Framework — Indonesian Regulation of Offshore Borrowings" for information on certain regulations in Indonesia which apply to our offshore borrowings.

## LANGUAGE OF TRANSACTION DOCUMENTS

Pursuant to Law No. 24 of 2009, regarding Flag, Language, Coat of Arms and National Anthem enacted on July 9, 2009 ("Law No. 24"), agreements to which Indonesian entities are a party are required to be executed in Bahasa Indonesia, although dual language documents are permitted when a foreign entity is a party. We will execute dual English and Bahasa Indonesia versions of all transaction agreements to which the Issuer is a party. All of these documents will provide that in the event of a discrepancy or inconsistency, the parties intend that the English version would prevail. There exists substantial uncertainty regarding how Law No. 24 will be interpreted and applied in general, and to date, the Government has only issued one implementing regulation on the use of Bahasa Indonesia in the formal speech of the President and/or Vice President and other state officers. In addition to this implementing regulation, the Minister of State Owned Enterprise has also issued a Circular Letter No. SE-12/MBU/2009 dated November 3, 2009, which recommends that any state-owned enterprise must use Bahasa Indonesia in every memorandum of understanding or agreement to which such state-owned enterprise is a party. The Indonesian Ministry of Law and Human Rights has issued a clarification letter dated December 28, 2009 regarding Clarification for Implication and Implementation of Law No. 24 (the "Ministry of Law and Human Rights Clarification Letter") to clarify that the implementation of Law No. 24 is contingent upon the enactment of a Presidential Regulation and until such a Presidential Regulation is enacted, any agreement that is executed prior to the enactment of the Presidential Regulation in English without a Bahasa Indonesia version, is still legal and valid, and shall not violate Law No. 24.

The West Jakarta District Court has however issued a decision in June 2013 which voided a loan agreement on the basis that it was, among other reasons, not executed in Bahasa Indonesia. The decision of the court disagreed with the findings in the Ministry of Law and Human Rights Clarification Letter and concluded that until Law No. 24 is subject to judicial review before the Constitutional Court and amended, the requirement for agreements to which Indonesian entities are a party to be executed in Bahasa Indonesia remains, notwithstanding that a Presidential Regulation has not been enacted.

See "Risk Factors — Risks Relating to the Notes — The Indenture and certain other documents entered into in connection with the Program or any issue of Notes thereunder will also be prepared in Bahasa Indonesia as required under Indonesian law. However, there can be no assurance that, in the event of inconsistencies between the Bahasa Indonesia and English language versions of these documents, an Indonesian court would hold that the English language versions of such documents would prevail".

# CERTAIN DEFINED TERMS AND CONVENTIONS

As used in this Offering Memorandum, unless the context otherwise requires, the terms "we," "us," "our," "our Company" and "Pertamina" refer to PT Pertamina (Persero) and its consolidated subsidiaries and the term "the Issuer" refers to PT Pertamina (Persero).

In this Offering Memorandum, references to "US$," "$" and "U.S. dollars" are to United States dollars, the legal currency of the United States, references to "¥" and "Japanese Yen" are to the legal currency of Japan and references to "Rupiah," "IDR" and "Rp." are to the legal currency of Indonesia. Unless otherwise specified or the context otherwise requires, all references to "Indonesia" are references to the Republic of Indonesia. All references to the "Government" herein are references to the Government of the Republic of Indonesia. All references to "United States" or "U.S." herein are references to the United States of America. Certain terms used herein are defined in the "Glossary" contained elsewhere in this Offering Memorandum.

All references herein to the "Oil and Gas Law of 2001" are references to the oil and gas law enacted on November 23, 2001 as partially annulled by the Constitutional Court of the Republic of Indonesia on December 15, 2004 and November 13, 2012. References to "SKK MIGAS" are references to the Special Working Unit for the Implementation of Upstream Natural Oil and Gas Business Activity (*Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi*) and references to "BPMIGAS" are references to the predecessor to SKK MIGAS, the Executive Agency for Upstream Oil and Gas Activities (*Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi*), a non-profit Government-owned legal entity which was dissolved pursuant to the decision of the Constitutional Court of the Republic of Indonesia Decision No. 36/PUU-X/2012 dated November 13, 2012. References to "BPH MIGAS" are references to the Oil and Gas Downstream Regulatory Body (*Badan Pengatur Hilir Minyak dan Gas Bumi*), an independent governmental agency. For more information see "Indonesian Regulatory Framework".

See "Business — Pertamina Upstream Business — Reserves" for definitions of net reserves, proved reserves, proved plus probable reserves, proved developed reserves and proved undeveloped reserves.

See "Business — Pertamina Upstream Business — Production" for a definition of production and net production in respect of our upstream business. See "Indonesian Regulatory Framework" for a description of the production sharing arrangements between us and the Government.

Our working interest is given after taking into account any dilution due to ownership through subsidiaries which are less than wholly-owned, directly or indirectly, by us.

In respect of our downstream businesses, unless otherwise specified, all references herein to "production capacity" of a facility means the maximum amount that can, or is expected to be able to, be produced by such facility. No representation is made that the amount of production (if any) from such facility is or will or is expected to be equal to the production capacity of a facility and production capacity should not be treated as indicative of future levels of production.

Unless otherwise indicated or in the case of oil prices, references to "crude oil" or "oil" include condensate. Natural gas equivalents and crude oil equivalents are determined using the ratio of 1 mmcf of natural gas to 0.1726 mboe of oil equivalent, except in "Industry Overview", where natural gas equivalents and crude oil equivalents are determined using the ratio of 1 mmcf of natural gas to 0.176 mboe of oil equivalent.

## INDUSTRY AND MARKET DATA

This Offering Memorandum includes certain industry and market data (including forecasts and other forward-looking information) obtained from, among others, Bank Indonesia, the Economist Economic Intelligence Unit, National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional* or "BAPPENAS"), Indonesian Financial Statistics (*Statistik Ekonomi dan Keuangan Indonesia*), Central Bureau of Statistics (*Badan Pusat Statistik*, formerly known as *Biro Pusat Statistik*), Wood Mackenzie ("Wood Mackenzie"), reports of other governmental agencies, industry publications and surveys, and internal company surveys. Such industry publications and surveys and forecasts generally state that the data contained therein has been obtained from sources believed to be reliable, but except for any data we provided to Wood Mackenzie in connection with the preparation of its report dated April 3, 2013, we cannot assure you that such data is complete or accurate. Such data has not been independently verified, and neither we, except with respect to any data we provided to Wood Mackenzie in connection with the preparation of its report dated April 3, 2013, nor the Arrangers or any Dealer make any representation as to the accuracy or completeness of such data or any assumptions relied upon therein. The industry and market data contained in this Offering Memorandum, including under "Industry Overview", which are derived from Wood Mackenzie's report dated April 3, 2013, has not been updated.

Financial data with respect to Indonesia provided in this Offering Memorandum may be subsequently revised in accordance with Indonesia's ongoing maintenance of its economic data, and such revised data will not be distributed by us to any holder of the Notes.

## PRESENTATION OF FINANCIAL AND OTHER DATA

***Exchange Rate Information***

Solely for convenience, this Offering Memorandum contains translations of certain Rupiah amounts into U.S. dollars at the exchange rate of Rp. 12,189 = US$1.00, which was the middle exchange rate announced by Bank Indonesia as of December 31, 2013 and translations of certain Japanese Yen amounts into U.S. dollars at the exchange rate of ¥100 = US$0.95, which was the exchange rate as of December 31, 2013 as used in our audited consolidated financial statements for the year ended December 31, 2013. The middle exchange rate announced by Bank Indonesia as of March 5, 2014 was Rp. 11,580 = US$1.00. These translations should not be construed as representations that the Rupiah amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. See "Exchange Rates and Exchange Controls" for further information regarding the rates of exchange between the Rupiah and the U.S. dollar.

***Financial Information***

Our consolidated financial statements and, unless otherwise indicated, financial information in this Offering Memorandum has been prepared in accordance with Indonesian Financial Accounting Standards ("IFAS"), which differ in certain respects from generally accepted accounting principles in the United States ("U.S. GAAP"). For a summary of certain differences between IFAS and U.S. GAAP, see "Summary of Certain Differences Between Indonesian Financial Accounting Standards and U.S. GAAP". Except as otherwise indicated or the context otherwise requires, financial information in this Offering Memorandum is presented on a consolidated basis.

***Rounding***

Rounding adjustments have been made in calculating some of the financial information included in this Offering Memorandum. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

### *Non-GAAP Financial Measures*

This Offering Memorandum includes certain non-GAAP financial measures for Pertamina, including EBITDA. EBITDA, as well as the related ratios presented in this Offering Memorandum, are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with, IFAS or U.S. GAAP. EBITDA is not a measurement of financial performance or liquidity under IFAS or U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFAS or U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of liquidity. In addition, EBITDA is not a standardized term, hence a direct comparison between companies using such a term may not be possible.

See "Summary Consolidated Financial and Other Data" and "Selected Consolidated Financial and Other Data" for a reconciliation of our net income under IFAS to our definition of EBITDA.

### *Oil and Gas Reserves*

The information on our historical oil and gas reserves in this Offering Memorandum is based on our estimated "net reserves" and, as such, represents our aggregate share of the estimated crude oil and/or natural gas reserves in all blocks or fields or specified areas, attributable to our working interest in such areas, before deducting the share payable to the Government as owner of the reserves pursuant to the terms of the relevant production sharing arrangement, the cost recovery portion and any applicable taxes. These estimates have been prepared based on our oil and gas resource management system, which contains procedures for classifying and estimating reserves. From 2012, the procedures for our oil and gas resource management system and the classifications of reserves with respect to our reserves, other than our reserves managed by our subsidiary, PT Pertamina EP ("PEP"), are consistent with the Petroleum Resources Management System 2007 ("PRMS 2007"), which is generally considered the oil and gas industry standard for reserve reporting. We have, however, continued to use the Society of Petroleum Engineers 2001 guidelines (the "SPE 2001 guidelines"), which were replaced by PRMS 2007, to determine the procedures for our oil and gas resource management system and the classifications of reserves with respect to our reserves managed by PEP. Prior to 2012, we used the SPE 2001 guidelines to determine the procedures for our oil and gas resource management system and the classification of reserves with respect all our reserves save with respect to the Cepu block where the reserves are determined in accordance with PRMS 2007. We expect to continue using PRMS 2007 to classify and estimate new oil and gas reserves that we acquire (other than new reserves which are to be managed by PEP). We expect to continue using the SPE 2001 guidelines for new reserves which are to be managed by PEP, unless directed otherwise by SKK MIGAS. Investors should note that different reserves reporting systems employ different assumptions, and that our methodologies for classifying reserves and our reserves classifications vary in certain respects from the methodologies and classifications used by oil and gas companies subject to the reporting obligations of the SEC. As a result, because of the impact of such assumptions and the application of such guidelines, identical raw data can produce varying estimates of reserves.

Estimates of reserves are largely dependent on the interpretation of data obtained from drilling, testing and production and may prove to be incorrect over time. In addition, estimates of proved reserves that may be developed and produced in the future are frequently based upon volumetric calculations and by analogy to similar types of reservoirs, rather than upon actual production history. Subsequent evaluation of the same reservoirs based upon production history may result in revisions to the estimated proved or proved plus probable reserves. The estimation of reserves involves a significant degree of judgment by our management, engineers and technical personnel. No assurance can be given that the reserves presented in this Offering Memorandum will be recovered at the levels presented. See "Risk Factors — Risks Relating to Our Upstream Operations — Our crude oil, natural gas and geothermal reserve estimates are uncertain and may prove to be incorrect over time or may not accurately reflect actual reserve levels, or even if accurate, technical limitations may prevent us from retrieving these resources".

See “Business — Pertamina Upstream Business — Reserves” for definitions relating to our reserves and details of our reserve estimation methodology and techniques.

## AVAILABLE INFORMATION

In the event that Notes are offered and sold in reliance on Rule 144A, we shall, for so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which we are not subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any qualified institutional buyer (as defined in Rule 144A) who is a holder of such restricted securities and any prospective purchaser of such restricted securities who is a qualified institutional buyer (as so defined) designated by such holder, upon the request of such holder or prospective purchasers, the information concerning us required to be provided to such holder or prospective purchaser by Rule 144A(d)(4) under the Securities Act.

## FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes, and any amendment or supplement, may include forward-looking statements. All statements other than statements of historical facts included in this Offering Memorandum and any amendment or supplement regarding, among other things, our future financial position and results of operations, business, strategy, plans, developments and prospects, the condition and prospects of the oil, gas and geothermal industries, and Indonesia’s economy, fiscal condition, debt or prospects may constitute forward-looking statements. Forward-looking statements can generally be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “continue” or similar terminology. Specifically, statements under the captions “Summary,” “Industry Overview,” “Risk Factors”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business,” “Indonesian Regulatory Framework” and “Relationship with the Government” relating to the following matters may include forward-looking statements relating to:

- the expected results of our exploration, development, production, refining and distribution activities and related capital expenditures and investments;

- our oil, gas and geothermal reserve estimates, the classification of our oil, gas and geothermal reserves and our ability to extract oil, gas and geothermal energy;

- our strategic, business and financial plans and objectives, including budgeted and future capital expenditures, acquisitions and investments, (i) in respect of future oil, gas and geothermal exploration, development and production; (ii) in respect of the future construction, expansion, production capacity and utilization of certain refining and other facilities; and (iii) in respect of the future construction, expansion, acquisition or operation of our distribution, trading and transportation networks;

- the anticipated demand and selling prices for crude oil, natural gas, geothermal energy, refined petroleum and petrochemical products, drilling activities and power;

- sales to existing and potential customers, whether under sales contract or not, and generation of future receivables;

- our ability to be and remain competitive in each of our main business segments;
- our financial position, business strategy and budget, including projected financial and operating data;
- existing and future regulatory requirements applicable to us and our businesses; and
- existing and future obligations in respect of environmental compliance and remediation.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should therefore be considered in light of various important factors, including those set out in this Offering Memorandum. Factors that could cause actual results to differ include, but are not limited to, the following:

- economic, social and political conditions in Indonesia and other countries in which we operate;
- increases or other changes in regulatory burdens and obligations in Indonesia and other countries, including our public service obligation ("PSO"), dividend obligations, and environmental regulations and compliance costs;
- accidents, natural disasters, and other catastrophes;
- changes and volatility in market prices of or demand for key commodities produced or consumed by us, including crude oil and natural gas, as a result of competitive actions, economic factors such as inflation or exchange rate fluctuations, or otherwise;
- changes in our relationship with the Government, SKK MIGAS, BPH MIGAS and other government authorities in Indonesia and other countries in which we operate, our joint venture partners, our shareholder, our co-investors and other counterparties, in Indonesia and other countries in which we operate;
- changes in terms and conditions of the agreements under which we operate our businesses and the ability of third parties to perform in accordance with contractual terms and specifications;
- changes in import or export controls, duties, levies or taxes, either in international markets or in Indonesia;
- changes in laws and regulations and their interpretation, applicable taxes and tax rates, accounting standards or practices, and reserve reporting guidelines; and
- our ability to manage the risks described above and in the section captioned "Risk Factors".

Although we believe that the expectations of our management as reflected by such forward-looking statements are reasonable based on information currently available to us, no assurances can be given that such expectations will prove to be correct.

In addition, our management's expectations with respect to our exploration, production, development, refining and distribution activities are subject to risks arising from the inherent difficulty of predicting the presence, yield or quality of oil, gas and geothermal reserves, as well as unknown or unforeseen difficulties in extracting, transporting, refining or processing any oil, gas or geothermal energy found, or doing so on a commercial basis.

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

Should one or more of these uncertainties or risks, among others, materialize, our actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in production, capacity or performance might not be fully realized or realized at all.

Accordingly, prospective purchasers are cautioned not to place undue reliance on forward-looking statements. In any event, these statements speak only as of their dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

# SUMMARY

*This summary highlights information contained elsewhere in this Offering Memorandum. This summary is qualified by, and must be read in conjunction with, the more detailed information and the consolidated financial statements appearing elsewhere in this Offering Memorandum. We urge you to read this entire Offering Memorandum carefully, including our consolidated financial statements and related notes and "Risk Factors".*

**Overview**

We are a fully integrated national oil, gas and geothermal company, wholly-owned by the Government and headquartered in Jakarta, Indonesia. We have an operating history of more than 56 years. We were established on December 10, 1957 and became an Indonesian limited liability company in 2003.

We are engaged in a broad spectrum of upstream and downstream oil, gas, geothermal, petrochemical and other energy operations. Our lines of business are organized into upstream and downstream sectors in accordance with Indonesian oil, gas and geothermal regulations. In the upstream sector, we engage in the exploration (the search for oil, gas and geothermal energy), development (the drilling and bringing into production of wells in addition to the discovery wells in a field) and production and supply of crude oil, natural gas and geothermal energy in Indonesia and internationally. In the downstream sector, we carry out refining, marketing, distribution and trading of crude oil, natural gas, refined fuel products and petrochemical and other non-fuel products such as green coke, including products for retail, industrial and aviation uses. We are also mandated by the Government to distribute subsidized fuel, LPG and CNG in Indonesia and to assist in its efforts to encourage the use of LPG as a substitute for kerosene in Indonesian households (the "kerosene conversion program") and to encourage the use of CNG as an alternative fuel.

As of December 31, 2013, our total net proved oil and gas reserves were an estimated 3,547.2 mmboe and our total net proved plus probable oil and gas reserves were an estimated 4,643.9 mmboe. We have one of the largest oil and gas reserve bases in Indonesia and have the largest number of exploration and production blocks and the most own-operated work area acreage across Indonesia among all oil and gas companies, with a total net acreage of 113,629.8 $km^2$ as of December 31, 2013.

In 2013, we were one of the largest oil and gas producers in Indonesia, with a total daily oil and gas production of 465.9 mboe/d. We also have significant geothermal resources and an extensive distribution network of gas pipelines. We have a portfolio of six refineries with total refining capacity of 1,031 mbbls/d and significant downstream assets and infrastructure, including fuel stations, fuel terminals, LPG filling plants, aviation fuel depots, lube oil blending plants, tankers and CNG refueling stations.

Prior to September 2003, we also regulated all aspects of the oil, gas and geothermal industry on behalf of the Government. Under the Oil and Gas Law of 2001, BPMIGAS and BPH MIGAS were established to regulate the upstream and downstream sectors of the Indonesian oil and gas industries, respectively, and we transferred our regulatory responsibilities to BPMIGAS and BPH MIGAS when we became an Indonesian limited liability company in October 2003. BPMIGAS was dissolved by a decision of the Indonesian Constitutional Court on November 13, 2012 and the President of Indonesia established SKK MIGAS, an interim body which has assumed the functions and responsibilities of BPMIGAS. See "Indonesian Regulatory Framework" for more details on the establishment of SKK MIGAS. Following the enactment of the Oil and Gas Law of 2001, we have restructured our business into upstream and downstream sectors operated through separate subsidiaries. See "Corporate Structure" and "Relationship with the Government — History" for details of our history and corporate structure.

For the fiscal years ended December 31, 2011, 2012 and 2013, we had consolidated sales and other operating revenue of US$67,297.4 million, US$70,924.4 million and US$71.102.1 million, respectively. For the fiscal years ended December 31, 2011, 2012 and 2013 we had income for the year of US$2,405.3 million, US$2,765.7 million and US$3,067.1 million, respectively.

**Business Strengths**

***The Only Fully Integrated Indonesian Oil and Gas Company***

We are the only fully integrated Indonesian oil and gas company, and we have a leading market position in both the Indonesian upstream and downstream markets, providing for full integration across the oil and gas value chain.

*Leading upstream oil and gas player in Indonesia.* We have one of the largest oil and gas reserve bases in Indonesia, with estimated total net proved oil and gas reserves of 3,547.2 mmboe and estimated total net proved plus probable oil and gas reserves of 4,643.9 mmboe, as of December 31, 2013. Based on our 2013 daily production, we were among the largest oil and gas producers in Indonesia, with a total daily oil and gas production of 465.9 mboe/d. We have the largest number of exploration and production blocks and the most own-operated acreage in Indonesia, with a total net acreage of 113,629.8 km$^2$ as of December 31, 2013.

*Dominant oil refining, marketing and trading company in Indonesia*. Our comprehensive downstream portfolio significantly complements our upstream strengths. We are the dominant refining company in Indonesia, and we own and operate six refineries with a combined processing capacity of 1,031 mbbls/d. We also currently enjoy a near-total market share in the domestic fuel storage, transportation, marketing and distribution markets and have a near-total market share of Indonesia's retail filling station network, through direct ownership and long-term franchise arrangements.

***Strategically Positioned in a Fast Growing Domestic Energy Market***

In a report dated April 3, 2013, Wood Mackenzie projected energy demand in Indonesia to grow from 207 million mtoe to 306 million mtoe by 2025, largely because it is one of the lowest consumers of energy per capita within Southeast Asia. Indonesia is currently a net importer of crude oil and refined products, and to meet the escalating demand, based on current domestic output capacity, oil imports are expected to grow significantly. At the same time, the Government has stated its intention to decrease oil imports. We see this as a significant opportunity for growth, which we intend to meet by increasing our oil and gas production capabilities through upstream expansions and acquisitions.

In particular, gas demand in Java is expected to substantially exceed supply. This shortfall can be remedied by pipeline gas and liquefied natural gas ("LNG") from Sumatra and Kalimantan, areas where we own large acreage and reserves, and where our sizable gas fields in South Sumatra (Pagar Dewa), West Java (Cirebon) and East Java (Cepu) are located.

Wood Mackenzie expects Indonesia's gross domestic product ("GDP") to double from US$310 billion (in real terms) in 2011 to US$556 billion by 2025. Wood Mackenzie expects this to be supported by an increase of 27 million in population size from the current population of 245 million.

According to Wood Mackenzie, domestic demand for oil and gas is projected to increase by 37% by 2025, and the sector is expected to remain a significant driver of Indonesia's economic growth. Currently, a large proportion of Indonesia's population resides in rural areas and remain unconnected to the power grid. With increasing wealth in Indonesia, the population is likely to switch from other solid fuels to commercial sources of energy such as LPG and electricity, further sustaining total energy consumption.

Based on our presence across Indonesia and our reserves base, we are strategically positioned to meet growth in demand.

***Sustained Growth from Significant Reserves, Extensive Infrastructure Network and Proven Management Track Record***

We have one of the largest oil and gas reserve bases in Indonesia, with estimated total net proved oil and gas reserves of 3,547.2 mmboe and estimated total net proved plus probable oil and gas reserves of 4,643.9 mmboe, as of December 31, 2013. We expect our portfolio to not only provide for production longevity but also to serve as a solid foundation for production growth. We expect that our production growth potential will be primarily driven by oil development projects in Pondok Tengah and Cepu, gas development projects in Matindok, South Sumatra and Java, strategic domestic and international acquisitions and enhanced oil recovery projects at existing mature oil fields. In addition, we have an estimated 1,400 MW of proved plus probable geothermal reserves, which we expect to drive significant increases in our geothermal production.

We have maintained our leading position and market share in the oil refining, marketing and trading sectors in Indonesia, notwithstanding recent Government initiatives to liberalize the downstream sector, due to our extensive distribution network and supporting infrastructure. We believe that this gives us a substantial advantage over both our domestic and international competitors. For example, we are currently among the largest refiners in Southeast Asia and the dominant refiner in Indonesia, and in 2013, our refineries supplied approximately 59.6% of domestic fuel demand. We intend to expand our refining capacity to 1,598 mbbls/d by the end of 2020, a growth of approximately 55.0% from 2013, and to increase the number of fuel stations owned and operated by us.

We have over 56 years of operational history, and our management team and staff have a proven track record and extensive expertise in operational, engineering, technological, commercial, and financial matters. Our long operating history in the region has given us a level of institutional knowledge of and experience in the Indonesian market that is difficult for our competitors, international or domestic, to match. Our management has also gained significant expertise and knowledge through our 42-year history of strategic alliances and partnerships with major international oil and gas companies such as ExxonMobil, Shell and BP.

***Robust Financial Profile***

We have robust cash generating abilities, which have supported our operating margins and allowed us to achieve strong financial ratios. We have consistently generated EBITDA levels of over US$5.0 billion (with EBITDA of US$6.6 billion in 2013) and maintained stable EBITDA margins in the past three years, despite recent volatility in oil and gas prices. Our stable and strong cash flows are based on long-term contracts for the sale of oil, gas and refined products as well as steam and electricity to a diverse group of domestic and multinational customers, including PT Perusahaan Gas Negara (Persero) Tbk ("PGN"), Mitsui Oil Pte Ltd ("Mitsui Oil") and Mitsubishi Corporation ("Mitsubishi"). For future offtake contracts, we expect to benefit from a strong and growing customer base for production from our substantial Java and Sumatra assets.

*Strong Government Support*

As a company wholly-owned by the Government, we enjoy strong support from the Government, given the importance of our contribution to domestic revenues and our strategic position in the Indonesian oil and gas sector. For example, our oil and gas production sharing contracts ("PSCs") with the Government in general have more favorable terms than PSCs signed by foreign or private domestic oil and gas companies. Under the PSCs of PEP, our share of profits before tax is 67.2%, compared to 12% to 33% for oil and 28% to 37% for gas under a typical PSC. In addition, PT Pertamina Hulu Energi ("PHE") may be nominated by the Government to receive a 10% working interest in PSCs after the first plan of development is approved by the Ministry of Energy and Mineral Resources as PHE is the subsidiary of a state-owned enterprise. The Government's policy of providing us with a right to request to take over any oil and gas block in Indonesia for which the cooperation contract has expired also allows us to significantly expand our portfolio of domestic upstream assets and to take on attractive new opportunities.

**Business Strategy**

Our goal is to become one of Asia's leading integrated energy companies that is globally competitive with major international energy companies, oil companies and national oil companies. To achieve these goals, our development strategy is based on four parameters.

***Size and Scope — We intend to become one of Asia's leading integrated energy companies.***

We aim to maintain a leading position in our existing core businesses and seek to be a leading national oil company in Asia with a total daily oil and gas production of 2.2 mmboe/d with a dominant position in Indonesia and a growing international footprint. To achieve this goal, we plan to continue to pursue strategic acquisitions, joint ventures and investments, in particular with respect to assets that are in production or advanced stages of development, that will expand our oil, gas and geothermal business, in Indonesia and internationally and develop our gas infrastructure in Sumatra and Java. See "Business — Pertamina Upstream Business — Upstream Strategy" and "Business — Pertamina Gas Business". We also aim to maintain our existing leadership in our downstream businesses by growing and optimizing our refining capabilities, expanding our retail fuel station network and solidifying our market leadership in fuel, gas and petrochemical products distribution in Indonesia. See "Business — Pertamina Downstream Business — Downstream Strategy".

In the long term, we aim to supplement our existing core businesses and become one of Asia's leading integrated energy companies by becoming the largest petrochemical distributor in Indonesia, one of the largest power producers in Indonesia, and a producer of biofuels and LNG in addition to our current role as an operator of LNG plants on behalf of the Government.

***Efficiency — We aim to increase our efficiency and optimize our business operations and technological capabilities.***

We aim for operational excellence in all of our business activities and intend to consistently achieve above-average efficiency metrics across our operational platform. To achieve this objective, we are focusing on our core businesses and restructuring non-core businesses, streamlining our business processes relating to sales of natural gas and LNG to ensure we obtain optimal pricing, optimizing our upstream assets portfolio and oil recovery activities (see "Business — Pertamina Upstream Business — Upstream Strategy") and improving the efficiency of our refineries (see "Business — Pertamina Downstream Business — Downstream Strategy"). We have also set up a project and technology center with the aim of becoming a leader in the exploration and production of coal-bed methane and geothermal energy, and developing technology relating to deep-water drilling and enhanced oil recovery methods.

***Corporate Governance and Culture — We place a high priority on having a strong corporate governance system and a results-driven culture.***

We place a high priority on corporate governance, professionalism, and transparency, and have developed codes of conduct and corporate policies and procedures that are in line with those of our international and public counterparts. We also aim to develop a strong, results-driven corporate culture that demands the highest performance by our management and employees alike. One of our key strategies for achieving this end is through our wide range of training and education programs for our employees. To further our efforts, we are also recruiting and developing high quality managerial and technical teams, with an emphasis on the development of leadership skills.

***Positioning — We intend to become a model and a benchmark for other regional companies.***

We aim to become the preferred company of our customers, partners and potential employees. We also aim to remain one of the most highly regarded companies in Indonesia, setting a solid benchmark for Indonesian companies and other energy companies and oil and gas companies in Asia. By implementing international best practices, we believe that we can serve as a standard in terms of capabilities, technology, managerial processes, health, safety and environmental standards and good corporate governance.

**General Information**

Our full legal name is PT Pertamina (Persero). We are a state-owned limited liability company established in Indonesia under Deed of Establishment No. 20 dated September 17, 2003 drawn up before Lenny Janis Ishak, SH, Notary in Jakarta, and approved by the Minister for Justice & Human Rights under its Decision No. C-24025 HT.01.01.TH.2003 on October 9, 2003, which has been registered in the Company Registration Office of Central Jakarta and published in the State Gazette of the Republic of Indonesia No. 93 dated November 21, 2003, Supplemental State Gazette No. 11620. Our principal executive offices are located at 7th Floor, Jl. Medan Merdeka Timur 1A, Jakarta 10110, Indonesia. Our telephone number is +62 21 7917 3000.

# OVERVIEW OF THE PROGRAM

*The following overview does not purport to be complete and is taken from and is qualified in its entirety by, the remainder of this Offering Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Forms of the Notes" and "Description of the Notes" shall have the same meanings in this summary.*

Under the Program, the Company may, from time to time, issue Notes denominated in U.S. dollars, Euros or in any other currency, subject to the terms more fully set forth herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed upon by and between the Company and the relevant Dealer(s) prior to the issue of the Notes and will be set forth in the Description of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "Forms of Notes" below.

**Summary of the Program and Description of the Notes**

| | |
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| Company: . . . . . . . . . . . . . . . . . . . . . . . . | PT Pertamina (Persero) |
| Arrangers: . . . . . . . . . . . . . . . . . . . . . . . . | Barclays Bank PLC, Citigroup Global Markets Limited and The Royal Bank of Scotland plc. |
| Dealers: . . . . . . . . . . . . . . . . . . . . . . . . . . | Barclays Bank PLC, Citigroup Global Markets Limited, The Royal Bank of Scotland plc, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Mitsubishi UFJ Securities International plc and Mizuho Securities Asia Limited. The Company may issue Notes to persons other than Dealers and may terminate the appointment of any Dealer or appoint new dealers for a particular Series of Notes or for the Program. |
| Trustee: . . . . . . . . . . . . . . . . . . . . . . . . . . | The Bank of New York Mellon |
| Paying Agent(s): . . . . . . . . . . . . . . . . . . . | The Bank of New York Mellon, The Bank of New York Mellon, London Branch |
| Registrar: . . . . . . . . . . . . . . . . . . . . . . . . . | The Bank of New York Mellon |
| Euro Registrar: . . . . . . . . . . . . . . . . . . . . | The Bank of New York Mellon (Luxembourg) S.A. |
| Transfer Agent: . . . . . . . . . . . . . . . . . . . . | The Bank of New York Mellon |
| Description: . . . . . . . . . . . . . . . . . . . . . . . | Global Medium Term Note Program |
| Program Size: . . . . . . . . . . . . . . . . . . . . . | Up to US$10,000,000,000 (or its equivalent in any other currency (the "Program Limit") in aggregate nominal amount of Notes outstanding at any one time). The Company may increase the amount of the Program Limit in accordance with the terms of the Program Agreement. |

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| Method of Issue: | The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their Issue Price), the Notes of each Series being intended to be fungible with all other Notes of that Series. Each Series may be issued in tranches (each, a "Tranche") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be specified in the pricing supplement (the "Pricing Supplement"). |
| Issue Price: | Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more installments. |
| Form of Notes: | The Notes may be issued in bearer or registered form, as specified in the applicable Pricing Supplement. Certificates representing the Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "Global Securities".<br><br>Each Series of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note which, in each case, will be deposited on the Issue Date with a common depositary for Euroclear, Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream. Interests in a Temporary Global Note will be exchangeable, from the 40th day following the issue date, for either interests in a Permanent Global Note or Definitive Bearer Notes (as indicated in the applicable Pricing Supplement) and in the case of Notes to which the D Rules (as defined below) apply, upon certification of non-U.S. beneficial ownership as required by United States Treasury regulations ("U.S. Treasury Regulations"). Interests in a Permanent Global Note will be exchangeable, unless otherwise specified in the applicable Pricing Supplement, only in the limited circumstances described therein, in whole but not in part for Definitive Bearer Notes, upon written notice to the Trustee. Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream and/or any other agreed clearance system, as appropriate.<br><br>Each Series of Registered Notes, which are sold outside the United States in reliance on Regulation S, will, unless otherwise specified in the applicable Pricing Supplement, be represented by an Unrestricted Global Security, which will be deposited on or about its Issue Date with a common depositary for, and registered in the name of a nominee, of Euroclear and Clearstream. Unrestricted Global Securities will be exchangeable for Certificated Securities only in the limited circumstances more fully described herein. |

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| | Any Series of Registered Notes sold in private transactions to QIBs and subject to the transfer restrictions described in "Transfer Restrictions" will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Restricted Global Security, which will be deposited on or about its Issue Date with a custodian for, and registered in the name of a nominee of, DTC. Persons holding beneficial interests in Registered Global Securities will be entitled or required, as the case may be, under the circumstances described in the Indenture, to receive physical delivery of Certificated Securities. Registered Notes initially offered and sold in the United States to institutional accredited investors pursuant to Section 4(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act and subject to the transfer restrictions described in "Transfer Restrictions" will be issued only in definitive registered form and will not be represented by a Global Security. Bearer Notes will not be exchangeable for Registered Notes, and Registered Notes will not be exchangeable for Bearer Notes. |
| Clearing Systems: .................. | DTC, Clearstream, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Company, the Trustee and the relevant Dealer. See "Global Clearance and Settlement Systems". |
| Currencies: ....................... | Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Company and the relevant Dealer(s). |
| Maturities: ........................ | Subject to compliance with all relevant laws, regulations and directives, any maturity. |
| Specified Denomination: ............. | Notes will be in such denominations as may be specified in the relevant Pricing Supplement save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be US$100,000 (or its equivalent in any other currency as of the date of issue of the Notes) or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, the minimum specified denomination shall be US$200,000 (or its equivalent in any other currency as of the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year will have a minimum denomination of £100,000 (or its equivalent in other currencies). |
| Fixed Rate Notes: .................. | Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Pricing Supplement. |
| Floating Rate Notes: ................ | Floating Rate Notes will bear interest determined separately for each Series as set out in the Description of the Notes and the relevant Pricing Supplement. |

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| Zero Coupon Notes: ................ | Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest. |
| Dual Currency Notes: ............... | Payments in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement. |
| Index-Linked Notes: ................ | Payments of principal in respect of Index-Linked Redemption Notes or of interest in respect of Index-Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement. |
| Interest Periods and Interest Rates: ..... | The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Pricing Supplement. |
| Redemption: ...................... | The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies). |
| Redemption by Installments: .......... | The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more installments will set out the dates on which, and the amounts in which, such Notes may be redeemed. |
| Optional Redemption: ............... | The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Company (either in whole or in part) and/or the Holders, and if so the terms applicable to such redemption. |
| Redemption upon a Change of Control Triggering Event: ................ | Unless otherwise stated in the relevant Pricing Supplement and unless the Notes are previously redeemed, repurchased and cancelled, the Company will, no later than 30 days following a Change of Control Triggering Event (as defined in the indenture governing the Notes), make an Offer to Purchase (as defined in the Notes of the relevant Series) all outstanding Notes of any Series at a purchase price of 101% of their principal amount, together with accrued and unpaid interest, if any. |
| Status of Notes: .................... | The Notes will constitute direct, unsubordinated and unsecured obligations of the Company. |
| Certain Covenants: ................. | Unless otherwise stated in the relevant Pricing Supplement, the Company will agree in the terms and conditions of the Notes of any |

| | |
|---|---|
| | Series to observe certain covenants, including, among other things, the incurrence of liens, mergers, acquisitions and disposals and certain other covenants. See "Description of the Notes". |
| Events of Default: | Certain events will permit acceleration of the principal of the Notes (together with all interest and additional amounts accrued and unpaid thereon). These events include default with respect to the payment of principal of, premium, if any, or interest on, the Notes. |
| Ratings: | Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. |
| Withholding Tax: | All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes unless such withholding is required by law. Indonesia currently applies a withholding tax of 20% to payments of interest on the Notes. In respect of any such withholding required by law, the Company will pay additional amounts that will result in receipt by the holders of the Notes of such amounts as would have been received by them had no such withholding been required, subject to customary exceptions, all as described in "Description of the Notes — Taxation". |
| Selling Restrictions: | There are restrictions on the offer, sale and transfer of the Notes in the United States, Hong Kong, Singapore, Japan, Indonesia, the European Economic Area (including the Public Offer Selling Restriction under the Prospectus Directive (in respect of Notes having a specified denomination of less than US$100,000 or its equivalent in any other currency as of the date of issue of the Notes or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, US$200,000 or its equivalent in any other currency as of the date of issue of the Notes)) and the United Kingdom. See "Plan of Distribution". |
| | Bearer Notes will be issued in compliance with rules in substantially the same form as United States Treasury Regulations Section 1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the Internal Revenue Code (the "D Rules") unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with rules in substantially the same form as United States Treasury Regulations Section 1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Internal Revenue Code (the "C Rules") or (ii) Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) is not applicable. |

| | |
|---|---|
| Use of Proceeds: . . . . . . . . . . . . . . . . . . . | We intend to use net proceeds from the issue of each Tranche of Notes to finance capital expenditures and for general corporate purposes or as set forth in the applicable Pricing Supplement. |
| Listing: . . . . . . . . . . . . . . . . . . . . . . . . . . | Application has been made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to deal in and for the listing of and quotation of any Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. There is no assurance that an application to the SGX-ST for the listing of the Notes of any Series will be approved. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in any other currency). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Company and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued under the Program. The relevant Pricing Supplement will state whether or not the Notes of a Series will be listed on any exchange(s) and, if so, on which exchange(s) the Notes are to be listed. |
| Governing Law: . . . . . . . . . . . . . . . . . . . . | The Notes will be governed by, and construed in accordance with, the laws of the State of New York. |

## SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

*The summary consolidated financial information as of and for the years ended 2011, 2012 and 2013 are derived from our audited consolidated financial statements which are included elsewhere in this Offering Memorandum.*

*You should read the following summary consolidated financial information in conjunction with our consolidated financial statements and related notes, "Presentation of Financial and Other Data", "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Offering Memorandum. Our consolidated financial statements have been prepared and presented in accordance with IFAS, which differs in certain respects from U.S. GAAP. See "Summary of Certain Differences between Indonesian Financial Accounting Standards and U.S. GAAP".*

### Consolidated Statements of Comprehensive Income Data

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Total sales and other operating revenues | 67,297.4 | 70,924.4 | 71,102.1 |
| Total cost of sales and other direct costs | (59,906.2) | (63,988.2) | (64,102.9) |
| Gross profit | 7,391.2 | 6,936.3 | 6,999.3 |
| Income before income tax expense | 4,504.8 | 4,802.3 | 5,032.9 |
| Income for the year | 2,405.3 | 2,765.7 | 3,067.1 |
| Total comprehensive income | 2,398.6 | 2,751.5 | 2,896.5 |

### Consolidated Statements of Financial Position Data

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Total current assets | 17,638.0 | 22,025.6 | 24,146.4 |
| Total non-current assets | 17,352.3 | 18,933.0 | 25,195.5 |
| Total assets | 34,990.3 | 40,958.6 | 49,341.9 |
| Total short-term liabilities | 12,951.2 | 14,150.1 | 16,445.8 |
| Total long-term liabilities | 8,756.5 | 11,615.8 | 15,606.7 |
| Total liabilities | 21,707.7 | 25,765.9 | 32,052.6 |
| Total equity | 13,282.6 | 15,192.8 | 17,289.3 |
| Total liabilities and equity | 34,990.3 | 40,958.6 | 49,341.9 |

### Consolidated Statements of Cash Flows Data

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Net cash generated from operating activities | 1,974.6 | 1,792.9 | 2,483.0 |
| Net cash used in investing activities | (2,209.1) | (2,578.1) | (6,003.9) |
| Net cash generated from financing activities | 1,136.4 | 2,009.7 | 4,117.4 |

## Segment Results

The following table presents segment revenues and results for our upstream and downstream segments for the periods indicated. This table should be read together with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Offering Memorandum.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Upstream segment revenues | 7,707.2 | 8,172.9 | 7,808.3 |
| Upstream segment results | 4,520.2 | 4,458.9 | 4,347.0 |
| Downstream segment revenues | 63,732.2 | 66,635.8 | 66,176.6 |
| Downstream segment results | 827.6 | 66.1 | 103.9 |

## Non-GAAP and Other Financial Data

| | As of or for the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions, unless otherwise indicated) | | |
| Capital expenditure | 2,366.9 | 2,466.3 | 6,347.5 |
| Interest expense(1) | 141.1 | 237.0 | 379.6 |
| EBITDA(2) | 5,446.6 | 5,979.0 | 6,558.5 |
| Total debt(3) | 6,343.5 | 9,280.9 | 14,701.2 |
| Total debt/EBITDA | 1.2 | 1.6 | 2.2 |
| EBITDA/Total sales and other operating revenues (%) | 8.1 | 8.4 | 9.2 |
| Total debt to Total equity (%) | 47.8 | 61.1 | 85.0 |
| EBITDA/Interest expense (times) | 38.6 | 25.2 | 17.3 |

Notes:

(1) Interest expense is comprised of finance costs for short-term loans and long-term bank loans (including current portion), the two-step loans and bonds. For details of the two-step loans and bonds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness".

(2) We calculate EBITDA by adding depreciation, depletion and amortization, interest expense (as described in footnote (1) above) and income tax expense to net income and subtracting finance income. EBITDA is a supplemental measure of our performance and liquidity that is not required by or presented in accordance with IFAS or U.S. GAAP. EBITDA is not a measurement of financial performance or liquidity under IFAS or U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFAS or U.S. GAAP or an alternative to cash flows from operating activities as a measure of liquidity. In addition, EBITDA is not a standardized term, hence a direct comparison between companies using such term may not be possible. We have included EBITDA because we believe it is an indicative measure of our operating performance and is used by investors and analysts to evaluate companies in our industry. The following table reconciles our net income under IFAS to our definition of EBITDA for the periods indicated:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Income for the year | 2,405.3 | 2,765.7 | 3,067.1 |
| Adjustments: | | | |
| Finance income | (118.1) | (132.0) | (126.8) |
| Interest expense | 141.1 | 237.0 | 379.6 |
| Income tax expense | 2,099.5 | 2,036.6 | 1,965.8 |
| Depreciation, depletion and amortization | 918.8 | 1,071.7 | 1,272.8 |
| EBITDA | 5,446.6 | 5,979.0 | 6,558.5 |

(3) Total debt is comprised of short-term loans, long-term bank loans (including current portion), the two-step loans and bonds. For details of the two-step loans and bonds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness".

# RISK FACTORS

*An investment in the Notes involves certain risks. You should carefully consider all of the following factors, in addition to all of the information contained in this Offering Memorandum including the consolidated financial statements included herein and the related notes thereto, prior to investing in the Notes. The factors described below are not the only ones facing our company. Additional factors not presently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The trading prices of the Notes could decline due to any of these risks and you may lose all or part of your investment. This Offering Memorandum also contains forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this Offering Memorandum.*

## Risks Relating to Our Company

***The volatility in the prices of crude oil, natural gas and our refined products and the uncertainty of the market dynamics for oil and gas could adversely affect our business, financial condition, results of operations and prospects.***

Our profitability is significantly affected by the prices of, and demand for, crude oil, natural gas and refined products and the difference between the prices received for the crude oil, natural gas and refined products we produce and the costs of exploring for, developing, producing, transporting and selling these products. The international market for crude oil, natural gas and refined products is volatile, and has in recent years been characterized by significant price fluctuations. For example, the monthly average price of Indonesian Crude Price-Sumatra Light Crude Minas increased from US$61.57 per barrel in December 2006 to a high of US$138.72 in July 2008, and was US$108.06 in December 2013. The volatility of the market prices of crude oil, natural gas and refined products is subject to a variety of factors beyond our control. These factors, among others, include:

- international events and circumstances, as well as political developments and instability in petroleum producing regions, such as the Middle East (particularly the Persian Gulf and the Strait of Hormuz, Syria, Iran and Iraq), Latin America, Northern Africa (particularly Libya) and Western Africa;

- the ability of the Organization of Petroleum Exporting Countries and other petroleum-producing nations to set and maintain production levels and therefore influence market prices;

- supply levels and costs of substitute energy sources, such as coal;

- domestic and foreign government regulations with respect to oil and energy industries in general;

- fluctuations in exchange rates between the U.S. Dollar and the Rupiah;

- the level and scope of activity of global oil and natural gas exploration and production, global oil and natural gas inventories, oil speculators and other commodity market participants;

- weather conditions and seasonality;

- changes to crude oil, natural gas and refined products pricing policies in Indonesia; and

- overall global, domestic and regional economic conditions.

Although we believe that the oil and gas price assumptions on which we have based our long-term development and budget projections are realistic and sustainable, there can be no assurance that the recent increases in the price of energy, and in particular in the price of crude oil, will continue or be sustained. Volatility and any significant decreases in the price of crude oil and natural gas, or any market or operational developments that increase our costs of lifting crude oil and natural gas from our existing or future operations may have a material adverse effect on our business, financial condition, results of operations and prospects. For further details regarding the effect of crude oil and natural gas prices on our financial results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operation — Price of Crude Oil, Natural Gas and Refined Products".

***We are subject to the control of the Government and there is no guarantee that they will always act in our best interests. We also derive certain benefits from being a state-owned entity, and we cannot guarantee that any or all of these benefits will continue.***

The Government is our sole shareholder and, through its agencies, it is likely to continue to retain control over us. The Government has historically influenced, and is likely to continue to influence, our strategy, operations and management policies. The Government also has the ability to influence and control other Government-related entities we conduct business with. The Government is likely to retain control of us as our sole shareholder, which gives the Government powers with respect to approving matters such as the election and removal of members of our Board of Commissioners and Board of Directors, amendments to our Articles of Association, changes in our capital structure and mergers and acquisitions, consolidation or liquidation. For further details, see "Relationship with the Government".

The Government also has the power to control the amount and timing of dividends payable by us to them as our sole shareholder. We have historically been required to pay dividends to the Government as an estimated amount based on a specified percentage of our distributable profit as shown in our unaudited financial statements in advance of our audited financial statements becoming available. In 2013 and 2012, we paid final dividends of US$754.2 million and US$763.7 million, respectively, to the Government. For 2014, the Government is targeting us to pay approximately 30% or less of our projected profits to the Government as dividends. There can be no assurance that if the amount of the dividends payable exceeds the estimate once the audited financial statements become available that the Government will return the excess amount paid by us to the Government. While there has been a general decrease in the amount of dividends we are required to pay as a percentage of our revenue in the last five years, there can also be no assurance that the Government will not require abnormally large dividends in any given year if it is facing a significant deficit or for other reasons.

We are currently mandated by the Government under the PSO mandate to distribute subsidized fuel domestically and receive subsidy reimbursements from the Government on the basis of a subsidy reimbursement formula with a fixed margin. Even when the cost of crude oil substantially exceeds the price ceiling assumed by the Government, the subsidiary reimbursement formula and the margin may not be revised and as the regulated retail price of subsidized fuel is fixed by the Government, we are not able to increase the sale price of the subsidized products which we distribute. In addition, in determining the subsidy reimbursements payable to us in any given month for the distribution of subsidized fuel, the Government's policy is to use Mean of Platts Singapore ("MOPS") from the month immediately prior to the month which the subsidiary reimbursement claim relates to. This lag in the value of MOPS used in the subsidy reimbursement formula may result in the subsidy reimbursements we receive under our PSO mandate being insufficient to cover our costs of distribution, including our costs of our raw materials, in months where there is a significant increase in crude oil prices from the previous month. As a result, we may not recover the increased costs of distributing subsidized fuel under our PSO mandate. Because the subsidy reimbursement formulas that affect our results of operations in respect of the PSO mandate is fixed by the Government and beyond our control, we cannot assure you that such losses will not occur in 2014 or for any other future period. This may have a material adverse effect on our financial condition, results of operations or cash flows. See "— We may not be able to pass on increases in costs of our raw materials for products distributed under our PSO or other mandates from the Government or where the prices of such products are fixed on account of requests by the Government", "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operations — PSO Mandate" and "Indonesian Regulatory Framework".

The Government could further affect us through other actions, such as the renegotiation or nullification of existing concessions and contracts, the imposition of taxes and foreign exchange restrictions, the fixing of a ceiling price for certain of the non-PSO fuels we distribute or requiring that we supply fuel to other Government-owned entities at a discounted rate. We also derive certain benefits from being a Government-owned entity, including a favorable allocation of net crude entitlement under the PSC for our operational blocks, a favorable share of profits before tax under PEP's PSCs, access to two-step loans under which the Government is a co-obligor with us and a right to request to enter into any cooperation contracts which have already expired for any oil and gas blocks in Indonesia. There can be no assurance that the Government will exercise its control and influence to our benefit or continue to allow us to enjoy such benefits. In 2014, the Government has indicated to us that it is considering an adjustment to the ratio of our shares of profit before tax under PEP's PSCs, and our share of profit before tax for PEP's PSCs may be reduced as a result of any such adjustment by the Government.

If we are required to act in the Government's interests and those interests differ from our interests, or if the Government favors the interests of others, or if the Government decides to remove or reduce any of the benefits we currently enjoy from them, such action could have a material adverse effect on our business, financial condition, results of operations and prospects.

***The amount of working capital we require for our operations is significant and fluctuates. Our operations may be adversely affected if we do not have sufficient working capital to meet our cash and operational requirements, which may occur as a result of delays in the payment of subsidies which we are owed or for any other reasons.***

We expend a significant amount of cash in our operations, principally on the import of crude oil and refined products. In particular, one of our principal operating costs is the acquisition of crude oil feedstock for our refineries. Volatility in market prices for crude oil, natural gas and refined products and fluctuations in exchange rates causes our working capital and costs for our operations to be uncertain.

We fund our operations principally through cash flow from operations, short-term working capital facilities (including bank overdrafts, letters of credit and revolving credit facilities) and long-term bank loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources". A significant portion of our cash flow from operations is comprised of subsidy payments under our PSO mandate. To receive subsidy payments, we submit a subsidy claim at the end of each month for the subsidized fuel distributed that month. Although we typically receive 95% of the subsidy claim within a month of its submission, there is no mandatory fixed timeframe in which the Government is required to make such subsidy payments to us. There can be no assurance that we will not experience delays in the payment of such subsidies. For more details, see "Business — Pertamina Downstream Business — PSO". If our revenues are insufficient to cover our working capital needs as a result of low crude oil and natural gas prices, delays in subsidy payments, operating difficulties, declines in reserves or for any other reason, we may be unable to obtain the working capital necessary to sustain our operations and we may have to seek alternative sources of funding for our operations. We can provide no assurance that we will not experience negative cash flows in the future. If we fail to generate sufficient revenue from our operations, or if we fail to obtain or maintain sufficient cash and banking facilities, we may not have sufficient cash flow to fund our operations and we may not be able to procure alternative sources of funding on satisfactory terms or at all to meet our liquidity requirements.

***Our operations are subject to significant operating risks and hazards, for which we may not be fully insured.***

We are subject to operational risks and hazards that are common among companies in the oil, gas and geothermal industry, including, but not limited to, the following:

- *Exploration and production risks:* risks related to fluctuations in oil, gas and steam production that may be affected by reserve levels, accidents, mechanical difficulties, work stoppages, adverse natural conditions, such as bad weather or natural disasters, as well as the inability to manage unforeseen production costs;

- *Equipment risks:* risks related to the adequacy and condition of our oil, gas and steam production facilities and our refineries, including situations where equipment becomes obsolete;

- *Transportation risks:* risks related to the condition of oil and gas pipelines and vulnerability and costs of other modes of transportation, such as oil and chemical tankers; and

- *Storage risks:* risks related to the condition of oil and gas storage tanks and other storage facilities and their compliance with safety and environmental standards.

In particular, our business is subject to significant risk of fires, explosions, oil spills, well blowouts, leakage, release of toxic fumes, lightning strikes, deliberate attacks and other unexpected or dangerous conditions that may cause personal injuries or death, property damage, environmental damage and interruption of operations. On April 2, 2011, a fire occurred at one of our refineries, RU IV Cilacap. The fire damaged several tanks which contained various oil products. Additionally, certain of our operations and facilities are located offshore and subject to dangers inherent in marine operations. These dangers include capsizing, sinking, grounding and damage from severe weather conditions, which could also result in injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of our operations.

While we are prepared and our personnel are trained to deal with such hazards, if we are unable to quickly fix any resulting damage, our drilling and production schedules and refining operations could be materially delayed and our financial condition and results of operation would be materially and adversely impacted. In addition, drilling hazards or environmental damage could increase the cost of operations, and various field operating conditions may adversely affect our production levels from successful wells. These conditions include delays in obtaining Government approvals or consents, shut-in of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. Production delays and declines from normal field operating conditions cannot be eliminated and can be expected to materially and adversely affect revenue and cash flow to varying degrees.

We are not fully insured against these operating risks and other types of losses, such as those due to acts of war, either because such insurance is not available or not available at commercially acceptable premiums. We are also not insured for the full value of all of our operational assets as our policy is to obtain insurance in an amount to cover the value of certain high-value assets within each operational asset. We also do not have the policy of obtaining business interruption insurance as we take the view that our diversified business assets mitigate the impact of any occurrence of a business interruption. The occurrence of a significant event that we are not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on us. In addition, we do not carry coverage for product liability insurance for the majority of our refined fuel and non-fuel products. We and our operating partners will be required to bear any costs associated with any incidents to the extent that such costs are uninsured or exceed the amount of such insurance. We may also lose the capital invested in and the anticipated revenue from the affected property. We could also remain liable for any debt or other financial obligation related to that property. For a description of the insurance we maintain to protect against operating risks and hazards, see “Business — Insurance”.

***Our activities in or in connection with certain countries could lead to U.S. sanctions.***

U.S. laws and regulations identify certain countries, including Iran, Sudan and Syria, as state sponsors of terrorism and currently impose economic sanctions against these and other countries. Certain activities and transactions in these countries are banned, particularly activities and transactions involving U.S. persons or U.S.-origin goods, technology or services. Violations of these prohibitions by persons required to comply with the laws and regulations can trigger penalties, including criminal and civil fines and imprisonment.

*Iran*

The Iran Sanctions Act of 1996, as amended (“ISA”) and the Executive Order 13590 (“E.O. 13590”) authorize the President of the United States to impose certain sanctions on companies that, among other things, make certain investments in Iran relating to the development of petroleum resources, sell or provide certain levels of refined petroleum products to Iran, or provide to Iran or its government goods, services, technology, or support that could significantly assist Iran in producing refined petroleum products or petrochemical products, developing petroleum resources, or importing refined petroleum products. Sanctions that could be imposed under ISA and E.O. 13590 include denial of financing by the U.S. Export-Import Bank, limitations on the amount of loans or credit available from U.S. financial institutions, blocking of a company’s property within U.S. jurisdiction. If blocking were applied to our property, U.S. individuals and entities would be prohibited from engaging in transactions with us, and we could not engage in business activities in the U.S. In addition, U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited.

Currently, our activities with respect to Iran include a dormant joint venture between us and the National Iranian Oil Company (through its subsidiary, the Oil Refining Industries Development Company) to build a refinery in Banten Bay in Indonesia. We were in the process of evaluating the feasibility of the project prior to it becoming dormant, and thus have made no significant investments in this project to date, and do not plan to make any significant capital expenditures for the next few years even if the project goes forward. We also import LPG through Petredec, a trading company incorporated in Bermuda, and understood that part of the LPG imported in 2012 was supplied to Petredec by Iran Petrochemical Commercial Co (“IPCC”). We had requested Petredec to cease supplying to us LPG supplied by IPCC and we have ceased to import LPG from Petredec supplied by IPCC since August 2012. In 2012, 496,900.6 mt of LPG out of the total volume of 2,670,118.5 mt of LPG imported by us was sourced by Petredec from IPCC and the value of the LPG sourced from IPCC was approximately US$479.9 million out of our total cost of purchasing oil products, natural gas and geothermal energy in 2012 of US$28,495.7 million. We did not deal directly with IPCC, and even though Petredec has complied with our request to cease supplying to us LPG supplied by IPCC since August 2012, we have limited discretion in respect of the source of the LPG supplied by Petredec under our term contract with Petredec. We are not a U.S. person and no U.S. persons are involved in the Iranian project or in the term contract with Petredec on our behalf. None of the proceeds of the offering of Notes issued under the Program will be earmarked for any expenditures relating to our activities involving Iran. In addition, we do not believe that our current or proposed activities involving Iran are or would be subject to the discretionary sanctions of the ISA.

*Sudan*

We had obtained a 15% ownership interest in an offshore exploration block in Sudan in 2008, which we divested on September 25, 2013. Since 2008, we had incurred approximately US$7.0 million in capital expenditures on the project; our budgeted capital expenditure in 2014 to pay for our outstanding commitments in relation to the project is US$3.2 million, representing less than 0.05% of our total budgeted capital expenditures for 2014. In January 2011, we imported 567,738 barrels of oil from Sudan through our third-party intermediaries on a spot basis, representing approximately 0.6% of our total crude imports for that year. We ceased the importation of oil from Sudan from February 2011. We previously also maintained a small branch office in Sudan, but have closed the office in December 2013. None of the proceeds of the offering of Notes issued under the Program will be earmarked for any expenditures relating to our activities involving Sudan.

*U.S. Divestment Legislation*

Additionally, certain U.S. states have adopted legislation requiring state pension funds to divest themselves of investments in any company with active business operations in Sudan or Iran. If our activities in Sudan or Iran were determined to fall within the scope of these laws, and we were to not qualify for exemptions provided by such laws, certain U.S. state pension funds that hold interests in our securities may be required to sell their interests. If significant, such sales could have an adverse effect on the price of our securities.

There can be no assurance that other persons and entities with whom we now, or in the future may, engage in transactions and employ will not become targets of U.S. and international sanctions. There can be no assurance that the countries in which we currently operate will not be subject to further and more restrictive sanctions in the future. There can be no assurance that the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") or other U.S. and international government agencies will not impose sanctions on other countries or entities with which we currently operate or may in the future operate. There can be no assurance that we will not make future or additional investments in countries that are targets of OFAC or other U.S. and international sanctions, or that will not become targets of sanctions ourselves. Furthermore, we and investors in the Notes may incur reputational or other risk as the result of our potential dealings with sanctioned persons or countries.

***We are subject to audit by SKK MIGAS and/or the Government which may result in claims by them against us. We are also currently in a dispute with the Indonesian tax authorities with respect to corporate income tax and value-added tax. The outcome of any such claims and dispute is uncertain.***

Under the terms of its Cooperation Contract, PEP is subject to audit by BPMIGAS and the Government which may result in claims against us. Following the dissolution of BPMIGAS and the assumption of BPMIGAS' functions and responsibilities by SKK MIGAS, PEP will be subject to audit by SKK MIGAS in place of BPMIGAS. Previously, claims arising from such audits were discussed between us and BPMIGAS or the Government if PEP's management did not agree with them. See "— All of our current production sharing arrangements and cooperation contracts were entered into with BPMIGAS, the predecessor to SKK MIGAS. Although SKK MIGAS has assumed the functions and responsibilities of BPMIGAS and the Indonesian Constitutional Court's decision has provided that all agreements entered into by BPMIGAS should remain valid until their respective expiry dates, our production sharing arrangements and contracts were not formally assigned or novated by legal instrument to SKK MIGAS from BPMIGAS, leading to potential uncertainty as to their legal validity and enforceability." for a discussion relating to the legal validity and enforceability of our cooperation contracts. We expect that SKK MIGAS and the Government would in practice continue to engage us in discussions of claims disputed by PEP's management, but there is no assurance that SKK MIGAS or the Government, as the case may be, will continue to do so. In addition, the Supreme Audit Agency ("BPK") of Indonesia audits the accounting records and bookkeeping of PEP on behalf of the Government. If BPK makes any claims relating to cost recovery under any cooperation contracts or PSCs and we are required to make settlement of such claims, our liquidity and financial condition could be adversely affected.

We are currently in a dispute with the Indonesian tax authorities over an amount of Rp. 3,614.5 billion (US$296.5 million) for corporate income tax with respect to the fiscal year 2005 and year 2011, and Rp. 3,362.8 billion (US$275.9 million) for value added tax with respect to the fiscal years 2007, 2009, 2010 and 2011. The corporate income tax dispute arose as a result of an inconsistency in the beginning balance of our financial records (as shown in the Government's records) and our consolidated financial statements for the same period. As a result of this inconsistency, we believe that we have overpaid our corporate income tax for the fiscal years 2005 and 2011 by Rp. 3,546.3 billion (US$290.9 million) and Rp 68.1 billion (US$5.6 million) respectively and have raised an objection and appealed for a refund of this amount. The value-added tax dispute with respect to the fiscal year 2007 related to a disputed amount of Rp. 1,854.7 billion (US$152.2 million) we paid as value-added tax on export sales and sales of international aviation fuel, which we believe should not be subject to value-added tax. The value-added tax dispute with respect to the fiscal years 2009, 2010 and 2011 related to a disputed amount of Rp. 1,508.1 billion (US$123.7 million) which we believe we overpaid as a result of a misinterpretation of tax rules. These matters are currently pending appeal before the Indonesian Tax Court or responses on our objections from the relevant Tax Offices.

We are unable to determine the timing or the probable outcome of our appeals and objections with the Indonesian Tax Court or the relevant Tax Offices. We have not made a provision in our consolidated financial statements with respect to any potential liability in connection with these disputes. If these disputes are resolved in our favor, the refunded amounts would be credited against our future tax liabilities. If these disputes are not resolved in our favor, we would not receive any refunds of the disputed amounts. If there are any disputes with the Indonesian tax authorities in the future, we may be liable to pay the disputed amounts, as well as accrued interest and penalties, which could materially and adversely affect our liquidity and financial condition.

***We may be unable to accomplish our development plans on schedule or within our budgeted costs or that these plans, if completed, will achieve our development aims.***

Our development plans include securing additional sources of crude oil for our refineries through strategic acquisitions, joint ventures and investments domestically and internationally, increasing our offshore deep-water exploration and production capability, expanding our refining capacity, upgrading the Nelson Complexity Index ("NCI") of our refineries, expanding our geothermal, shipping and LNG businesses and entering into various new lines of business, including power generation and production of LNG. See "Business — Business Strategy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures". Our development plans may relate to areas in which we have limited or no prior investment or operational experience, and there can be no assurance that we will be successful in our efforts operating in such areas or that we will able to achieve our aims in the manner anticipated or at all. In such a case, our business, financial condition, results of operations and prospects could be adversely affected.

The budgeted costs for our development plans are estimates only and will not be known until the contracts for such plans are finalized. There can be no assurance that factors outside of our control, such as fluctuations in raw material costs, technical difficulties, unexpected development expenses, delays in the delivery of equipment or materials, adverse weather conditions or labor disputes, will not result in cost overruns that will increase the costs of the projects and require us to seek additional financing. In the event that we need to seek additional financing, there can be no assurance that such financing will be offered at all or on terms acceptable to us. Any of these factors could also give rise to delays in development and completion of our projects beyond schedule, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

***We are dependent on our joint venture partners and third-party independent contractors in connection with our exploration and production operations and to implement our development programs.***

Many of our major projects and operations are conducted through joint ventures. In certain cases, we may have limited influence over and control of the behavior, performance and cost of operations in which we hold an equity interest or contractual interest and hence are dependent on our joint venture partners to implement our development plans and our ability to identify and manage risks may be reduced. Additionally, our partners or members of a joint venture or associated company (including local partners in our international operations) may not be able to meet their financial or other obligations to the projects, threatening the viability of a given project. For example, we have not been appointed by SKK MIGAS as the operator in the PSC relating to the Cepu block. Mobil Cepu Ltd., a subsidiary of ExxonMobil, is the operator of the Cepu block and while this block is in early production of limited quantities of oil and gas, full production was scheduled to commence in 2008 but has been delayed. As a party to this PSC, we have to share in the consequences of this delay with the other counterparties even though we are not in control of the operation of the Cepu block.

Although we are the operator under substantially all of our production sharing arrangements, we are dependent on independent third party contractors to undertake specialized tasks such as rig drilling and production optimization in connection with our exploration and production operations.

There is a risk that such counterparties will fail to meet their obligations as specified or underperform on contractual obligations, whether as a result of financial or operational difficulties or otherwise. Our exploration and production operations or development plans at sites affected by such failure may be disrupted for a substantial period of time to allow the terminated contractor to be replaced or for issues faced by or between the joint venture partners to be resolved. Further, should any agreements with such joint venture partners or contractors be terminated, we cannot assure you that a suitable replacement can be found within a reasonable time or at all. Any material failure by our partners or third-party contractors to adequately perform under their contractual obligations may materially and adversely affect our business, financial condition, results of operations and prospects.

***We may not be able to consummate future acquisitions, joint ventures or investments. In addition, any acquisitions, joint ventures or investments which we are able to consummate could adversely affect us.***

We have in the past, and expect in the future to continue to pursue strategic acquisitions, joint ventures and investments that will expand our oil, gas and geothermal businesses and our activity in the oil, gas and geothermal industry generally. In particular, in our upstream business, our strategy is to continue to pursue such strategic acquisitions, joint ventures and investments domestically as well as internationally. We may not be able to identify or complete additional acquisitions, joint ventures or investments on commercially attractive terms or at all. All our acquisitions, joint ventures and investments also require approvals from the Government in its capacity as our shareholder, and there is no assurance that approvals will be given to the acquisitions, joint ventures or investments that we propose. For example, we had entered into a share purchase agreement with HNR Energia B.V. on June 21, 2012 to acquire all the issued share capital of Harvest-Vincler Dutch Holding B.V., which would have given us interests in certain reserves in Venezuela. The transaction was not completed as certain conditions precedent, which included obtaining approval of the transaction from the Government, could not be met.

We also face intense competition from other oil and gas companies and energy companies who may bid for the same international oil and gas assets that we seek to acquire or invest in, or compete for participation in the same joint ventures that we seek. Such competitors may have access to greater financial or other resources than we do, or possess more relevant expertise, which may result in our bids for our proposed acquisitions, joint ventures and investments not being successful.

In addition, we may pursue additional acquisitions, joint ventures and investments in areas of the oil, gas and geothermal sector outside of our core businesses, and in new or unfamiliar geographic regions where our knowledge and expertise may be lower and our experience may be limited. We may not be able to obtain financing to support any such acquisitions, joint ventures and investments on attractive terms or at all. We may also be subject to foreign or domestic regulatory restrictions, which may limit our ability to consummate future acquisitions, joint ventures or investments.

Even if our proposed acquisitions, joint ventures or investments are consummated, we may not realize any anticipated benefits from them. The process of integrating acquired operations, joint venture operations and investments into our existing operations may result in unforeseen difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of our existing operations.

Future acquisitions, joint ventures and investments could result in the incurrence of additional debt, contingent liabilities and amortization expenses related to goodwill and other intangible assets and increased capital expenditures, interest and other costs, any of which could have a material adverse effect on our financial condition and operating results by reducing our net profit or increasing our total liabilities, or both. Any of these factors could adversely affect our business, financial condition, results of operations or prospects.

***We do not have free and clear title to a significant portion of our land assets.***

In connection with our conversion into a limited liability company in 2003, among other non-operating assets, land assets were transferred to us and reflected in our opening balance sheet as of September 17, 2003.We do not have free and clear title to nearly half of these land assets by area, as the legal documentation for such land is not in our possession, has expired or is otherwise not in order, or we are not in occupation of the land in question. We are taking steps to obtain the necessary documentation for the land prior to addressing issues relating to the occupation of the land. There can be no assurance that we will be able to obtain the necessary documentation for all or any of the land over which we do not currently hold free and clear title. Under Indonesian land regulations, not being in possession of the necessary documentation for land assets could result in a loss of entitlement to such land. If our title over such land was abolished, we would have to clear any fixtures from the land and return it to the state or deemed owner of the land within one year from the date of abolishment of our title. There can also be no assurance that we will be able to regain possession of land which is currently occupied by third parties.

***We are exposed to credit risk on our trade receivables.***

As of December 31, 2013, we had trade receivables of US$4,017.1 million, of which approximately 50.8% was owed to us by our related parties in connection with fuel which they purchased from us. Out of this amount, US$1,004.1 million was owed to us by PT Perusahaan Listrik Negara (Persero) ("PLN") and its subsidiaries, our related party and a Government-owned electricity company and US$771.7 million was owed for us by the Indonesian Armed Forces and the Ministry of Defense.

Our outstanding trade receivables are not covered by credit insurance and we do not require collateral cover for trade receivables from the Government or Government-related entities (although certain of our trade receivables from unrelated parties are covered by collateral). As of December 31, 2013, we have made a provision for impairment of US$1.5 million against trade receivables owed to us by our related parties. US$89.5 million of our trade receivables have been outstanding for over two years. Although we have procedures to monitor and limit exposure to credit risk on our outstanding accounts receivables for unrelated third party entities, there can be no assurance such procedures will effectively limit our credit risk and avoid losses, which could materially adversely affect our financial condition and results of operations.

Furthermore, because the Government is our sole shareholder and the shareholder of our counterparties, we may have limited courses of action against such counterparties. See "— We are subject to the control of the Government and there is no guarantee that they will always act in our best interests. We also derive certain benefits from being a state-owned entity, and we cannot guarantee that any or all of these benefits will continue".

***Our business is capital intensive, and if we are unable to obtain financing on reasonable terms to fund future capital expenditures, we may not be able to implement our development plans.***

We require, and will continue to require, substantial capital expenditures for the acquisition, exploration, development and production of oil, gas and geothermal reserves as well for our downstream business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operations — Growth Strategy". Our actual capital expenditures as of December 31, 2011, 2012 and 2013 were US$2,366.9 million, US$2,466.3 million and US$6,347.5 million, respectively. Our budgeted capital expenditures, which includes amounts budgeted for potential acquisitions and other uncommitted capital expenditures, for 2014 and 2015 amount to US$7,851.7 million and US$12,296.1 million, respectively. Our ability to obtain required capital on acceptable terms is subject to a variety of uncertainties, including: limitations on the our ability to incur additional debt, including prospective lenders' evaluations of our creditworthiness, restrictions on incurrence of debt in our existing and anticipated credit facilities, prevailing conditions in the capital markets in which we may seek to raise funds, and our future results of operations, financial condition and cash flows. There can be no assurance that such financings will be available or sufficient to meet our requirements or on acceptable terms. An inability to access sufficient capital for our operations and capital expenditure requirements could adversely affect our business, financial condition, results of operations or prospects.

***We are dependent on key personnel as well as the availability of qualified technical personnel.***

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

***A substantial portion of our workforce is unionized, and we may face labor disruptions that would interfere with our operations.***

A substantial number of our employees are unionized. 16 of our labor unions form a federation (*Federasi Serikat Pekerja Pertamina Bersatu*). The rights and responsibilities under our relationship with the unions are formulated in a collective labor agreement (*Perjanijian Kerja Bersama*) entered into between the unions and our Company. Our latest collective agreement with the unions was signed on August 2012 and is valid for two years. While our relationships with the unions have been good, there can be no assurance that we will remain on good terms with the unions and we may be affected by strikes, lockouts or other significant work stoppages in the future, any of which could adversely affect our business, results of operations and financial condition. See "Business — Employees".

***If we fail to establish or maintain an effective system of internal controls, we may be unable to accurately report our financial results or prevent fraud.***

In connection with the yearly audit of our consolidated financial statements for the year ended December 31, 2011, we requested that KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) provide us, from their assessment of our internal controls to determine the nature, extent and timing of audit procedures for the purpose of expressing an opinion on the consolidated financial statements, with a management letter identifying, among other matters, aspects of our internal controls relevant to financial reporting that require remediation or improvement, their implications to our consolidated financial statements, and recommendations for remediation or improvement. On June 14, 2013, KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) issued a management letter (the "2012 Management Letter") in relation to their audit of our consolidated financial statements as of and for the year ended December 31, 2012, identifying a number of aspects of our internal controls relevant to financial reporting that require remediation or improvement, their implications to our consolidated financial statements, and recommendations for remediation or improvement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Internal Controls Over Financial Reporting".

Although the 2012 Management Letter did not constitute comprehensive assessments of our internal controls, the observations they contained imply that in certain respects, our internal controls and recordkeeping procedures could be improved, and it is possible that, had we performed a formal assessment of our internal controls over financial reporting or had our independent auditors performed an audit of the effectiveness of our internal controls relevant to financial reporting, additional weaknesses and deficiencies may have been identified.

Among others, the 2012 Management Letter identified issues relating to:

- our classification and reconciliation procedures;
- inaccuracies in the recording of various account balances, inventories, and valuations;
- inadequacies in our estimation and assessment methods;
- errors in the recording of sales and the recording of taxes and other expenses;
- filing and recordkeeping systems; and
- data management and analysis.

We expect to receive a further management letter from KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) in 2014 relating to the audit of our consolidated financial statements as of and for the year ended December 31, 2013, which may identify additional issues relating to our internal controls and recordkeeping procedures. KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) did not perform an audit or other types of assurance engagements on the effectiveness of internal controls over our financial reporting under auditing standards generally accepted in the United States ("U.S. GAAS") or auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) have not assessed the control deficiencies under U.S. GAAS or the auditing standards of the PCAOB and therefore have not evaluated such deficiencies as either significant deficiencies or material weaknesses as defined under U.S. GAAS or the auditing standards of the PCAOB. Certain issues they reported in their management letters are issues related to our internal controls relevant to financial reporting that they identified from their assessment of internal controls to determine the nature, extent and timing of the audit procedures for the purpose of expressing an opinion on the financial statements. The audit procedures were not specifically designed to, and were not required or requested to be specifically able to, detect any ineffectiveness in internal controls relevant to our financial reporting.

On February 15, 2013, we received a compliance report (known as PSA 62) from KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network), a report that had in prior years been incorporated in the auditors' management letter, in connection with their audit of our consolidated financial statements as of and for the year ended December 31, 2012 (the "2012 Compliance Report"). The 2012 Compliance Report identified certain issues relating to inventories, cost of goods sold and oil accounting, sales and receivables, and fixed assets.

Following the identification of the issues raised in the 2012 Management Letter and the 2012 Compliance Report, we have taken measures and plan to continue to take measures to remedy these deficiencies. For details of our proposed remedies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Internal Controls Over Financial Reporting". However, the implementation of these measures may not fully address these deficiencies in our internal controls, and we cannot conclude that they have been fully remedied. Our failure to correct these issues or our failure to discover and address any other such issues could result in material misstatements and other inaccuracies in our consolidated financial statements. Any material misstatements may require a restatement of our consolidated financial statements, thereby adversely affecting investors' perception of our financial reporting. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected. Moreover, ineffective internal controls over financial reporting could significantly hinder our ability to prevent fraud.

**Risks Relating to Our Upstream Operations**

***Our crude oil, natural gas and geothermal reserve estimates are uncertain and may prove to be incorrect over time or may not accurately reflect actual reserve levels, or even if accurate, technical limitations may prevent us from retrieving these reserves.***

Our crude oil, natural gas and geothermal reserves are estimated by us. There are numerous uncertainties inherent in estimating quantities of proved and probable reserves, including many factors beyond our control. Estimates of economically recoverable crude oil, natural gas and geothermal reserves are based upon a number of factors and assumptions, such as geological and engineering estimates and judgments (which have inherent uncertainties), the assumed effects of governmental regulation and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are therefore, to some degree, speculative and classifications of reserves are always subject to a degree of uncertainty. For these reasons, estimates of the economically recoverable crude oil, natural gas and geothermal reserves attributable to any particular group of properties and the classification of such reserves based on risk of recovery, prepared by different engineers or by the same engineers at different times, may vary substantially.

The reserves data in this Offering Memorandum represents estimates we have prepared based on our oil and gas and geothermal resource management system, which contains procedures for classifying and estimating reserves. From 2012, the procedures for our oil and gas resource management system and the classifications of reserves with respect to our reserves, other than our reserves managed by PEP, are consistent with PRMS 2007, which is generally considered the oil and gas industry standard for reserve reporting. We have, however, continued to use the SPE 2001 guidelines, which were replaced by PRMS 2007, to determine the procedures for our oil and gas resource management system and the classifications of reserves with respect to our reserves managed by PEP. Prior to 2012, we used the SPE 2001 guidelines to determine the procedures for our oil and gas resource management system and the classification of reserves with respect all our reserves save with respect to the Cepu block where the reserves are determined in accordance with PRMS 2007. Investors should note that different reserves reporting systems employ different assumptions, and that our methodologies for classifying reserves and our reserves classifications vary in certain respects from the methodologies and classifications used by oil and gas companies subject to the reporting obligations of the SEC. As a result, because of the impact of such assumptions or differences in the methodologies of resource management systems, identical raw data can produce varying estimates of reserves. In 2012, the change in the procedures for our oil and gas resource management system and the classification of reserves from the SPE 2001 guidelines to PRMS 2007 with respect to our reserves, other than our reserves managed by PEP, resulted in downward revisions or reclassifications to certain of our reserves estimates.

Estimates of reserves are largely dependent on the interpretation of data obtained from drilling, testing and production and may prove to be incorrect over time. In addition, estimates of proved and probable reserves that may be developed and produced in the future are frequently based upon volumetric calculations and by analogy to similar types of reservoirs, rather than upon actual production history. Subsequent evaluation of the same reservoirs based upon production history may result in revisions to the estimated proved and probable reserves. No assurance can be given that the reserve estimates presented in this Offering Memorandum will be recovered at the levels presented.

The quantities of crude oil, natural gas and geothermal energy that are ultimately recovered could be materially different from our reserve estimates, and downward revisions or reclassifications of our estimates could affect our results of operations and business plan. Published reserves estimates may also be subject to correction due to changes in published rules and guidance. We can give no assurance that the reserves estimates upon which we have made investment decisions accurately reflect actual reserve levels, or even if accurate, that technical limitations will not prevent us from retrieving these reserves.

For a discussion of how we estimate our reserves, including how we define "proved reserves" and "probable reserves" and some differences between our reporting system and the SEC regulations, see "Business — Pertamina Upstream Business — Reserves".

***We are dependent on our ability to develop existing reserves, replace existing reserves and develop additional reserves.***

We must continually find, acquire, explore for and develop new reserves to replace those produced and sold. Our future success is dependent upon our ability to develop our reserves and explore, develop and produce additional reserves from existing blocks, to explore and develop alternative sources of fuel such as shale gas and coal bed methane, and to enhance our oil reserves through oil recovery activities or new acquisitions in order to maintain or increase our current levels of production. See

“Business — Pertamina Upstream Business — Exploration and Development” for further information on our exploration and development plans and oil recovery activities.

Drilling activities are subject to numerous risks, including the risk that no commercially viable oil or natural gas accumulations will be discovered. The decision to explore or develop a property will depend in part on geophysical and geological analyses and engineering studies, the results of which may be inconclusive or subject to varying interpretations. The cost of drilling, well completion (which includes post-drilling activities such as installing production equipment) and operating wells is often uncertain. Drilling may be curtailed, delayed or cancelled as a result of many factors, including weather conditions, Government requirements and contractual conditions, shortages of or delays in obtaining equipment, reductions in product prices or limitations in the market for products. Wells may be shut in for, among other things, lack of a market or due to inadequacy or unavailability of pipeline or storage capacity. Geological uncertainties and unusual or unexpected formations and pressures may result in dry wells and wells that are productive but do not produce sufficient revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or the recovery of drilling, completion or operating costs.

We plan to increase our activity in exploring and developing our geothermal reserves. The development of such projects is also subject to various uncertainties, such as potential dry holes, flow-constrained wells, uncontrolled releases of pressure and temperature decline. In addition, the high temperature and high pressure in geothermal energy resources requires special resource management and monitoring. The viability of geothermal projects depends on different factors directly related to the geothermal resource, such as the heat content (the relevant composition of temperature and pressure) of the geothermal resource, the useful life of the resource and operational factors relating to the extraction of geothermal fluids. Although we believe any geothermal resources will be fully renewable if managed appropriately, the geothermal resources that we intend to exploit may not be sufficient for sustained generation of the anticipated electrical power capacity over time.

In addition, we face substantial competition in the search for and acquisition of reserves and such searches and acquisitions require substantial investment. The possibility of finding or being able to acquire such additional reserves is uncertain. If we are unable to find or acquire and develop additional reserves, we will not be able to sustain our production and grow our business, which would have a material adverse effect on our financial condition and results of operation.

***Our upstream operations and development plans may be adversely affected by competition.***

As is the case with all international oil, gas and geothermal companies, we face intense competition in our business activities, both domestically and internationally. As a result of the Government’s policy to increase competition in the Indonesian oil and gas sector and in connection with our plans to continue to expand internationally, we expect to face increasing competition with much larger, well-established companies with substantially greater financial, human, technical and other resources. These competitors have strong market power through a combination of different factors, such as diversification and reduction of risk, well-established infrastructure, financial strength, exploitation of benefits of integration and economic scale, strengthening of their positions in the global market and their relations with the governments of oil and gas producing countries. Many of these competitors have greater financial capacity to fund bids for or acquisitions of oil and gas properties and conduct oil and gas exploration, development and production than us, and may be able to identify, bid for and purchase a greater number of properties and prospects, including operatorships and licenses, than our financial or human resources permit. Accordingly, we expect competition in the oil and gas sector to increase, which could have a material adverse effect on our business, financial condition, results of operations and prospects. See “Business — Competition”.

***Our exploration and production activities in foreign countries subject us to unforeseen risks.***

To increase our oil and gas reserves and diversify our exploration and production operations, we have expanded our investment base to focus on oil and gas exploration and production activities in a number of foreign countries in Southeast Asia, Australia, the Middle East and North Africa. In addition, we expect to continue to expand our international operations in the future. These international operations are subject to special risks that can materially affect our results of operations. These risks include:

- unsettled political conditions, war, civil unrest, and hostilities in some gas or petroleum producing and consuming countries and regions where we operate or seek to operate, such as in the Middle East and North Africa;

- piracy in international waters;

- undeveloped or unexpected developments in legal and regulatory systems;

- exposure to economic instability in foreign markets;

- imposition or increase of withholding and other taxes on remittances by foreign subsidiaries;

- imposition or increase of investment and other restrictions by foreign governments;

- fluctuations and changes in currency exchange rates;

- governmental action such as expropriation of assets, general legislative and regulatory environment, and exchange controls; and

- changes in global trade policies such as trade restrictions and embargoes imposed by the United States and other countries.

Furthermore, investing in or transactions otherwise relating to certain countries (including Sudan and Iran) could also result in adverse consequences to us under existing or future trade or investment sanctions. The effect of any such sanctions would depend on their nature, but if sanctions were imposed on us, or one of our subsidiaries or associated companies, it could affect the market for the securities of that company or impair our ability to access the U.S. capital markets. See "— Risks Relating to Our Company — Our activities in or in connection with certain countries could lead to U.S. sanctions".

We cannot predict the effect that the current conditions affecting various foreign economies or future changes in economic or political conditions abroad could have on the economics of conducting exploration and production activities in these markets. Any of the foregoing factors may have a material adverse effect on our international operations and, therefore, could adversely affect our business, financial condition, results of operations or prospects.

***All of our current production sharing arrangements and cooperation contracts were entered into with BPMIGAS, the predecessor to SKK MIGAS. Although SKK MIGAS has assumed the functions and responsibilities of BPMIGAS and the Indonesian Constitutional Court has provided that all agreements entered into by BPMIGAS should remain valid until their respective expiry dates, our production sharing arrangements and contracts were not formally assigned or novated by legal instrument to SKK MIGAS from BPMIGAS, leading to potential uncertainty as to their legal validity and enforceability.***

SKK MIGAS is an interim body established by the President of Indonesia to replace its predecessor, BPMIGAS, following the dissolution of BPMIGAS by a decision of the Indonesian Constitutional Court on November 13, 2012 and pending the issuance of a new oil and gas law. See "Indonesian Regulatory Framework — Oil and Gas Regulation — Upstream" for more information relating to the dissolution of BPMIGAS. All of our current production sharing arrangements and cooperation contracts were entered into with BPMIGAS prior to its dissolution by the Indonesian Constitutional Court. Although SKK MIGAS has assumed the functions and responsibilities of BPMIGAS and the Indonesian Constitutional Court has provided that all agreements entered into by BPMIGAS should remain valid until their respective expiry dates, our production sharing arrangements and contracts were not formally assigned or novated by legal instrument to SKK MIGAS from BPMIGAS, leading to potential uncertainty as to their legal validity and enforceability. While the establishment of SKK MIGAS or its assumption of the production sharing arrangements and cooperation contracts is not, as far as we are aware, subject to any challenge before the Indonesian Constitutional Court or any other Indonesian court, irrespective of whether any such action would be commenced, there can be no assurance that we will be able to assert our rights under our production sharing arrangements and cooperation contracts.

***Failure or delay by SKK MIGAS, our counterparties or by us to comply with the terms of or renew our production sharing arrangements and cooperation contracts, and the failure to receive SKK MIGAS and other government approvals on a timely basis, could further adversely affect us.***

SKK MIGAS enters (and prior to it, BPMIGAS had entered) into production sharing arrangements and other forms of cooperation contracts with energy companies (including us and other domestic and foreign private companies) on behalf of the Government, whereby such companies explore, develop and market oil and gas in specified areas in exchange for a percentage interest in the production from the blocks in the applicable contract area. All our reserves in Indonesia are attributable to production sharing arrangements or cooperation contracts.

Our production sharing arrangements and cooperation contracts contain requirements regarding quality of service, capital expenditures, legal status of the contractors and assets, restrictions on the transfer and encumbrance of assets and other restrictions. Any failure to comply with the terms of these production sharing arrangements or cooperation contracts, by us or any private counterparty, could result, under certain circumstances, in the termination of the relevant production sharing arrangement or cooperation contract, which could adversely affect our business, financial condition, results of operations and prospects.

In addition, SKK MIGAS approval is required for substantially all material activities undertaken under these agreements, including exploration, development, production, drilling and other operations, sale of oil or natural gas and the hiring or termination of personnel. The failure to obtain such approvals, or delays in obtaining such approvals, or conditions imposed in connection with the grant of such approvals, could adversely affect us.

Production sharing arrangements and cooperation contracts are valid for a specified period and will need to be renewed following the expiry of such period. We negotiate with SKK MIGAS to renew or extend such arrangements. However, there can be no assurance that we will be able to negotiate new production sharing arrangements or cooperation contracts with SKK MIGAS, or concession or other arrangements with other authorities, when our existing arrangements expire, or that any new arrangements will be on satisfactory terms.

Our business and results of operations are substantially dependent on our relationship with SKK MIGAS and our counterparties, and any adverse change to these relationships could adversely affect our business, financial condition, results of operations or prospects.

***We may be required to return certain of our geothermal working areas to the Government.***

We have been allocated 14 geothermal concessions in Indonesia for the exploration, development and production of geothermal energy. Under our 14 geothermal concessions, nine geothermal working areas are operated by us and five working areas are jointly operated under joint operating contracts ("JOCs"). Under Government Regulation No. 59 of 2007, as amended by Government Regulation No. 70 of 2010 on Geothermal Business Activity (as amended, "GR 59"), we may be required to return to the Government any geothermal concessions granted to us prior to the enactment of GR 59 that have not been developed as of December 31, 2014. We have requested for an extension of the deadline to December 31, 2024, but it is currently pending the Government's approval. Although almost all of our geothermal concessions are in development, there can be no assurance that we will be able to develop all our geothermal concessions prior to December 31, 2014. If we are not able to do so or if our deadline is not extended, we may have to return the undeveloped geothermal concessions to the Government.

***We rely on infrastructure and equipment provided by third parties.***

As an oil, gas and geothermal exploration and production company, some of the infrastructure that we use to transport oil, gas and geothermal energy to our customers is not owned by us. Such infrastructure, which includes tankers, pipelines and storage tanks, is leased from third-party providers, and we have limited or no control over the quality and availability of this infrastructure. As part of our business, we also have to assume some of the risk of damage or loss of the construction services and equipment provided to us by third-party contractors (such as drilling rigs, seismic acquisition vessels, service boats, tankers and floating storage and offloading vessels). Our development projects have in the past also required us to commit to long-term leases and other financial arrangements.

In addition, we compete with other oil, gas and geothermal companies for equipment and other resources such as oil and gas drilling rigs, which are a limited resource given the competitive market in the Indonesian oil and gas sector. The increased demand for such equipment has resulted in increases in the prices that we have had to pay in order to secure access to such equipment and other resources. If we are unable to obtain the equipment that we need to carry out our development plans with respect to our production assets, we may have to delay or restructure our development plans, which may have an adverse effect on our ability to commercialize our oil, gas and geothermal reserves on a timely basis. Further, depending on the complexity of our development projects, the competitive dynamics of the market, movements in prices of raw materials such as steel, and the availability and prices of contractors and equipment, we may have to pay significantly more than we currently anticipate in order to implement our development plans for our blocks.

From time to time, our production and delivery infrastructure may be interrupted due to logistical complications outside our control, which would adversely affect our ability to sell our products until the problem is corrected or until alternative means can be found. For example, on August 7, 2009, a portion of the Tempino-Plaju pipeline caught fire, which cost us approximately Rp. 986 million in repairs. Such alternative means, if available, would likely result in increased costs, and could adversely affect our business, financial condition, results of operations or prospects.

## Risks Relating to Our Downstream Operations

***We compete with other oil and gas companies in connection with our downstream operations and for the PSO mandate.***

The refining and marketing industry is highly competitive with respect to both feedstock supply and refined product markets. We do not produce all of our crude oil feedstocks and compete with many companies for available supplies of crude oil and other feedstocks. Competitors that have a higher percentage of feedstock from their own production, more complex refineries or more diverse operations may be better able than us to withstand volatile industry conditions, including shortages of crude oil or refined petroleum products, volatility in prices for crude oil or refined petroleum products or intense price competition at the wholesale level. As a result of the Government's policy to increase competition in the Indonesian oil and gas sector, we also expect to come into increasing competition with respect to the distribution of our refined products with much larger, well-established companies with substantially greater financial, human, technical and other resources. Competition could cause price reductions, reduce our margins or result in loss of market share for our products and services. This may adversely affect our results of operations. See "Business — Competition".

Prior to 2008, we were the sole distributor of subsidized fuel in Indonesia, under the PSO mandate. In 2008, the Government instituted a tender offer process, by which other petrochemical companies, including international oil and gas companies, can tender for a portion of the PSO mandate. Accordingly, we no longer have a monopoly in this business, and must submit competitive tenders to the Government on an annual basis in order to be allocated part of the PSO mandate. There can be no assurance that we will continue to maintain our grant of the PSO mandate at current levels or at all.

In 2011, PT AKR Corporindo Tbk ("AKR") and Petroliam Nasional Berhad ("Petronas"), the national oil and gas company of Malaysia, were also awarded the PSO mandate, although for relatively small amounts of subsidized fuel as compared to us. In 2012, AKR, Petronas and Surya Parna Niaga were also awarded the PSO mandate. In 2013 and 2014, AKR and Surya Parna Niaga were also awarded the PSO mandate. As of December 31, 2013, we generated approximately 57.9% of our revenue from the distribution of subsidized fuel and LPG. If the Government reduces our quota of subsidized fuel under the PSO mandate or withdraws the PSO mandate entirely, we may lose our leading market position in the downstream sector and the revenue which we generate from the distribution of subsidized fuel and LPG, which may materially and adversely affect our business, financial condition, results of operations and prospects. See "Business — Pertamina Downstream Business — PSO" for more information on our PSO mandate.

***We may not be able to pass on increases in costs of our raw materials for products distributed under our PSO or other mandates from the Government or where the prices of such products are fixed at the request of the Government.***

We consume large amounts of crude oil and other raw materials to manufacture our refined products and petrochemical products.

We are currently mandated by the Government under the PSO mandate to distribute subsidized fuel domestically and receive subsidy reimbursements from the Government on the basis of a compensation formula with a fixed margin. Under this subsidy reimbursement formula, the margin has been fixed on the assumption that the cost of crude oil will not be greater than US$105 per barrel. Even when the cost of crude oil substantially exceeds US$105 per barrel, the subsidy reimbursement formula and the margin may not be revised and as the regulated retail price of subsidized fuel is fixed by the Government, we are not able to increase the sale price of the subsidized fuel which we distribute. In addition, in determining the subsidy reimbursements payable to us in any given month for the distribution of subsidized fuel, the Government's policy is to use MOPS from the month immediately prior to the month which the subsidy reimbursement claim relates to. This lag in the value of MOPS used in the compensation formula may result in the subsidy reimbursements we receive under our PSO mandate being insufficient to cover our costs of distribution, including our costs of our raw materials, in months where there is a significant increase in crude oil prices from the previous month. As a result, we may not recover the increased costs of distributing subsidized fuel under our PSO mandate. In 2012 and 2013, although we did not incur a loss in connection with the distribution of PSO fuel products and LPG on an aggregate basis in each year, we incurred losses from the distribution of PSO fuel products of US$90.5 million and US$32.2 million, respectively. Because the subsidy reimbursement formulas that affect our results of operations in respect of the PSO mandate is fixed by the Government and beyond our control, we cannot assure you that such losses will not occur in 2014 or for any other future period. This may have a material adverse effect on our financial condition, results of operations or cash flows. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operations — PSO Mandate" and "Indonesian Regulatory Framework".

While we try to match the sales prices of our non-subsidized fuel and petrochemical products with corresponding raw material price increases, our ability to pass on cost increases to our customers is dependent on market conditions, commercial considerations and Government regulations. Such commercial considerations include requests from the Government to contract for the sale and purchase of LPG in 12kg and 50kg cylinders as well as compressed natural gas ("CNG") on a fixed price basis which deprives us of the ability to pass on cost increases which spot prices offer. For example, we market and distribute LPG in 12kg and 50kg cylinders in Indonesia. Although LPG in 12kg and 50kg cylinders is not a subsidized fuel, we consult with the Government on increases in the price of this product and in the past three years have decided not to increase the prices of these products. While we have initiated the decision recently, in early 2014, to increase the price at which we sell LPG in 12kg cylinders following a consultation with the Government, our decision remains subject to further consultation and ongoing review by the Government. There is no assurance that our decision would not be reversed or reduced in effect as a result of such further consultation and review. We currently incur negative margins on the distribution of LPG in 12kg cylinders. In 2011, 2012 and 2013, we incurred losses of US$420.7 million, US$538.4 million and US$548.8 million, respectively, from sales of LPG in 12kg cylinders. There may be periods during which increases in costs of raw materials, and hence our costs of distribution, are not fully recovered by us due to an inability to increase the sale prices of our products which may have a material adverse effect on our financial condition, results of operations or cash flows.

The Government also fixes the prices at which we can purchase and sell CNG, which we began to distribute in December 2012. As the price set by the Government for CNG sold to us is denominated in U.S. dollars while the price set by the Government for CNG sold by us is denominated in Rupiah, fluctuations in the exchange rate between the U.S. dollar and the Rupiah affect our profit margin from our CNG sales. An adverse change in the value of the Rupiah against the U.S. dollar would decrease our profit margin from our CNG sales, or even result in us making a loss from our CNG sales. The Government may also revise the fixed purchase and sale prices for CNG from time to time and there can be no assurance that we will not incur a loss in our distribution of CNG as a result of any such revisions. To the extent and as long as we are mandated to distribute CNG, we may not be able to cease this activity even if we incur losses in doing so.

***If the growth in our production of crude oil lags behind the growth in demand for our refined products and we will be required to source an increasing amount of crude oil and refined products from outside providers.***

Our refineries consume very large amounts of crude oil. In 2013, approximately 39.1% of the crude oil required for our refinery business was sourced from outside suppliers, while the balance was provided from our own production of crude oil and the Government's share of crude oil produced. We expect to import a higher percentage of crude oil in 2014 as our allocation of crude oil from the Government has decreased. We also import refined products to supplement the refined products which we produce and to meet domestic demand for such products. To the extent that the growth in our production of crude oil lags behind the growth in demand for our refined products, we will be increasingly dependent on third parties for continued access to crude oil and refined products at appropriate prices. If we are unable to obtain adequate crude oil or refined product volumes or are only able to obtain such volumes at unfavorable prices, our margins and other results of operations could be materially adversely affected.

***A substantial part of our revenues is derived from the provision of subsidized fuel products.***

We are engaged in the provision of fuel products to the public in Indonesia under our PSO mandate, including certain grades of motor gasoline, automotive diesel fuel, kerosene and LPG in 3kg cylinders. The Government has historically subsidized the cost of these products and as of December 31, 2013, approximately 28.6% of our revenues came from such subsidy reimbursements.

The subsidy payment which we receive under our PSO mandate is fixed by the Government and is based on MOPS plus a percentage of MOPS in addition to a fixed amount after deducting the regulated retail price for the subsidized fuel. As the regulated retail price for subsidized fuel has historically been lower than our costs to distribute such fuel, we have relied on Government subsidies to partially cover the gap between our costs and revenues. In the past, the manner of calculating and disbursing the PSO subsidy has been amended from time to time. The subsidy payment may be further amended in a manner that is not favorable to us, in addition, future subsidy payments may not be disbursed in a timely manner or at all. Each of these outcomes could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

Efforts by the Government to reduce such subsidies, and the related expenditures has historically been a politically sensitive issue. See "— Risks Relating to Indonesia — Political and social instability in Indonesia may materially and adversely affect us" for a description of instances of public unrest arising from increases in fuel prices and reductions in fuel subsidies. There can be no assurance that Government's current policies relating to fuel subsidies will not be subject to significant changes or influence from public opposition to decreased subsidies or relaxed price controls. Any change in the Government's economic and development policies in these or other respects could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

***Repairs, maintenance and turnarounds at our refineries could affect our results of operations. In addition, due to volatility in the cost of raw materials and finished products in our refining businesses, our regular repair and maintenance operations could occur at an inopportune time when we will be unable to capitalize on high refining margins. The implementation of our plan to comprehensively upgrade our refineries may also limit our existing production during the period in which such upgrading works are being carried out.***

We need to carry out regular maintenance at our refineries. Our refineries are typically shut down every two to four years to make necessary repairs, perform preventative and predictive maintenance and implement capital improvements. Such events where entire process units are taken offstream for revamp or renewal ("turnarounds") vary in duration depending on the complexity of the refinery and the work to be performed, but typically last between approximately three to eight weeks. Portions of our refineries may be shut down for shorter periods to perform more limited maintenance and capital improvements. Although we attempt to schedule routine maintenance or overhauls during periods in which our refining margins are low, it is possible that our refineries may be shut down during periods of high margins as a result of, for example, the volatility and unpredictability of refining margins, unscheduled breakdowns, or scheduled turnarounds taking longer to complete than expected.

As our refineries have been in operation for more than 25 years and deploy aging technology, we have adopted a comprehensive plan to upgrade our refineries with the aim to significantly increase their production capacity and complexity. The upgrading of our refineries may require us to shut down critical aspects of our refinery operations for extended periods of time, which may reduce our existing production capacity during the period in which such upgrading works are being carried out. Our upgrading works may also result in unexpected complications to our existing refinery operations, take longer to complete than we expect or not produce the desired increase in the production capacity and complexity of our refineries, all of which would negatively affect our results of operation.

***We are dependent on certain key customers which are Government-owned entities and the loss of, or a significant reduction in, purchases by such customers could adversely affect our business. While we aim to diversify our sales to such customers beyond oil products and to increase our sales to non-Government-owned customers, there can be no assurance that we will be successful.***

We are dependent on certain key Government-owned customers, including PLN, for a significant portion of our revenues and profits. In 2011, 2012 and 2013, sales to PLN accounted for 13.2%, 10.5% and 9.7% respectively, of our total revenue for the year. The loss of, or the reduction, delay or cancellation of supply contracts from these customers as a result of their commercial or management decisions or disputes between us and such customers could have a material adverse effect on our business. PLN is expected to reduce its purchases of fuel from us over the next few years in favor of coal and gas as sources of energy. If any of our Government-owned customers becomes bankrupt or insolvent, we may also lose some or all of our business from that entity and some of our receivables may have to be written off, adversely impacting our income and financial condition. Our business is also dependent on the decisions and actions of the Government acting as a shareholder of a Government-owned entity. The occurrence of any of these events or factors might result in the delay or termination of a project or the loss of a key customer. We may have difficulty securing comparable levels of business from non-Government-owned customers to offset any loss of revenue and profits.

We aim to diversify our sales to our key Government-owned customers beyond oil products to include natural gas and geothermal energy as well and also to increase our sales to non-Government-owned customers to diversify our key customer base, however, there can be no assurance that we will be successful in doing so.

***We depend on chartered vessels to distribute our cargo.***

We rely on large tankers and small craft for island-to-island delivery of crude oil and refined products within Indonesia. For a description of our shipping operations, see “Business — Shipping”. In 2013, approximately 67.5% of deliveries were made by chartered vessels while approximately 32.5% of deliveries were made by our own vessels. Although we intend to increase the fleet of vessels that we own by 16 vessels by the end of 2016, there can be no assurance that such plans or purchases will not be subject to delays. As a result, our costs of distribution depend on the market price for chartering vessels. We generally enter into long-term charter arrangements for vessels. However, we may also have to rely on the spot charter market, in certain circumstances, to charter vessels to carry specified cargos for single trips. Volatility and any significant increases in charter rates may have a material adverse effect on our distribution costs and results of operations.

**Risks Relating to the Oil, Gas and Geothermal Industry**

We are subject to similar industry risks as other oil, gas and geothermal companies operating in Indonesia. Our ability to maintain and develop our business and revenues will be affected by, among other things, the prevailing world prices for oil and Indonesian domestic energy prices for gas as well as other factors, including those discussed below.

***The interpretation and application of the Oil and Gas Law of 2001 and the anticipated enactment of a new oil and gas law is uncertain and may adversely affect our business, financial condition, results of operations and prospects.***

Indonesia's Oil and Gas Law of 2001 went into effect on November 23, 2001. See "Indonesian Regulatory Framework". This law sets forth general principles to be further implemented through a series of Government regulations, presidential decrees and ministerial decrees, some of which have not yet been promulgated. In general, the provisions of the law are broad, and few sources of interpretive guidance are available. A number of implementing regulations to the Oil and Gas Law of 2001 have been enacted, among others, relating to the formation of SKK MIGAS and its predecessor BPMIGAS (the upstream executive body), and BPH MIGAS (the downstream regulatory body), our conversion into a limited liability state-owned company, and the upstream and downstream industries (including matters with respect to business licensing). SKK MIGAS and BPH MIGAS have enacted some regulations and guidelines that specifically regulate business activities in these sectors. Implementing regulations have also been issued in respect of, among others, domestic market obligations, field development and reserve production, guidance, procedures, contract terms, designation and tender of working areas, contract amendment and renewal, contractual structures for selling the Government's share of oil and gas and relinquishment of working areas. These regulations are new and subject to interpretation by the regulatory authorities. Pending clear instances of the application of such regulations, it is uncertain how such regulations will affect us.

The uncertainty surrounding the Oil and Gas Law of 2001 has increased the risks, and may result in further increases of the costs, of conducting oil and gas business in Indonesia. For example, the Government enacted Government Regulation No. 55 of 2009 as the second amendment to Government Regulation No. 35 of 2004 on Upstream Oil and Gas Business Activities and Regulation of the Minister of Energy and Mineral Resources No. 2 of 2008, which requires contractors to fulfill domestic gas and oil demand by delivering 25% of their share of oil and gas production to the local market, which is known as the domestic market obligations ("DMO"). A gas field discovery must be notified to the Ministry of Energy and Mineral Resources. If the discovery will be produced commercially, the Ministry of Energy and Mineral Resources will allow domestic gas consumers to deliver their gas demands to them in writing within one year from the date the gas field is discovered. Within three months of the expiry of the one year period, the Ministry of Energy and Mineral Resources will notify the contractor of the domestic gas demand condition. If domestic gas demand exists, the contractor shall commence negotiations with the domestic consumer. The contractor may only sell its gas to the international market if there is no domestic gas demand or the contractor fails to reach an agreement with domestic consumer. Prior to selling its gas to international market, the contractor must obtain an export approval from the Minister of Trade, which is based on a recommendation from the Directorate General of Oil and Gas of the Ministry of Energy and Mineral Resources ("DGOG").

Under the Oil and Gas Law of 2001, new cooperation contracts are subject to a broader Government approval process. Negotiation of cooperation contract terms with potential contractors is handled primarily by SKK MIGAS. The relevant work area is awarded by either competitive tender or direct award, and the Indonesian Parliament must be notified of the production sharing arrangements entered into under such cooperation contract. The Government may implement policies regarding oil and gas exploration and production that differ from previous policies.

Not all of the implementing regulations to the Oil and Gas Law of 2001 have been issued and some have only been recently enacted. Accordingly, the full impact of the Oil and Gas Law of 2001, the related implementing regulations and any change in Indonesian oil and gas laws on our financial and operational status cannot be determined at this time. Furthermore, it is anticipated that a new oil and gas law will be enacted in the future, the form and timing of which is uncertain. To the extent the new law or the implementing regulations to the Oil and Gas Law of 2001 or their implementation or interpretation by Indonesian regulatory authorities, courts or SKK MIGAS and BPH MIGAS are adverse to us, our business, financial condition, results of operations and prospects could be materially and adversely affected.

***Our compliance with or breach of environmental regulations in Indonesia and in the countries in which we operate could materially and adversely affect our business, financial condition, results of operations and prospects.***

We are subject to various environmental laws and regulations concerning land use, air emissions, water discharge, waste materials and abandonment of our wells and other operating structures in connection with the design and operation of our upstream and downstream oil, gas and geothermal facilities in Indonesia and other countries in which we operate, transact business or have interests. Numerous government agencies and departments issue environmental rules and regulations, which are often difficult and costly to comply with and which carry substantial penalties for non-compliance.

We cannot assure you that we will not be in breach of any applicable environmental laws and regulations, be subject to stricter enforcement or interpretation of existing environmental laws and regulations, or that such laws and regulations will not become more stringent in the future. It is possible that any breach or such stricter enforcement may give rise to liabilities which we may have to incur potentially significant costs to remedy arising from the discharge of oil, natural gas or other pollutants into the air, soil or water. For example, in 2010, we paid compensation fees of approximately Rp. 550.0 million and incurred approximately Rp. 1.3 billion in remediation costs in connection with pollution at RU IV Cilacap caused by an oil spill. Such liabilities may have an adverse effect on our business, financial condition, results of operations and prospects.

On October 3, 2009, Law No. 32 of 2009 on Protection and Management of Environment (the "New Environmental Law") was enacted which required that all current environmental management licenses be integrated into the environmental permit issued pursuant to the New Environmental Law and introduced more stringent penalties for breaches of environmental laws and regulations. On February 23, 2012, the Government enacted Regulation No. 27 of 2012 on Environmental Permit ("Regulation No. 27") which requires that in addition to an environmental impact analysis (*Analisa Mengenai Dampak Lingkungan*) ("AMDAL") approval, an environmental management effort plan (*Upaya Pengelolaan Lingkungan*) ("UKL") or an environmental monitoring effort plan (*Upaya Pemantauan Lingkungan*) ("UPL"), an environmental permit from the State Ministry of Environmental Affairs or governor or mayor/head of regent of their respective areas would need to be obtained. Although all AMDAL, UKL and UPL existing before the implementation of Regulation No. 27 would be accepted as valid environmental permits, we are currently taking steps to improve our management of sludge and produced water in order to comply with the standards set by the New Environmental Law. However, there can be no assurance that we will be able to do so. Under the New Environmental Law, if obligations in the AMDAL approval or UKL or UPL are not met, one of the sanctions that could be imposed is the revocation of our environmental permit. Revocation of an environmental permit may lead to nullification of our business license which may require us to cease certain operations and have a material adverse effect on our business, financial condition, results of operations and prospects. See "Business — Environmental Matters". The enactment of further implementing regulations relating to the New Environmental Law could cause us to incur significant additional costs or delay in the completion of our projects under development in order to comply with such new regulations.

Given the possibility of unanticipated regulatory or other developments, including more stringent environmental laws and regulations, the amount and timing of future environmental compliance expenditures could vary substantially from their current levels. These changes could limit the availability of our funds for other purposes. We cannot predict what additional environmental legislation or regulations will be enacted in the future or the potential effects on our business, financial condition, results of operations and prospects.

***Increased regulation by governments and governmental agencies may increase the cost of regulatory compliance and limit our access to new exploration properties.***

The oil and gas industry is generally subject to regulation and intervention by governments throughout the world in such matters as the award of exploration and production interest, the imposition of specific drilling obligations, environmental, health and safety controls, controls over the development and decommissioning of a field (including restrictions on production) and possibly, nationalization, expropriation, cancellation or non-renewal of contract rights.

Within Indonesia, where our operations are primarily located, the evolving roles of SKK MIGAS, BPH MIGAS and the Ministry of Energy and Mineral Resources, coupled with political changes in Indonesia, have allowed other Government agencies such as the Minister of Trade, the Ministry of Forestry and State Ministry for Environmental Affairs to increase their roles in administering and regulating the oil and gas industry in Indonesia. The continued expansion of the roles of governmental agencies may result in the adoption of new regulations, legislation and practices that we would be required to comply with.

In addition, new regulations, legislation and practices may be adopted by the Government and other governments or governmental agencies in countries which we have operations in response to evolving practices or specific incidents, such as the Gulf of Mexico oil spill, which may result in more stringent regulation of oil and gas activities in the United States and elsewhere, particularly relating to environmental, health and safety controls and oversight of drilling operations, as well as access to new areas. Any new regulations, legislation and practices could increase the cost of compliance and may require changes to our drilling operations, exploration, development and decommissioning plans and could impact our ability to capitalize on our assets and limit our access to new exploration properties or operatorships. We buy, sell and trade oil and gas products in certain regulated commodity markets. Failure to respond to changes in trading regulations could result in regulatory action and damage to our reputation.

The oil and gas industry is also subject to the payment of royalties and taxation, which tend to be high compared with those payable in respect of other commercial activities, and we operate in certain tax jurisdictions that have a degree of uncertainty relating to the interpretation of, and changes to, tax law. As a result of new laws and regulations or other factors, we could be required to curtail or cease certain operations, or we could incur additional costs.

**Risks Relating to Indonesia**

We are incorporated in Indonesia and a substantial portion of our assets and operations are located in Indonesia. As a result, future political, economic, legal and social conditions in Indonesia, as well as certain actions and policies that the Government may, or may not, take or adopt could materially and adversely affect our business, financial condition, results of operations and prospects and our ability to make payments under the Notes.

***Depreciation in the value of the Rupiah may materially and adversely affect our financial condition and results of operations.***

One of the most important immediate causes of the economic crisis that began in Indonesia in mid-1997 was the depreciation and volatility of the value of the Rupiah as measured against other currencies, such as the U.S. dollar. Although the Rupiah has appreciated considerably from its low point of approximately Rp. 17,000 per U.S. dollar in January 1998, the Rupiah continues to experience significant volatility. See "Exchange Rates and Exchange Controls" for further information on changes in the value of the Rupiah as measured against the U.S. dollar in recent periods.

The Rupiah has generally been freely convertible and transferable. However, from time to time, Bank Indonesia has intervened in the currency exchange markets in furtherance of its policies, either by selling Rupiah or by using its foreign currency reserves to purchase Rupiah. There can be no assurance that the current floating exchange rate policy of Bank Indonesia will not be modified, that additional depreciation of the Rupiah against other currencies, including the U.S. dollar, will not occur, or that the Government will take additional action to stabilize, maintain or increase the value of the Rupiah, or that any of these actions, if taken, will be successful. Our payments within Indonesia are made in Rupiah due to compliance with applicable laws in Indonesia requiring payments to be denominated in Rupiah, while most of our operating costs, particularly in relation to the procurement of crude oil and oil products, are incurred and paid in U.S. dollars. Any adverse changes in the value of the Rupiah against the other currencies, including the U.S. dollar, could have a material adverse effect on our financial condition, results of operations or cash flows.

***Regional or global economic changes may materially and adversely affect the Indonesian economy and our business.***

The economic crisis that affected Southeast Asia, including Indonesia, from mid-1997 was characterized in Indonesia by, among other effects, currency depreciation, a significant decline in real GDP, high interest rates, social unrest and extraordinary political developments. The economic crisis resulted in the failure of many Indonesian companies to repay their debts when due. These conditions had a material adverse effect on Indonesian businesses, including our business and financial conditions. Indonesia entered a recessionary phase with relatively low levels of growth between 1999 and 2002. The rate of growth has stabilized at higher levels in recent years, from 6.2% in 2012 to 5.7% in 2013.

More recently, the global financial crisis, which was triggered in part by the subprime mortgage crisis in the United States, caused failures of large US financial institutions and rapidly evolved into a global credit crisis. Consequently, unemployment in developed markets around the world increased and some major companies experienced significantly diminished results and, in some cases, bankruptcy or a significant threat of bankruptcy. These extremely negative economic developments have adversely affected both developed economies and developing markets, including Indonesia and other Association of Southeast Asian Nations ("ASEAN") countries.

Indonesia and other ASEAN countries have been negatively affected, along with developing market countries globally, by the unprecedented financial and economic conditions in developed markets. Although the Government has taken a number of responses to these unprecedented conditions with the aim of maintaining economic stability and public confidence in the Indonesian economy, continuation of these unprecedented conditions may negatively impact economic growth, the Government's fiscal position, the Rupiah's exchange rate and other facets of the Indonesian economy.

In addition, the Government continues to have a large fiscal deficit and a high level of sovereign debt, its foreign currency reserves are modest, the Rupiah continues to be volatile and has poor liquidity, and the banking sector is weak and suffers from high levels of non-performing loans. The economic difficulties faced by Indonesia during the Asian economic crisis that began in 1997 resulted in, among other things, volatility in interest rates, which had a material adverse impact on the ability of many Indonesian companies to service their existing indebtedness. There can be no assurance that the recent improvement in economic conditions will continue or the previous adverse economic condition in Indonesia and the rest of the Asia-Pacific region will not occur in the future. In particular, a loss of investor confidence in the financial systems of emerging and other markets, or other factors, may cause increased volatility in the international and Indonesian financial markets and inhibit or reverse the growth of the global economy and the Indonesian economy.

The current global economic situation could deteriorate or have an impact on Indonesia and our business. Any of the foregoing could materially and adversely affect our business, financial condition, results of operations and prospects, and on our ability to make payments under the Notes.

***Political and social instability in Indonesia may materially and adversely affect us.***

Since the collapse of President Soeharto's regime in 1998, Indonesia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Indonesia's changing political landscape. In 1999, Indonesia successfully conducted its first free elections for parliament and president. In 2004, Indonesians directly elected the President, Vice-President and representatives in the Indonesian Parliament for the first time. At the lower governmental level, Indonesians have started directly electing their respective heads of local governments. In 2009, another set of elections were held in Indonesia to elect the President, Vice-President and representatives in the Indonesian Parliament. Increased political activity can be expected in Indonesia as a result of these democratic developments in its political system. Although the 2004 and 2009 elections were conducted peacefully, future political campaigns and elections may bring a degree of political and social uncertainty to Indonesia. As a new democratic country, Indonesia continues to face various socio-political issues and has, from time to time, experienced political instability and social and civil unrest. Such instances of unrest have highlighted the unpredictable nature of Indonesia's changing political landscape. Indonesia also has many political parties, without any one party winning a clear majority to date. These events have resulted in political instability, as well as general social and civil unrest on certain occasions in recent years.

Since 2000, thousands of Indonesians have participated in demonstrations in Jakarta and other Indonesian cities both for and against former President Wahid, former President Megawati and current President Yudhoyono, as well as in response to specific issues, including fuel subsidy reductions, privatization of state assets, anticorruption measures, decentralization and provincial autonomy, actions of former Government officials and their family members, the U.S. led military campaigns in Afghanistan and Iraq and potential increases in electricity tariffs. Although these demonstrations were generally peaceful, some have turned violent. In June 2001, demonstrations and strikes affected at least 19 cities after the Government mandated a 30% increase in fuel prices. Similar demonstrations occurred in January 2003, when the Government again tried to increase fuel prices, as well as electricity rates and telephone charges. In both instances, the Government was forced to drop or substantially reduce the proposed increases. In March 2005, the Government implemented an approximately 29% increase in fuel prices. In October 2005, the Government terminated fuel subsidies on premium and regular gasoline and decreased fuel subsidies on diesel, which resulted in increases in fuel prices of approximately 87.5%, 104.8% and 185.7% for premium gasoline, regular gasoline, and diesel fuel, respectively. In response, several non-violent mass protests were organized in opposition to the increases in domestic fuel prices, and political tensions have resulted from the Government's decision. Although these demonstrations were generally peaceful, some have turned violent. There can be no assurance that this situation will not lead to further political and social instability.

Separatist movements and clashes between religious and ethnic groups have resulted in social and civil unrest in parts of Indonesia. In the provinces of Aceh and Papua (formerly Irian Jaya), there have been clashes between supporters of those separatist movements and the Indonesian military. In Papua, continued activity by separatist rebels has led to violent incidents, in Maluku, clashes between religious groups have resulted in casualties and displaced persons and in the province of Kalimantan, clashes between ethnic groups have produced fatalities and refugees in past years. In recent years, the Government has made progress in negotiations with these troubled regions, though with limited success. However, in the province of Aceh, Government reached an agreement with the Aceh separatists was reached in 2005 and peaceful local elections were held with some former separatists as candidates.

Political and social unrest may occur if the results of future elections are disputed or unpopular. Political and social developments in Indonesia have been unpredictable in the past and, as a result, confidence in the Indonesian economy has remained low. Any resurgence of political instability could lead to extended disruptions in our operations and/or adversely affect the Indonesian economy, which could adversely affect our business. There can be no assurance that social and civil disturbances will not occur in the future and on a wider scale, or that any such disturbances will not, directly or indirectly, materially and adversely, affect our business, financial condition, results of operations and prospects, and our ability to make payments under the Notes.

***It may not be possible for investors to effect service of process or to enforce certain judgments on the Issuer or its management.***

The Issuer is a state-owned company established with limited liability in Indonesia. All of the commissioners, directors and executive officers, as applicable, of the Issuer reside outside the United States. Substantially all of the assets of the Issuer and these other persons are located outside the United States. As a result, it may be difficult for investors to effect service of process upon the Issuer or such persons within the United States or other jurisdictions, or to enforce against the Issuer or such persons in such jurisdiction, judgments obtained in courts of that jurisdiction, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or any state thereof.

We have been advised by our Indonesian legal advisors, Ali Budiardjo, Nugroho, Reksodiputro, that judgments of non-Indonesian courts are not enforceable in Indonesian courts, although such judgments could be admissible as non-conclusive evidence in a proceeding on the underlying claim in an Indonesian court. There is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesian courts predicated solely upon the civil liability provisions of jurisdictions other than Indonesia. As a result, holders of the Notes, as claimants, would be required to pursue claims against us or our commissioners and directors in Indonesian courts on the basis of Indonesian law, which would require re-examination of the underlying claim. There can be no assurance that the claims or remedies available under Indonesian law will be the same, or as extensive, as those available in other jurisdictions.

***Holders of the Notes will be exposed to a legal system subject to considerable discretion and uncertainty and may have difficulty pursuing claims under the Notes.***

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

Indonesia's legal system is a civil law system based on written statutes in which judicial and administrative decisions do not constitute binding precedent and are not systematically published. Indonesia's commercial and civil laws, as well as rules on judicial process, were historically based on pre-independence Dutch law in effect prior to Indonesia' independence in 1945 and some have not been revised to reflect the complexities of modern financial transactions and instruments. Indonesian courts are often unfamiliar with sophisticated commercial or financial transactions, leading in practice to uncertainty in the interpretation and application of Indonesian legal principles. The application of Indonesian laws depends, in large part, upon subjective criteria such as the good faith of the parties to the transaction and principles of public policy, the practical effect of which is difficult or impossible to predict. Indonesian judges operate in an inquisitorial legal system and have very broad fact-finding powers and a high level of discretion in relation to the manner in which those powers are exercised. In practice Indonesian court decisions may omit, or may not be decided upon, a legal and factual analysis of the issues presented in a case. As a result, the administration and enforcement of laws and regulations by Indonesian courts and governmental agencies may be subject to considerable discretion and uncertainty. Furthermore, corruption in the court system in Indonesia has been widely reported in publicly available sources. See for example, World Bank, Raising Investment in Indonesia: A Second Generation of Reforms (2005); U.S. Department of State, Indonesia: Country Reports on Human Rights Practices (2009); and Transparency International, International Corruption Perceptions Index (2009).

There is also no assurance that Indonesian courts would enforce, or even consent to adjudicating agreements that are governed by non-Indonesian law. On September 2, 2013, holders of notes issued by BLD Investments Pte. Ltd and guaranteed by PT Bakrieland Development Tbk ("Bakrieland") under a trust deed governed under English law, filed a suspension of debt payment petition with the Jakarta Commercial Court on grounds that, among other things, Bakrieland had failed to comply with its obligation to repay the outstanding amount of the notes when noteholders exercised their put option under the terms of the notes. In its decision dated September 23, 2013, the Jakarta Commercial Court ruled, among other things, that as the trust deed relating to the notes is governed by English law, all disputes arising out of or in connection with the trust deed must be settled by English courts and the Jakarta Commercial Court did not therefore have authority to examine and adjudicate the case.

As a result, it may be difficult for holders of the Notes to pursue a claim against the Issuer in Indonesia, which may adversely affect or eliminate entirely the holders' ability to obtain and enforce a judgment against the Issuer in Indonesia or increase the holders of the Notes' costs of pursuing, and the time required to pursue, claims against the Issuer.

***Indonesia is located in an earthquake zone and is subject to significant geological risk and other natural disasters that could lead to property damage, loss of life, social unrest and economic loss.***

The Indonesian archipelago is one of the most seismically active regions in the world. Because it is located in the convergence zone of three major lithospheric plates, it is subject to significant seismic activity that can lead to destructive volcanoes, earthquakes and tsunamis, or tidal waves. On December 26, 2004, an underwater earthquake off the coast of Sumatra released a tsunami that devastated coastal communities in Indonesia, Thailand, India and Sri Lanka. In Indonesia, more than 220,000 people died or were recorded as missing in the disaster. Aftershock earthquakes subsequent to the December 2004 tsunami have also claimed casualties; on Nias Island as well as nearby Simeuleu and the Banyak islands, an aftershock measuring 8.7 on the Richter Scale left more than 140,000 people homeless and killed approximately 650 people on March 28, 2005. On May 27, 2006, an earthquake with a magnitude of 6.3 on the Richter Scale struck approximately 40 kilometers south of the Central Javanese city of Yogyakarta. More than 5,700 people were killed and more than two million people were displaced in the May 2006 earthquake, and there have been several other recent major earthquakes in Indonesia, including in Sumatra, Java, Sulawesi, Manokwari and Padang.

In addition to these geological events, heavy rains in December 2006 resulted in floods that killed more than 100 people and displaced over 400,000 people on the northwestern Sumatra island. More flooding in January and February 2007 around Jakarta killed at least 30 people and displaced at least 340,000 people from their homes. In July 2007, at least seven people were killed and at least 16,000 people were forced to flee their homes because of floods and landslides caused by torrential rains on the island of Sulawesi. In January 2009, torrential rain caused a colonial-era dam to burst outside Jakarta, flooding homes in a densely populated neighborhood. More recently, in January 2013, heavy rains caused extensive flooding in Jakarta, resulting in at least twelve reported deaths.

While these events did not have a significant economic impact on the Indonesian capital markets, the Government has had to expend significant amounts of resources on emergency aid and resettlement efforts. A significant portion of these costs has been underwritten by foreign governments and international aid agencies. However, there can be no assurance that such aid will continue to be forthcoming, or that it will be delivered to recipients on a timely basis. If the Government is unable to timely deliver foreign aid to affected communities, political and social unrest could result. Additionally, recovery and relief efforts are likely to continue to strain the Government's finances and may affect its ability to meet its obligations on its sovereign debt. Any such failure on the part of the Government, or declaration by it of a moratorium on its sovereign debt, could potentially trigger an event of default under numerous private-sector borrowings including ours, thereby materially and adversely affecting our business, financial condition, results of operations and prospects, and our ability to make payments under the Notes.

In addition, there can be no assurance that future geological occurrences or other natural disasters will not significantly impact the Indonesian economy. A significant earthquake or other geological disturbance or other natural disasters in any of Indonesia's more populated cities and financial centers could severely disrupt the Indonesian economy and undermine investor confidence, thereby materially and adversely affecting our business, financial condition, results of operations and prospects, and our ability to make payments under the Notes.

***Terrorist attacks, terrorist activities and certain destabilizing events have led to substantial and continuing economic and social volatility in Indonesia, which may materially and adversely affect our business.***

The terrorist attacks on the United States on September 11, 2001, together with the military response by the United States and its allies in Afghanistan and military activities in Iraq, have resulted in substantial and continuing economic volatility and social unrest in Southeast Asia. The recent terrorist attacks in Southeast Asia have exacerbated this volatility. Further developments stemming from these events or other similar events could cause further volatility. Any additional significant military or other response by the United States and/or its allies or any further terrorist activities could also materially and adversely affect international financial markets and the Indonesian economy.

In Indonesia during the past several years, there have been various bombing incidents directed toward the Government, foreign governments, and public and commercial buildings frequented by foreigners, including international hotels and the Jakarta Stock Exchange Building. On October 12, 2002, over 200 people were killed in a bombing at a tourist area in Bali. On August 5, 2003, a bomb exploded at the JW Marriott Hotel in Jakarta, killing at least 13 people and injuring 149 others. On September 9, 2004, a car bomb exploded at the Australian Embassy in Jakarta, killing more than six people. On May 28, 2005, bomb blasts in Central Sulawesi killed at least 21 people and injured at least 60 people. On October 1, 2005, bomb blasts in Bali killed at least 23 people and injured at least 101 others. Most recently, on July 17, 2009, bomb blasts at the JW Marriott Hotel and Ritz-Carlton Hotel in Jakarta killed a total of nine people and wounded 53 people. Indonesian, Australian and U.S. government officials have indicated that these bombings may be linked to an international terrorist organization.

There can be no assurance that further terrorist acts will not occur in the future. Following the military involvement of the United States and its allies in Iraq, a number of governments have issued warnings to their citizens in relation to a perceived increase in the possibility of terrorist activities in Indonesia, targeting foreign, particularly U.S., interests. Such terrorist acts could destabilize Indonesia and increase internal divisions within the Government as it considers responses to such instability and unrest, thereby adversely affecting investors' confidence in Indonesia and the Indonesian economy. Violent acts arising from and leading to instability and unrest have in the past had, and could continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy, and in turn our business. Any of the events described above, including damage to our assets, could cause interruption to parts of our business and materially and adversely affect our financial condition, results of operations and prospects, and our ability to make payments under the Notes.

***Outbreak of an infectious disease or any other serious public health concerns in Asia (including Indonesia) and elsewhere may adversely impact our business, results of operations and financial condition.***

The outbreak of an infectious disease in Asia (including Indonesia) and elsewhere, together with any resulting restrictions on travel or quarantines imposed, could have a negative impact on the economy and business activity in Indonesia and thereby adversely impact our revenue. Examples are the outbreak in 2003 of Severe Acute Respiratory Syndrome in Asia (SARS), the outbreak in 2004 and 2005 of Avian influenza, or bird flu, in Asia and the recent outbreak in 2009 of Influenza A (H1N1). There can be no assurance that any precautionary measures taken against infectious diseases would be effective. Any intensification or recurrence of SARS, bird flu Influenza A (H1N1) or other contagious disease or any other serious public health concern in Indonesia may adversely affect our business and financial condition.

***Labor activism and unrest may materially and adversely affect us.***

In March 2003, the Government enacted Law No. 13/2003 and has further issued implementing regulations allowing employees to form unions and preventing interference from employers. The liberalization of regulations permitting the formation of labor unions combined with weak economic conditions has resulted, and will likely continue to result in, labor unrest and activism in Indonesia.

Labor unrest and activism in Indonesia could disrupt our operations, our suppliers or contractors and could affect the financial condition of Indonesian companies in general, depressing the prices of Indonesian securities on the Indonesian or other stock exchanges and the value of the Rupiah relative to other currencies. Such events could materially and adversely affect our business, financial condition, results of operations and prospects, and our ability to make payments under the Notes.

***Indonesian accounting standards differ from those in the United States.***

We prepare our consolidated financial statements in accordance with IFAS, which differs from U.S. GAAP. As a result, our consolidated financial statements and reported earnings could be significantly different from those that would be reported under U.S. GAAP. This Offering Memorandum does not contain a reconciliation of our consolidated financial statements to U.S. GAAP, and there can be no assurance that such reconciliation would not reveal material differences. See "Summary of Certain Differences Between Indonesian Financial Accounting Standards and U.S. GAAP" for a summary of certain differences that may be applicable to us.

***Downgrades of credit ratings of Indonesia and Indonesian companies could materially and adversely affect us and the market price of the Notes.***

In 1997, certain internationally recognized statistical rating organizations, including Moody's, Standard & Poor's and Fitch, downgraded Indonesia's sovereign rating, the credit ratings of various credit instruments of the Government and the credit ratings of a large number of Indonesian banks and other companies. Currently, Indonesia's sovereign foreign currency long-term debt is rated (i) "Baa3 (stable)" by Moody's, (ii) "BB+ (stable)" by Standard & Poor's and (iii) "BBB- (stable)" by Fitch. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due.

No assurance can be given that Moody's, Standard & Poor's, Fitch or any other statistical rating organization will not downgrade the credit ratings of Indonesia or Indonesian companies. Any such downgrade could have an adverse impact on liquidity in the Indonesian financial markets, the ability of the Government and Indonesian companies, including us, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available and could have a material adverse effect on our business, financial condition, results of operations and prospects.

**Risks Relating to the Structure of a Particular Issue of Notes**

A wide range of Notes may be issued under the Program. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features.

***Notes subject to optional redemption***

An optional redemption feature is likely to limit the market value of the Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may be expected to redeem Notes when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Partly-paid Notes***

We may issue Notes where the issue price is payable in more than one installment. Failure to pay any subsequent installment could result in an investor losing all of its investment.

***Floating Rate Notes with a multiplier or other leverage factor***

Notes with floating interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

*Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that we may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of such Notes since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If we convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on our Notes.

*Foreign Currency Notes*

Notes denominated in foreign currencies are exposed to the risk of changing foreign exchange rates. Currency values may be affected by complex political and economic factors, including governmental action to fix or support the value of a currency, regardless of other market forces. Noteholders may risk losing their entire investment if exchange rates of the relevant currency do not move in the anticipated direction. This risk is in addition to any performance risk that relates to the Company or the type of note being issued.

*Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

*Notes where denominations involve integral multiples*

In the case of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

**Risks Relating to the Notes**

***The Notes will be unsecured obligations of the Issuer and will be structurally subordinated to the claims of creditors of the Issuer's subsidiaries.***

The claims of all existing and future third-party creditors of the Issuer's subsidiaries as to the cash flows and assets of such companies will have priority over the claims of the shareholders of such subsidiaries, including the Issuer, and the creditors of such shareholders (such as holders of the Notes).

As of December 31, 2013, we had total debt of US$14,701.2 million[(1)] of which US$234.3 million was third-party debt of our subsidiaries. The indenture constituting the Notes (the "Indenture") does not contain any restrictions on the ability of the Issuer or its respective subsidiaries to incur additional indebtedness.

***The Issuer may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of certain events constituting a change of control triggering event or otherwise as required by the Indenture governing the Notes.***

Upon the occurrence of certain events constituting a change of control triggering event, the Issuer is required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of their principal amount plus accrued and unpaid interest to the date of purchase. If any such event triggering the Issuer's repurchase obligations were to occur, we cannot assure you that the Issuer would have sufficient funds available at such time to pay the purchase price of the outstanding Notes.

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving the Issuer that may adversely affect you, because such corporate events may not involve a change in ownership or control or a downgrade of the ratings of the Notes in accordance with the terms of the Indenture, and even if they do, may not constitute a "Change of Control Triggering Event" as defined in the Indenture. Except as described under Condition 5A in "Description of the Notes", the Indenture does not contain provisions that require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

***The Notes do not contain restrictive financial or operating covenants.***

The Indenture governing the Notes will contain various covenants intended to benefit the interests of the holders of the Notes that limit our ability to, among other things, incur liens under certain circumstances, consolidate or merge with or into, or sell substantially all of our assets to, another person. These covenants are subject to a number of important exceptions and qualifications. For more details, see "Description of the Notes".

The Indenture governing the Notes, however, does not contain restrictive financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness, the issuance or repurchase of securities by us, and the entry into sale and leaseback transactions. In addition, the Indenture does not contain any other covenants or provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating or the rating of the Notes as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such holders. Subject to the terms of our existing corporate debt and other credit facilities, we may incur substantial additional indebtedness in the future.

***There has been no prior market for the Notes; the absence of a prior market in the Notes may contribute to a lack of liquidity and the market price of the Notes following this offering may be volatile.***

Notes may have no established trading market when issued, and one may never develop. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of holders of the Notes to sell their Notes or the prices at which holders of the Notes would be able to sell their

Note:

(1) Total debt includes short-term loans, long-term bank loans (including current portion), two-steps loans and bonds payable.

Notes. The Notes could trade at prices that may be lower than their initial offering price depending on many factors, including prevailing interest rates, our financial condition and operating results and the market for similar securities. This is particularly the case for Notes that are especially sensitive to interest rate, currency, credit or market risks, and/or are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. The Issuer and the Arrangers and Dealers have no obligation to make a market in the Notes. In addition, the market for debt securities in emerging markets has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the markets for the Notes, if any, will not be subject to similar disruptions. Any disruptions in these markets may have a material adverse effect on the holders of the Notes.

***Developments in other markets may adversely affect the market price of the Notes.***

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of Indonesian issuers is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including Indonesia. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

***The ratings assigned to the Program may be lowered or withdrawn entirely in the future.***

The Program has been assigned a rating of "Baa3" by Moody's, "BB+" by S&P's and "BBB-" by Fitch. These ratings may be lowered or withdrawn entirely in the future. The ratings address the ability to perform obligations under the terms of the Notes and the credit risks in determining the likelihood that payments will be made when due. Additionally, one or more independent credit rating agencies may assign credit ratings to an issue of Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant.

***Holders of the Notes may be excluded from receiving compensation in respect of a consent, waiver or amendment to the Indenture or the Notes.***

We are generally excluded from paying any consideration, directly or indirectly, to any holder of the Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all holders that consent, waive or agree to amend such term or provision. However, we will be permitted to exclude holders of the Notes in any jurisdiction where such consent, waiver or amendment or payment of consideration for such consent, waiver or amendment, in either case in the manner we deem appropriate, would not be permitted under applicable law in such jurisdiction or would require us to (a) file a registration statement subjecting us or any of our subsidiaries to ongoing periodic reporting or similar requirements, (b) qualify as a foreign corporation or other entity or as a dealer in securities in such jurisdiction if we are not otherwise required to so qualify, (c) generally consent to service of process in any such jurisdiction or (d) subject us or any of our subsidiaries to taxation in any such jurisdiction if we are not otherwise so subject. We intend to evaluate at the time of any consent, waiver or amendment the costs, potential liabilities and any other factors we consider appropriate at the time associated with extending such consent, waiver or amendment into the relevant jurisdictions. On the basis of this evaluation, we will then make a decision as to how to proceed and whether to extend such consent, waiver or amendment. We cannot assure you that we will include holders of the Notes in jurisdictions where the above exclusions are permitted.

***The transfer of Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.***

The Notes have not been registered under, and the Issuer is not obligated to register the Notes under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "Transfer Restrictions". We have not agreed to, or otherwise undertaken, to register the Notes (including by way of an exchange offer), and we have no intention to do so.

***The Indenture and certain other documents entered into in connection with the Program or any issue of Notes thereunder will also be prepared in Bahasa Indonesia as required under Indonesian law. However, there can be no assurance that, in the event of inconsistencies between the Bahasa Indonesia and English language versions of these documents, an Indonesian court would hold that the English language versions of such documents would prevail.***

Pursuant to Law No. 24, agreements between Indonesian entities and other parties must be set out in Bahasa Indonesia, which is the national language of Indonesia, save that where such party is a foreign entity or individual, the agreement may also be prepared in the language of such foreign party or in the English language. Law No. 24 does not specify any consequences in the event that applicable agreements are not prepared in the Bahasa Indonesia language, and to date, no implementing regulations have been issued with the exception of one implementing regulation on the use of Bahasa Indonesia in the formal speech of the President and/or Vice President and other state officers.

In addition to this implementing regulation, the Minister of State Owned Enterprise has also issued a Circular Letter No. SE-12/MBU/2009 dated November 3, 2009, which recommends that any state-owned enterprise must use Bahasa Indonesia in every memorandum of understanding or agreement to which such state-owned enterprise is a party. While the Indonesian Ministry of Law and Human Rights had issued the Ministry of Law and Human Rights Clarification Letter to clarify that the implementation of Law No. 24 is contingent upon the enactment of a Presidential Regulation and until such a Presidential Regulation is enacted, any agreement that is executed prior to the enactment of the Presidential Regulation in English without a Bahasa Indonesia version, is still legal and valid, and shall not violate Law No. 24.

The West Jakarta District Court has however issued a decision in June 2013 which voided a loan agreement on the basis that it was, among other reasons, not executed in Bahasa Indonesia. The decision of the court disagreed with the findings in the Ministry of Law and Human Rights Clarification Letter and concluded that until Law No. 24 is subject to judicial review before the Constitutional Court and amended, the requirement for agreements to which Indonesian entities are a party to be executed in Bahasa Indonesia remains, notwithstanding that a Presidential Regulation has not been enacted.

The Indenture and certain other documents entered into in connection with the Program or any issue of Notes thereunder will be prepared in dual English and Bahasa Indonesia forms as permitted under Law No. 24 and, pursuant to Law No. 24, each version will be considered equally original. While these documents will expressly state that the English versions will prevail, there can be no assurance that, in light of the ongoing uncertainty surrounding Law No. 24 and the West Jakarta Court decision, that in the event of inconsistencies between the Bahasa Indonesia and English language versions of these documents, an Indonesian court will hold that the English language versions of such documents would prevail, or even consider the English language version.

Some concepts in the English language may not have a corresponding term in Bahasa Indonesia, or may not be fully captured by the Bahasa Indonesia version. If this occurs, there can be no assurance that the Notes will be as described in this Offering Memorandum, or will be interpreted and enforced by the Indonesian courts as intended.

# USE OF PROCEEDS

We intend to use the net proceeds from the issue of each Tranche of Notes to finance capital expenditures and for general corporate purposes or as set forth in the Pricing Supplement applicable to such Notes.

# EXCHANGE RATES AND EXCHANGE CONTROLS

## Exchange Rates

Bank Indonesia is the sole issuer of the Rupiah and is responsible for maintaining the stability of the Rupiah. Since 1970, Indonesia has implemented three exchange rate systems: (i) a fixed rate between 1970 and 1978, (ii) a managed floating exchange rate system between 1978 and 1997 and (iii) a free-floating exchange rate system since August 14, 1997. Under the second system, Bank Indonesia maintained the stability of the Rupiah through a trading band policy, pursuant to which Bank Indonesia would enter the foreign currency market and buy or sell Rupiah, as required, when trading in the Rupiah exceeded bid and offer prices announced by Bank Indonesia on a daily basis. On August 14, 1997, Bank Indonesia terminated the trading band policy and permitted the exchange rate for the Rupiah to float without an announced level at which it would intervene, which resulted in a substantial decrease in the value of the Rupiah relative to the U.S. dollar. Under the current system, the exchange rate of the Rupiah is determined solely by the market, reflecting the interaction of supply and demand in the market. Bank Indonesia may take measures, however, to maintain a stable exchange rate.

The following table shows the exchange rate of Rupiah to U.S. dollars based on the middle exchange rates at the end of each month or day, as the case may be, during the periods indicated. The Rupiah middle exchange rate is calculated based on Bank Indonesia's buying and selling rates. We make no representation that the U.S. dollar amounts referred to in this Offering Memorandum could have been or could be converted into Rupiah at the rate indicated or any other rate, or at all.

| | Exchange Rates | | | |
|---|---|---|---|---|
| | Low(1) | High(1) | Average(1) | Period End |
| | (Rp. per US$) | | | |
| 2009 | 9,400 | 11,980 | 10,356 | 9,400 |
| 2010 | 8,924 | 9,365 | 9,078 | 8,991 |
| 2011 | 8,508 | 9,170 | 8,773 | 9,068 |
| 2012 | 9,000 | 9,670 | 9,419 | 9,670 |
| 2013 | 9,634 | 12,270 | 10,451 | 12,189 |
| 2014 | | | | |
| January 2014 | 12,047 | 12,267 | 12,180 | 12,226 |
| February 2014 | 11,620 | 12,251 | 11,935 | 11,634 |
| March 2014 (through March 5, 2014) | 11,580 | 11,647 | 11,608 | 11,580 |

*Source: Statistik Ekonomi dan Keuangan Indonesia (Indonesian Financial Statistics) published monthly by Bank Indonesia, Internet website of Bank Indonesia, available at: http://www.bi.go.id/en/moneter/informasi-kurs/transaksi-bi/Default.aspx*

Note:

(1) For full years, the high and low amounts are determined, and the average shown is calculated, based upon the middle exchange rate announced by Bank Indonesia on the last day of each month during the year indicated. For each month, the high and low amounts are determined, and the average shown is calculated, based on the daily middle exchange rate announced by Bank Indonesia during the month indicated.

The middle exchange rate on December 31, 2013 was Rp. 12,189 = US$1.00.

The Federal Reserve Bank of New York does not certify for customs purposes a noon buying rate for cable transfers in Rupiah.

**Exchange Controls**

Indonesia has limited foreign exchange controls. The Rupiah has been, and in general is, freely convertible within or from Indonesia. However, to maintain the stability of the Rupiah, and to prevent the utilization of the Rupiah for speculative purposes by non-residents, Bank Indonesia has introduced regulations to restrict the movement of Rupiah from banks within Indonesia to offshore banks, an offshore branch of an Indonesian bank, or any investment denominated in Rupiah with foreign parties and/or Indonesian parties domiciled or permanently residing outside Indonesia, thereby limiting offshore trading to existing sources of liquidity. In addition, Bank Indonesia has the authority to request information and data concerning the foreign exchange activities of all persons and legal entities that are domiciled, or who plan to be domiciled in Indonesia for at least one year. Bank Indonesia regulations also require companies that have total assets or total annual gross revenues of at least Rp. 100 billion, to report to Bank Indonesia all data concerning their foreign currency activities. If requested by Bank Indonesia, we must also provide Bank Indonesia with information and documents relating to the reporting of foreign exchange activities.

**Purchasing of Foreign Currencies against Rupiah through Banks**

Bank Indonesia also introduced Bank Indonesia Regulation No. 10/28/PBI/2008 on the Purchase of Foreign Currency against Rupiah through Bank, as implemented by the Circular Letter of Bank Indonesia No. 10/42/DPD dated November 27, 2008, as amended by the Circular Letter of Bank Indonesia No. 14/11/DPM/2012 dated March 21, 2012 and Circular Letter of Bank Indonesia No. 15/3/DPM dated February 28, 2013 ("PBI No. 10/2008"), which limits the conversion of the Rupiah into foreign currency to a maximum of US$100,000, or its equivalent value, per month. Foreign exchange conversions that are equal to or less than US$100,000 per month need to be supported by a written declaration by Indonesian companies purchasing foreign currency. Any foreign exchange conversion that exceeds such maximum limit must be based on an underlying transaction and supported by underlying transaction documents. Further, the maximum amount of such foreign exchange conversion cannot exceed the value of the underlying transaction. Under PBI No. 10/2008, the conversion of the Rupiah into foreign currency or the purchase of foreign currency can only be made for the same foreign currency as stated in the underlying transaction documents, except for foreign currencies for which liquidity is not available in the domestic financial market.

Indonesian companies purchasing foreign currencies in excess of US$100,000 will be required to submit certain supporting documents to the selling bank, including among others, a copy of the underlying agreement and a duly stamped statement confirming that the underlying agreement is valid and that the foreign currency purchased will only be used for settlement of the payment obligations under the underlying agreement. For purchases of foreign currency not exceeding US$100,000, such company must declare in a duly stamped letter that its aggregate foreign currency purchases does not exceed US$100,000 per month in the Indonesian banking system.

As a state-owned company, we are also subject to Bank Indonesia requirements which restrict our ability to source U.S. dollars to three Indonesian banks — PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Rakyat Indonesia (Persero) Tbk.

# CAPITALIZATION

The following table sets forth our consolidated capitalization as of December 31, 2013.

This table should be read in conjunction with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes thereto included elsewhere in this Offering Memorandum. There have been no material changes to our capitalization since December 31, 2013.

| | As of December 31, 2013 |
|---|---|
| | Actual |
| | (US$ in millions) |
| Indebtedness | |
| Short-term loans | 4,995.0 |
| Long-term bank loans — current portion[(1)] | 696.8 |
| Long-term bank loans — net of current portion[(1)] | 1,812.1 |
| Two-step loans[(2)] | 11.8 |
| Bonds[(3)] | 7,185.5 |
| Total debt | 14,701.2 |
| Equity | |
| Share capital (par value Rp. 1.0 million per share): | |
| Authorized capital 200,000,000 ordinary shares; | |
| Issued and paid up — 83,090,697 shares | 9,864.9 |
| Additional paid in capital | 3.8 |
| Equity adjustments | (2,647.7) |
| Government contributed assets pending final clarification of status | 1.4 |
| Other equity components | 175.1 |
| Retained earnings: | |
| Appropriated | 6,772.9 |
| Unappropriated | 3,393.0 |
| Non-controlling interest | 76.1 |
| Total equity | 17,289.3 |
| Total capitalization[(4)] | 31,990.5 |

Notes:

(1) Long-term bank loans, presented net of issuance cost, include all loans from banks for capital expenditures, project finance and general corporate purposes on a consolidated basis.

(2) For details of the two-step loans, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness".

(3) Includes (i) US$1 billion 5.25% senior notes due 2021 and US$500 million 6.5% senior notes due 2041, both of which were issued in May 2011, (ii) US$1.25 billion 4.875% senior notes due 2022 and US$1.25 billion 6.0% senior notes due 2042, both of which were issued in May 2012 and (iii) US$1.625 billion 4.3% senior notes due 2023 and US$1.625 billion 5.625% senior notes due 2043, both of which were issued under the Program in May 2013. This amount is presented net of discount and issuance cost.

(4) Represents total debt plus total equity.

# SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

*The selected consolidated financial information as of and for the years ended 2011, 2012 and 2013 are derived from our audited consolidated financial statements which are included elsewhere in this Offering Memorandum.*

*You should read the following selected consolidated financial information in conjunction with our consolidated financial statements and related notes, "Presentation of Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Offering Memorandum. Our consolidated financial statements have been prepared and presented in accordance with IFAS, which differs in certain respects from U.S. GAAP. See "Summary of Certain Differences between Indonesian Financial Accounting Standards and U.S. GAAP".*

**Consolidated Statements of Comprehensive Income Data**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| **Sales and other operating revenues** | | | |
| Domestic sales of crude oil, natural gas, geothermal energy and oil products | 44,611.7 | 43,764.0 | 44,736.3 |
| Subsidy reimbursements from the Government | 17,860.5 | 21,924.0 | 20,303.7 |
| Export of crude oil, natural gas and oil products | 4,289.8 | 4,714.3 | 5,502.9 |
| Marketing fees | 150.7 | 110.9 | 107.3 |
| Revenues in relation to other operating activities | 384.8 | 411.3 | 451.8 |
| **Total sales and other operating revenues** | **67,297.4** | **70,924.4** | **71,102.1** |
| **Costs of sales and other direct costs** | | | |
| Cost of goods sold | (57,165.9) | (60,699.3) | (60,910.2) |
| Upstream production and lifting costs | (2,003.1) | (2,391.0) | (2,468.1) |
| Exploration costs | (203.1) | (376.0) | (209.8) |
| Expenses in relation to other operating activities | (534.2) | (521.9) | (514.7) |
| **Total cost of sales and other direct costs** | **(59,906.2)** | **(63,988.2)** | **(64,102.9)** |
| **Gross profit** | **7,391.2** | **6,936.3** | **6,999.3** |
| Selling and marketing expenses | (999.0) | (1,150.8) | (1,165.6) |
| General and administrative expenses | (1,038.3) | (1,021.2) | (995.4) |
| Provision for impairment of receivables | (679.6) | (38.8) | 450.9 |
| Foreign exchange gain/(loss) — net | (10.1) | 40.5 | (195.6) |
| Reversal/(provision) for impairment of oil and gas properties | (189.0) | 108.8 | — |
| Finance income | 118.1 | 132.0 | 126.8 |
| Finance costs | (287.4) | (329.3) | (478.5) |
| Share in net loss of associates | (6.3) | (1.7) | (1.0) |
| Other income — net | 205.1 | 126.6 | 292.1 |
| | **(2,886.4)** | **(2,134.0)** | **(1,966.4)** |
| **Income before income tax expense** | **4,504.8** | **4,802.3** | **5,032.9** |
| Income tax expense | (2,099.5) | (2,036.6) | (1,965.8) |
| **Income for the year** | **2,405.3** | **2,765.7** | **3,067.1** |
| Other comprehensive loss | (8.7) | (0.5) | (21.4) |
| Difference arising from translation of non-US$ currency financial statements | 2.0 | (13.6) | (149.2) |
| **Other comprehensive income, net of tax** | **(6.7)** | **(14.2)** | **(170.6)** |
| **Total comprehensive income** | **2,398.6** | **2,751.5** | **2,896.5** |
| **Income attributable to:** | | | |
| Owners of the parent | 2,399.2 | 2,760.7 | 3,061.6 |
| Non-controlling interest | 6.1 | 5.1 | 5.4 |
| **Income for the year** | **2,405.3** | **2,765.7** | **3,067.1** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | 2,392.9 | 2,749.4 | 2,897.4 |
| Non-controlling interest | 5.7 | 2.2 | (1.0) |
| **Total comprehensive income** | **2,398.6** | **2,751.5** | **2,896.5** |

**Consolidated Statements of Financial Position Data**

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | | (US$ in millions) | |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 3,199.3 | 4,295.4 | 4,686.0 |
| Restricted cash | 128.0 | 172.8 | 212.9 |
| Short-term investments | 169.8 | 66.2 | 153.0 |
| Long-term investments — current portion | 110.3 | 103.4 | — |
| Trade receivables: | | | |
| Related parties | 2,172.0 | 2,246.1 | 2,039.2 |
| Third parties | 1,369.8 | 1,609.3 | 1,977.9 |
| Due from the Government — current portion | 1,828.9 | 2,714.5 | 4,291.0 |
| Other receivables: | | | |
| Related parties | 20.2 | 291.9 | 448.5 |
| Third parties | 396.7 | 677.8 | 503.2 |
| Inventories | 7,778.1 | 8,961.2 | 9,104.5 |
| Prepaid taxes — current portion | 306.9 | 405.3 | 467.9 |
| Prepayments and advances | 158.1 | 481.7 | 262.4 |
| Dividend advances | — | — | — |
| Total current assets | 17,638.0 | 22,025.6 | 24,146.4 |
| **Non-current assets** | | | |
| Due from the Government | 77.0 | — | — |
| Deferred tax assets | 926.7 | 896.7 | 968.3 |
| Long-term investments — net of current portion | 625.3 | 650.5 | 685.3 |
| Fixed assets | 7,730.1 | 7,972.6 | 9,187.4 |
| Oil & gas, and geothermal properties | 5,372.0 | 7,391.5 | 11,062.0 |
| Prepaid taxes — net of current portion | 2,179.3 | 1,662.8 | 2,023.6 |
| Other assets | 441.9 | 359.0 | 1,268.9 |
| Total non-current assets | 17,352.3 | 18,933.0 | 25,195.5 |
| **Total assets** | **34,990.3** | **40,958.6** | **49,341.9** |
| **Liabilities and equity** | | | |
| **Short-term liabilities** | | | |
| Short-term loans | 2,923.1 | 3,843.0 | 4,995.0 |
| Trade payables: | | | |
| Related parties | 143.0 | 148.0 | 89.2 |
| Third parties | 3,989.2 | 4,597.3 | 4,993.7 |
| Due to the Government — current portion | 2,468.2 | 2,166.8 | 2,417.6 |
| Taxes payable | 687.0 | 533.9 | 633.6 |
| Accrued expenses | 1,552.3 | 1,752.5 | 1,849.9 |
| Long-term liabilities — current portion | 673.2 | 489.3 | 746.4 |
| Other payables: | | | |
| Related parties | 66.4 | 72.7 | 9.1 |
| Third parties | 373.9 | 469.0 | 572.6 |
| Deferred revenue — current portion | 75.0 | 77.5 | 138.7 |
| Total short-term liabilities | 12,951.2 | 14,150.1 | 16,445.8 |

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| **Long-term liabilities** | | | |
| Due to the Government — net of current portion | 209.4 | 196.0 | 155.4 |
| Deferred tax liabilities | 954.6 | 1,163.4 | 2,026.1 |
| Long-term liabilities — net of current portion | 1,741.6 | 1,383.9 | 2,038.5 |
| Bonds payable | 1,465.7 | 3,937.9 | 7,185.5 |
| Provision for employee benefits | 3,378.9 | 3,302.5 | 2,685.9 |
| Provision for decommissioning and site restoration | 815.9 | 1,440.6 | 1,218.6 |
| Deferred revenue — net of current portion | 101.7 | 92.5 | 203.7 |
| Other non-current payables | 88.7 | 98.9 | 93.0 |
| Total long-term liabilities | 8,756.5 | 11,615.8 | 15,606.7 |
| **Total liabilities** | **21,707.7** | **25,765.9** | **32,052.6** |
| **Equity** | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | | |
| Authorized — 200,000,000 ordinary shares at par value of Rp. 1,000,000 (full amount) per share, issued and paid up — (83,090,697 shares as of December 31, 2013 and as of December 31, 2012 and 82,569,779 shares as of December 31, 2011) | 9,809.9 | 9,864.9 | 9,864.9 |
| Equity adjustments | (2,647.7) | (2,647.7) | (2,647.7) |
| Additional paid in capital | — | — | 3.8 |
| Government contributed assets pending final clarification of status | 62.0 | 1.4 | 1.4 |
| Other equity components | 0.4 | (10.9) | (175.1) |
| Retained earnings: | | | |
| Appropriated | 3,538.3 | 4,875.2 | 6,772.9 |
| Unappropriated | 2,444.9 | 3,032.8 | 3,393.0 |
| | 13,207.7 | 15,115.7 | 17,213.2 |
| Non-controlling interest | 74.9 | 77.0 | 76.1 |
| **Total equity** | 13,282.6 | 15,192.8 | 17,289.3 |
| **Total liabilities and equity** | **34,990.3** | **40,958.6** | **49,341.9** |

### Consolidated Statements of Cash Flows Data

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| **Cash Flows From Operating Activities:** | | | |
| Cash receipts from customers | 44,763.7 | 46,519.8 | 50,860.8 |
| Cash receipts from Government in relation to subsidy and marketing fee | 14,764.9 | 21,508.6 | 18,410.1 |
| Cash paid to suppliers | (42,228.9) | (44,204.2) | (48,910.4) |
| Cash paid to Government | (12,090.3) | (18,746.6) | (14,741.1) |
| Corporate income tax paid | (2,393.1) | (2,369.6) | (2,513.0) |
| Cash paid to employees and management | (1,266.0) | (1,353.9) | (1,250.5) |
| Tax restitution received | 272.5 | 477.3 | 641.4 |
| Cash (placement)/receipts from restricted cash | 108.1 | (109.1) | (58.2) |
| Interest received | 43.7 | 70.6 | 43.9 |
| Net cash generated from operating activities | **1,974.6** | **1,792.9** | **2,483.0** |
| **Cash Flows from Investing Activities:** | | | |
| Purchases of oil & gas and geothermal properties | (1,280.5) | (1,577.4) | (2,311.5) |
| Purchases of fixed assets | (1,084.5) | (729.3) | (1,425.2) |
| Payments of exploration and evaluation assets | (1.9) | (159.6) | (296.9) |
| Advance payment for business acquisition | — | (283.7) | (15.0) |
| Repayment from investment in Medium Term Notes | 113.3 | 104.7 | 91.9 |
| Proceeds from disposal of short-term investment | 71.1 | 100.0 | 30.5 |
| Proceeds from disposal of long-term investment | 1.5 | — | — |
| Placement in short-term investments | (51.9) | — | (34.8) |
| Placement in long-term investments | (76.7) | (108.8) | (117.3) |
| Interest received from investment | 74.4 | 63.9 | 82.8 |
| Proceeds from sale of fixed assets | 22.7 | 11.5 | 20.9 |
| Dividend received from associated companies | 3.4 | 0.7 | 8.7 |
| Acquisition of subsidiary, net of cash received | — | — | (1,853.5) |
| Acquisition and addition of participating interests in oil and gas properties | — | — | (293.3) |
| **Net cash used in investing activities** | **(2,209.1)** | **(2,578.1)** | **(6,003.9)** |
| **Cash Flows From Financing Activities:** | | | |
| Proceeds from short-term loans | 11,112.0 | 11,856.4 | 18.693.0 |
| Proceeds from issuance of bonds | 1,500.0 | 2,500.0 | 3,250.0 |
| Proceeds from long-term loans | 178.9 | 696.4 | 1,522.4 |
| Cash (placement)/receipts from restricted cash | 89.8 | 64.3 | (34.1) |
| Payments of finance costs | (230.6) | (304.0) | (472.0) |
| Payments of dividend | (663.0) | (763.7) | (754.2) |
| Repayments of long-term loans | (519.8) | (1,083.8) | (546.6) |
| Repayments of short-term loans | (10,330.8) | (10,955.9) | (17,541.0) |
| **Net cash generated from financing activities** | **1,136.4** | **2,009.7** | **4,117.4** |
| **Net increase in cash and cash equivalents** | 901.9 | 1,224.5 | 596.5 |
| Effect of exchange rate changes on cash and cash equivalents | (39.3) | (128.5) | (205.9) |
| **Cash and cash equivalents at the beginning of the year** | **2,336.7** | **3,199.3** | **4,295.4** |
| **Cash and cash equivalents at the end of the year** | **3,199.3** | **4,295.4** | **4,686.0** |

## Segment Results

The following table presents segment revenues and results for our upstream and downstream segments for the periods indicated. This table should be read together with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Offering Memorandum.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Upstream segment revenues | 7,707.2 | 8,172.9 | 7,808.3 |
| Upstream segment results | 4,520.2 | 4,458.9 | 4,347.0 |
| Downstream segment revenues | 63,732.2 | 66,635.8 | 66,176.6 |
| Downstream segment results | 827.6 | 66.1 | 103.9 |

## Non-GAAP and Other Financial Data

| | As of or for the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions, unless otherwise indicated) | | |
| Capital expenditure | 2,366.9 | 2,466.3 | 6,347.5 |
| Interest expense(1) | 141.1 | 237.0 | 379.6 |
| EBITDA(2) | 5,446.6 | 5,979.0 | 6,558.5 |
| Total debt(3) | 6,343.5 | 9,280.9 | 14,701.2 |
| Total debt/EBITDA | 1.2 | 1.6 | 2.2 |
| EBITDA/Total sales and other operating revenues (%) | 8.1 | 8.4 | 9.2 |
| Total debt to Total equity (%) | 47.8 | 61.1 | 85.0 |
| EBITDA/Interest expense (times) | 38.6 | 25.2 | 17.3 |

Notes:

(1) Interest expense is comprised of finance costs for short-term loans and long-term bank loans (including current portion), the two-step loans and bonds. For details of the two-step loans and bonds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness".

(2) We calculate EBITDA by adding depreciation, depletion and amortization, interest expense (as described in footnote (1) above) and income tax expense to net income and subtracting finance income. EBITDA is a supplemental measure of our performance and liquidity that is not required by or presented in accordance with IFAS or U.S. GAAP. EBITDA is not a measurement of financial performance or liquidity under IFAS or U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with IFAS or U.S. GAAP or an alternative to cash flows from operating activities as a measure of liquidity. In addition, EBITDA is not a standardized term, hence a direct comparison between companies using such term may not be possible. We have included EBITDA because we believe it is an indicative measure of our operating performance and is used by investors and analysts to evaluate companies in our industry. The following table reconciles our net income under IFAS to our definition of EBITDA for the periods indicated:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Income for the year | 2,405.3 | 2,765.7 | 3,067.1 |
| Adjustments: | | | |
| Finance income | (118.1) | (132.0) | (126.8) |
| Interest expense | 141.1 | 237.0 | 379.6 |
| Income tax expense | 2,099.5 | 2,036.6 | 1,965.8 |
| Depreciation, depletion and amortization | 918.8 | 1,071.7 | 1,272.8 |
| EBITDA | 5,446.6 | 5,979.0 | 6,558.5 |

(3) Total debt is comprised of short-term loans, long-term bank loans (including current portion), the two-step loans and bonds. For details of the two-step loans and bonds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness".

## Selected Reserve, Production and Operating Data

*We estimate our proved oil and gas reserve quantities based on our oil and gas resource management system, which contains procedures for classifying and estimating reserves which are consistent with PRMS 2007 with respect to our reserves, other than our reserves managed by PEP, and with the SPE 2001 guidelines with respect to our reserves managed by PEP. All information in this Offering Memorandum relating to oil and gas reserves is presented on the basis of our "net reserves" which represents our share of the gross reserves in a block, field or specified area, attributable to our working interest before deducting the share payable to the Government as owner of the reserves, pursuant to the terms of the relevant production sharing arrangement or cooperation contract and the cost recovery and any applicable taxes.*

*The information on our oil and gas production presented and referred to as "production" in this Offering Memorandum is our "net production" and represents our share of the oil and/or gas production from a block, field or specified area, attributable to our working interest before deducting the share payable to the Government pursuant to the terms of the relevant production sharing arrangement or cooperation contract and the cost recovery and any applicable taxes. See "Risk Factors — Risks Relating to Our Upstream Operations — Our crude oil, natural gas and geothermal reserve estimates are uncertain and may prove to be incorrect over time or may not accurately reflect actual reserve levels, or even if accurate, technical limitations may prevent us from retrieving these reserves" and "Business — Pertamina Upstream Business — Reserves".*

*The following table sets forth the present value and estimated volume of our total net oil and gas proved and proved plus probable reserves, as well as other figures relevant to our operations.*

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Proved reserves:** | | | |
| Crude oil (mmbbls) | 1,317.9 | 1,357.1 | 1,686.6 |
| Natural gas (bcf) | 10,906.0 | 8,914.1 | 10,779.8 |
| **Total (mmboe)** | **3,200.3** | **2,895.7** | **3,547.2** |
| **Proved plus probable reserves:** | | | |
| Crude oil (mmbbls) | 1,802.9 | 1,837.7 | 2,322.4 |
| Natural gas (bcf) | 14,791.5 | 12,084.2 | 13,449.9 |
| **Total (mmboe)** | **4,355.9** | **3,923.4** | **4,643.9** |

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Average daily oil and gas production:** | | | |
| Crude oil (mbbls/d) | 193.5 | 196.1 | 201.5 |
| Natural gas (mmcf/d) | 1,530.4 | 1,538.6 | 1,532.1 |
| **Total (mboe/d)** | **457.6** | **461.6** | **465.9** |
| **Average realized sales prices:** | | | |
| Crude oil (US$ per bbl) | 110.76 | 112.73 | 102.70 |
| Natural gas (US$ per mcf) | 4.51 | 4.96 | 6.90 |

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

*You should read the following discussion in conjunction with our consolidated financial statements and the related notes, "Presentation of Financial and Other Data", "Summary Consolidated Financial and Other Data" and "Selected Consolidated Financial and Other Data" included elsewhere in this Offering Memorandum. Our consolidated financial statements have been prepared and presented in accordance with IFAS, which differs in certain respects from U.S. GAAP. See "Summary of Certain Differences between Indonesian Financial Accounting Standards and U.S. GAAP". Unless otherwise indicated, references in this section to years are to our fiscal year ending December 31 in such year.*

**Overview**

We derive our sales and other operating revenues primarily from sales of refined petroleum products, sales of crude oil and natural gas, sales of processed gas products, sales of steam and electricity and sales of petrochemical products. The main factors affecting our business and results of operations are described below.

**Factors Affecting Our Business and Results of Operations**

***PSO Mandate***

For the fiscal years ended December 31, 2011, 2012 and 2013, approximately 54.3%, 57.8% and 57.9%, respectively, of our sales and other operating revenues were derived from the distribution of subsidized fuel pursuant to our PSO mandate from the Government. Under our PSO mandate, we distribute certain grades of oil products, in particular, motor gasoline, automotive diesel oil, kerosene, and LPG in 3kg cylinders to the public at regulated prices and receive subsidy reimbursements from the Government in accordance with a pre-set formula which is revised from time to time by the Government.

Since 2008, we are no longer the exclusive holder of the PSO mandate in Indonesia and we are required to participate in an annual tender process for the PSO mandate. In 2010 and 2011, we, AKR and Petronas were granted PSO mandates and in 2012, we, AKR, Petronas and Surya Parna Niaga were granted PSO mandates. In 2013 and 2014, we, AKR and Surya Parna Niaga were granted PSO mandates. Based on the total amount of subsidized fuel distributed in Indonesia in 2013, we continue to retain 99.8% of the PSO market. We believe this is due to our extensive distribution network. However, if the number of oil and gas companies which are granted the PSO mandate increases or the other holders of the PSO mandate expand their distribution networks, our share of the PSO market would be reduced, which would in turn affect our revenue from the distribution of subsidized fuel.

Historically, the regulated prices of subsidized fuel products have not been sufficient to meet our costs of producing or importing and distributing such fuel products, and we rely on subsidy reimbursements from the Government to address the shortfall between the regulated retail prices and our costs of producing or importing and distributing such fuel. The subsidy reimbursement formula determined by the Government for motor gasoline, automotive diesel oil and kerosene distributed under the PSO mandate is based on MOPS plus a margin less the regulated retail price for such subsidized fuel products. The compensation formula for LPG in 3kg cylinders is based on the Aramco LPG Contract Price ("CP Aramco"), which is the international benchmark used to determine the cost of LPG, plus a margin less the regulated retail price. The Government sets these subsidy reimbursement formulas annually in conjunction with the setting of the State Budget. In setting these subsidy reimbursement formulas, the Government assumes that the price of crude oil will not exceed a certain threshold. In 2013, the Government assumed with respect to the margin component of the subsidy reimbursement formula that the cost of crude oil would not be greater than US$100 per barrel. In 2014, the Government has assumed with respect to the margin component of the subsidy reimbursement formula that the cost of crude oil will not be greater than US$105 per barrel. Under these subsidy reimbursement formulas, fluctuations in the cost of purchasing crude oil and LPG are intended to be matched by the fluctuations in MOPS or CP Aramco and the margin is intended to compensate us for distribution, transportation and other costs and to provide for the opportunity to realize profits from the remainder. For the fiscal years ended December 31, 2011, 2012 and 2013, domestic sales of crude oil, natural gas, geothermal energy and oil products represented 66.3%, 61.7% and 62.9%, respectively, of our total sales and other operating revenues while cost subsidy reimbursements under our PSO mandate represented 26.5%, 30.9% and 28.6%, respectively, of our total sales and other operating revenues. From 2011 to 2012, our domestic sales revenue decreased as our cost subsidy reimbursements increased, each as a percentage of our total sales and other operating revenues, due to the price of subsidized fuel remaining fixed as our cost subsidy reimbursements increased over the period from fluctuations in the MOPS component of our subsidy reimbursement formula and a revision to the margin component of the subsidy reimbursement formula itself. From 2012 to 2013, our domestic sales revenue increased as our cost subsidy reimbursements decreased, each as a percentage of our total sales and other operating revenues, as the price of subsidized fuel was increased in 2013, which increased our domestic sales revenue but decreased the margins we received under our subsidy reimbursement formula.

Because the margin component of the compensation formula and regulated retail prices of subsidized fuel products are fixed by the Government, whenever crude oil exceeds the ceiling price assumed by the Government (as it did in 2012) or our transportation, distribution or other costs increase, we may not be able to recover the full costs of distributing subsidized fuel and LPG under the subsidy reimbursement formula and may incur losses as a result. In particular, the costs of fuel required in our refining activities fluctuate with the costs of crude oil and increases in the costs of crude oil cause our costs of refining subsidized fuel to increase. We may not be able to recover such increased costs due to the fixed margin of these subsidy reimbursement formulas. In addition, in determining the subsidy reimbursement payable to us in any given month for the distribution of subsidized oil products, the Government's policy is to use MOPS from the month immediately prior to the month which the subsidy reimbursement claim relates to. This lag in the value of MOPS used in the subsidy reimbursement formula may result in the compensation we receive under our PSO mandate being insufficient to cover the cost of our raw materials in months where there is a significant increase in crude oil prices from the previous month.

In 2011 and 2012, the subsidy reimbursement we received under the PSO mandate on an aggregate basis was sufficient to cover our costs of distribution of subsidized fuel. Although crude oil prices had continued to rise and the compensation under the PSO mandate continued to be insufficient with respect to our costs of distribution for certain oil products in 2011 and 2012, the compensation for the distribution of LPG in 3kg cylinders under the compensation formula for 2011 and the compensation for the distribution of motor gasoline and LPG under the revised compensation formula for motor gasoline and the compensation formula for LPG in 3kg cylinders in 2012 were sufficient to cover our related costs of distribution and losses incurred for the distribution of other oil products under the PSO mandate in those respective years. In 2013, the compensation formula under the PSO mandate was sufficient to cover our related costs of distribution for LPG in 3kg cylinders and motor gasoline and offset the losses incurred for distribution of other oil products under the PSO mandate.

The margin components of the compensation formulas for oil products under our PSO mandate were increased from June 22, 2013, as set out in the table below. The revised compensation formulas also provide for additional compensation of Rp. 20.00 per liter for motor gasoline or automotive diesel that is produced domestically from our refineries. However, if crude oil prices exceed the ceiling price assumed by the Government or our transportation, distribution or other costs increase, we may not be able to recover the full costs of distributing subsidized fuel and LPG under the compensation formula and may incur losses as a result.

For the fiscal years ended December 31, 2011, 2012 and 2013, we have received compensation from the Government under our PSO mandate on the following bases:

| | **Compensation for Distribution of Oil Products** | **Compensation for Distribution of LPG** |
|---|---|---|
| 2011 | MOPS + Rp. 607.97 per liter less the regulated retail price for motor gasoline | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| | MOPS + Rp. 607.45 per liter less the regulated retail price for automotive diesel | |
| | MOPS + Rp. 402.35 per liter less the regulated retail price for kerosene | |
| 2012 | MOPS + 3.32% of MOPS + Rp. 454.00 per liter less the regulated retail price for motor gasoline | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| | MOPS + 2.17% of MOPS + Rp. 491.00 per liter less the regulated retail price for automotive diesel | |
| | MOPS + 2.49% of MOPS + Rp. 263.00 per liter less the regulated retail price for kerosene | |
| 2013 (from January 1) | MOPS + 3.32% of MOPS + Rp. 454.00 per liter less the regulated retail price for motor gasoline | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| | MOPS + 2.17% of MOPS + Rp. 491.00 per liter less the regulated retail price for automotive diesel | |
| | MOPS + 2.49% of MOPS + Rp. 263.00 per liter less the regulated retail price for kerosene | |
| 2013 (from June 22) | MOPS + 3.32% of MOPS + Rp. 484.00 per liter * less the regulated retail price for motor gasoline | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| | MOPS + 2.17% of MOPS + Rp. 521.00 per liter* less the regulated retail price for automotive diesel | |
| | MOPS + 2.49% of MOPS + Rp. 263.00 per liter less the regulated retail price for kerosene | |
| | *An additional margin of Rp. 20 per liter is levied for subsidized fuel produced domestically from our refineries. | |

In 2014, compensation from the Government for our PSO mandate continues to be based on the compensation formulas effective from June 22, 2013. See "Business — Pertamina Downstream Business — PSO" and "Risk Factors — Risks Relating to Our Downstream Operations — We compete with other oil and gas companies in connection with our downstream activities and for the PSO mandate", "Risk Factors — Risks Relating to Our Downstream Operations — A substantial part of our revenues is derived from the provision of subsidized fuel products" and "Risk Factors — Risks

Relating to Our Downstream Operations — We may not be able to pass on increases in costs of our raw materials for products distributed under our PSO or other mandates from the Government or where the prices of such products are fixed at the request of the Government" for more information relating to our PSO mandate.

***Price of Crude Oil, Natural Gas and Refined Products***

Our operating results are impacted by the international market prices for crude oil and refined products. The volatility of the market prices of crude oil, natural gas and refined products is subject to a variety of factors beyond our control, including international events and circumstances, political developments and instability in petroleum producing regions such as the Middle East, Latin America, Northern Africa and Western Africa. Higher prices for crude oil and natural gas generally have a positive effect on our operating profit in our upstream business, as our exploration and production business benefits from the increase in prices of the oil and gas we produce and deliver. Lower crude oil and natural gas prices generally have a corresponding negative effect in our upstream business. In our downstream segments, changes in the price of crude oil also affect the world market prices for certain petrochemical feedstocks. As a result, our costs for producing petrochemical products typically track crude oil prices. The effect of changes in crude oil and natural gas prices on our refined petroleum products business depends on the rate and extent to which the prices of such products adjust to reflect those changes.

Our policy is to use as much of the crude oil which we produce as we can as feedstock in our refineries and to purchase crude oil on the open market to meet any shortfall between our crude oil production (either in the quality or quantity of the crude oil) and the demands of our refineries. A small percentage of the crude oil we produce is not of suitable quality for our refineries. We generally either trade such crude oil in exchange for crude oil of suitable quality or sell such crude oil either on the term or spot market. For the fiscal years ended December 31, 2011, 2012 and 2013, 94.5%, 95.4% and 95.8%, respectively, of the crude oil we produced was used as feedstock in our refineries, while the balance of our crude oil production in such years was either traded or sold to third parties. See "Business — Pertamina Upstream Business — Sales and Distribution — Crude Oil" for more information on our crude oil sales. The crude oil we supply to our refineries and trade is sold at the prevailing market price of crude oil so increases in crude oil prices would increase revenues in our upstream segment. We purchase more crude oil than we trade or sell to third parties so increases in the price of crude oil cause our costs of producing refined products to increase. For example, we commonly purchase Azeri crude oil from Azerbaijan and Qua Iboe crude oil from Nigeria for our refineries as it is well suited for blending with the crude oil we produce before refining. We purchase Azeri crude oil and Qua Iboe crude oil at spot market rates through a third party dealer, so fluctuations in the costs of Azeri crude oil and Qua Iboe crude oil on the spot market tend to cause our costs of production to increase.

Demand for refined products in Indonesia exceeds the total production output of our refineries and we also import refined products to meet local demand. Fluctuations in the price of crude oil also affect market prices for certain petroleum products. Increases in the price of the refined products which we import would increase our purchasing costs. Such increases in our costs of producing and importing refined products may have a negative impact on our profits if the prices at which such products can be distributed do not fluctuate to the same extent because such prices are regulated due to market forces or otherwise.

### *Crude Oil, Natural Gas and Refined Product Production Volumes*

Our sales and other operating revenues are positively correlated with our crude oil and natural gas production volumes, which in turn depend primarily on the level of the proven and developed reserves in the fields in which we have an interest. The level of proven and developed reserves is affected by such factors as:

- the extent to which we acquire interests in producing reserves or acquire other companies that own producing reserves;
- the rate at which exploration leads to successful discoveries and the speed at which successful exploration and development move to production;
- the speed at which we and our partners deplete the reserves through production of crude oil and natural gas; and
- the expiration and extension of the terms of the production sharing arrangements under which we and our partners produce crude oil and natural gas.

As our policy is to use as much of the crude oil which we produce as we can as feedstock in our refineries, our level of crude oil production directly affects the amount of refined products we can produce for sale. Other factors that affect our refining levels are the availability of suitable feedstock for purchase in the open markets and our refining capacity.

In addition, our refined products production levels are directly affected by the total production capacity of our six refineries, which has remained constant at 1,031 mbbls/d for each of the past three years, and our average utilization rate for such capacity has generally remained constant and was 79.9% in 2011, 79.5% in 2012 and 80.7% in 2013, respectively. Our total production capacity is affected by the facilities in place at our refineries, and our average utilization rate is affected by the efficiency of our facilities and may also be affected by periods of scheduled and unscheduled downtime and the availability of suitable feedstock.

Our results of operations are also affected by the mix of refined products that we produce and sell. Certain non-subsidized refined products, such as our petrochemical products, provide us with higher margins than other products, such as subsidized fuels distributed under our PSO mandate. Key factors contributing to our product mix in a given period will include the types of refined products that are in our product portfolio, the types of refined products that are subject to Government subsidies, customer demand, and our ability to produce such fuels. Our product portfolio and our ability to produce certain products is dependent on the NCI of our refining facilities.

### *The Terms of Our PSCs*

Our PSCs contain customary cost recovery provisions which permit us to recover approved costs incurred in capital investment for exploration and development, and production and operating expenses against available revenues generated by the PSC after deduction of first tranche petroleum (“FTP”). Under FTP terms, the Government and the contractor are entitled to take and receive oil and gas of a certain percentage each year of the total production in a particular production area, depending on contract terms, before any deduction for cost recovery. After we have recovered all approved costs, the Government is entitled to a specified profit share of the remaining production and we keep the rest as our profit share.

Because our recoverable costs are customarily settled in gas and oil, the exact amount realizable by us out of these cost recoveries varies depending on the market prices of gas and oil. For example, if oil prices decrease, our cost recovery portion of production will rise and our net entitlement under our PSCs will therefore also rise in terms of the number of barrels of oil. However, despite such increase in our net entitlement, a decline in oil prices may lead to a decline in revenues. The international market for gas and oil is volatile, and has recently been characterized by significant price fluctuations. See "Risk Factors — Risks relating to our Company — The volatility in the prices of crude oil, natural gas and our refined products and the uncertainty of the market dynamics for oil and gas could adversely affect our business, financial condition, results of operations and prospects".

Our share of profits before tax from our PSCs ranges from 25% to 67% for oil and 57% to 80% for gas, depending on the production sharing arrangement and without taking into account the impact of cost recovery and DMO. DMO obligations are established by SKK MIGAS on a contract-by-contract basis. Under PEP's PSC relating to all of our wholly-owned oil and gas fields, our share of profits before tax for oil and gas is 67.2%, which is higher than other PSCs. After a period of five years commencing from the month of the first delivery of crude oil produced from each new field in a given contract area, the contractor will typically be subject to DMO to sell approximately 7.3% to 8.1% of the crude oil produced from the contract area at a subsidized price, ranging from 15% to 25% of the market price, depending on the PSC. The size of our DMO obligations and the discount to market price at which we must fulfill them would have a direct effect on revenues from our upstream business. For the last three years, our DMO have accounted for an average of 25% of our net crude oil production. Under the PSC which PEP is party to, we are not required to sell crude oil under our DMO at a subsidized price and we receive market price for the crude oil delivered under our DMO. The majority of the crude oil which we supply under our DMO is provided by PEP. While historically there has been no DMO associated with gas production, new PSCs under the Oil and Gas Law of 2001 includes a DMO provision with respect to gas production. Although the Oil and Gas Law of 2001 has extended DMO to gas production, this change is not retrospective, and applies only to production sharing arrangements entered into after 2001. The size of our DMO obligation with respect to our gas production and the terms, including the price at which we are required to supply the gas, would have a direct effect on revenues from our upstream business.

We expect our allocation of FTP and net entitlement to increase in line with an anticipated decline in Indonesia's production of crude oil due to current production being mature and the expectation that no new major discoveries will be made in the current decade. We expect to import more crude oil and feedstock for our refineries in 2014 and in future years as a result of this decline in our FTP allocation and net entitlement which will cause our costs of sales to increase.

Indonesian income tax rates (including dividend tax) on our PSCs currently vary depending on the contract terms for the applicable PSC where revenue is generated, and this percentage changes our effective tax rate. The average income tax rates (including dividend tax) applicable to our PSCs ranges from 36.3% to 48%. Our income tax expense is significantly influenced by the fact that PSCs cannot be consolidated for Indonesian income tax purposes, as this prevents us from off-setting losses from one PSC from profits from another PSC. Each PSC is taxed individually and no cross deduction is allowed.

See "Indonesian Regulatory Framework — Oil and Gas Regulation — Upstream — PSCs" for further information.

***Movements in the Exchange Rate Between the Rupiah and U.S. Dollar***

Although the U.S. dollar is our functional and reporting currency, as approximately 80% of our revenues are directly or indirectly denominated in U.S. dollars, fluctuations in the exchange rate between the Rupiah and the U.S. dollar would still affect our results of operations. A depreciation of the Rupiah against the U.S. dollar has a negative effect on revenues and receivables paid in Rupiah. Our payments within Indonesia are made in Rupiah due to compliance with applicable laws in Indonesia requiring payments to be denominated in Rupiah, while most of our operating costs, particularly in relation to the procurement of crude oil and oil products, are incurred and paid in U.S. dollars. However, as prices of our refined products and our gas sales agreements are based on U.S. dollars converted to Rupiah, an appreciation of the Rupiah against the U.S. dollar may also have a negative effect on our business as it may reduce our prices in Rupiah terms. See "Exchange Rates and Exchange Controls" for information about the exchange rate between the Rupiah and the dollar.

***Trade Receivables Risk Management***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to us. Our exposure to credit risk is primarily with respect to trade receivables which is represented by the carrying amount of the receivables that are presented in our consolidated statement of financial position.

As of December 31, 2013, the top ten parties from which trade receivables are due are PLN and subsidiaries, Indonesian Armed Forces and Ministry of Defense, PT Garuda Indonesia (Persero) Tbk , ConocoPhillips Group, Total E&P Indonesie, PT Lion Mentari Airlines, PT Chandra Asri Petrochemical, PT Pamapersada Nusantara, PT Perusahaan Gas Negara (Persero) Tbk, and PetroChina Group.

As of December 31, 2013, we had trade receivables of US$4,017.1 million, approximately 50.8% of which was owed to us by our related parties and US$1,004.1 million is owed to us by PLN.

Our outstanding trade receivables are not covered by credit insurance (although certain of our trade receivables from unrelated third parties are covered by collateral). We have procedures such as credit scoring, collateral requirement and regular confirmation and reconciliation, to monitor and limit exposure to credit risk on our outstanding trade receivables. We make provisions for impairment of trade receivables from related and third parties on an individual basis. Based on management's review of the collectible balances of trade receivables as of December 31, 2011, 2012 and 2013, our management believes that the provision for impairment made with respect to each such period is adequate to cover potential losses as a result of uncollected trade receivables. We impose penalties on outstanding trade receivables, however, such procedures may not effectively limit our credit risk and avoid losses.

In 2011, 2012 and 2013, we made provisions for impairment in respect of trade receivables from third parties of US$117.0 million, US$110.1 million and US$121.1 million, respectively, and provisions for impairment in respect of trade receivables from related parties ofUS$37.6 million, US$48.8 million and US$1.5 million, respectively.

***Government Ownership and Regulation***

The Government is our sole shareholder and, through its agencies, it is likely to continue to retain control over us. We also derive certain benefits from being a Government-owned entity, including a favorable allocation of net entitlement under certain of our PSCs, access to two-step loans, which are loans disbursed through a lending mechanism managed by the Government which have favorable terms and are only available to Government-owned entities and a right to request to renew cooperation contracts on our existing oil and gas blocks in Indonesia. The Government could affect us through other actions, such as the alterations to the PSO mandate and the compensation we receive under it, the retail price which it sets for subsidized fuel, renegotiation or nullification of existing concessions and contracts, the imposition of taxes and foreign exchange restrictions or requiring that we supply fuel to our related parties at a discounted rate. Furthermore, because the majority of our accounts receivable are from Government-owned entities and the Government is our sole shareholder, we may have limited courses of action against it.

As our sole shareholder, the Government is entitled to receive dividend payments from us on an interim or annual basis. In 2011, 2012 and 2013, we paid final dividends of US$663.0 million, US$763.7 million and US$754.2 million, respectively, to the Government. For 2014, the Government is targeting us to pay approximately 30% or less of our projected profits to the Government in dividends.

See “Risk Factors — Risks Relating to our Company — We are subject to the control of the Government and there is no guarantee they will always act in our best interests. We also derive certain benefits from being a state-owned entity, and we cannot guarantee that any or all of these benefits will continue”, “Risk Factors — Risks Relating to our Company — We are exposed to credit risk on our trade receivables”, and “Risk Factors — Risks Relating to Our Downstream Operations — We may not be able to pass on increases in costs of our raw materials for products distributed under our PSO or other mandates from the Government or where the prices of such products are fixed at the request of the Government”.

***Growth Strategy***

We have in the past pursued, and expect in the future to continue to pursue strategic acquisitions, in particular, of assets in production or in advance development, joint ventures and investments that will expand our oil, gas, geothermal and shipping businesses and our activity in the energy industry generally. We plan to pursue selective international expansions to locations such as Australia, Africa, Central Asia and the Middle East. We continue to be open to partnering through acquisitions and bidding on new areas, including overseas oil and gas fields and joint management. We plan to increase capital expenditures in oil and gas exploration activities, achieve a higher reserve replacement ratio, accelerate project development and improve profitability through increasing production volumes and reducing lifting and production costs. We also plan to develop our gas infrastructure in Sumatra and Java. We also intend to continue to expand and increase our refinery portfolio and have a broad expansion plan. For example, we intend to construct new refineries in East Java and in Balongan, each with a primary processing capacity of at least 200 mbbls/d. See “Business — Pertamina Downstream Business — Description of Existing Refineries” for our expansion plans for our existing refineries and “Business — Pertamina Downstream Business — Planned Development of New Refineries” for a description of our planned new refineries. In the long term, we aim to supplement our existing core businesses by significantly investing in and increasing our capital expenditures for projects for petrochemical distribution, power production, biofuel production and LNG production in Indonesia.

The implementation of our growth strategy may lead to increased levels of debt and debt servicing costs and significant capital expenditures in the future.

***Macroeconomic Conditions***

Our results of operations may be materially affected by conditions in the global capital markets and the economy generally in Indonesia and elsewhere around the world. As widely reported, financial markets in the United States, Europe and Asia, including Indonesia, have been experiencing extreme disruption in recent years, including, among other things, extreme volatility in securities prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. These and other related events, such as the collapse of a number of financial institutions in the recent past, have had and continue to have a significant adverse impact on the availability of credit and the confidence of the financial markets, globally as well as in Indonesia.

The deterioration in the financial markets has led to a recession in various countries, which may in turn lead to significant declines in employment, household wealth, consumer demand and lending, and as a result may adversely affect economic growth in Indonesia and elsewhere. This could affect our business and results of operations. Weak economic conditions in the markets, or a reduction in consumer spending even if economic conditions improve, could adversely impact our business and results of operations in a number of ways, including increased financing costs and lower prices for oil and gas. All of these factors may significantly affect our business and results of operations.

**Internal Controls Over Financial Reporting**

Prior to 2003, as an entity established for the holding of the Government's oil and gas assets and the regulation of the oil and gas industry in Indonesia, we did not engage independent auditors to audit our consolidated financial statements. Since we converted into a profit-based limited liability company in 2003, we have been engaged in establishing policies and practices in order to implement a system of good internal controls and corporate governance. In connection with this effort and with the audit of our consolidated financial statements as of and for the year ended December 31, 2010, we requested that KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) provide us, from their assessment of our internal controls to determine the nature, extent and timing of audit procedures for the purpose of expressing an opinion on the consolidated financial statements, with a management letter identifying, among other matters, aspects of our internal controls relevant to financial reporting that require remediation or improvement, their implications on our consolidated financial statements and recommendations for remediation or improvement. On June 14, 2013, KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) issued a management letter in relation to their audit of our consolidated financial statements as of and for the year ended December 31, 2012 (the "2012 Management Letter"), which covered a broad range of issues relating to internal controls relevant to our financial reporting. Following our receipt of the 2012 Management Letter, we took measures to remedy the deficiencies and as of December 31, 2013, had addressed the majority of the issues identified therein.

On February 15, 2013, KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) issued the 2012 Compliance Report. Among other matters, the 2012 Compliance Report identified issues relating to:

- inaccuracies in recording certain inventories and cost of goods sold;
- lack of provisioning for accounts receivables due for more than one year; and
- records of fixed assets under construction being out of date.

Following the identification of these issues, we have taken measures and plan to continue to take measures to remedy these deficiencies, to ensure the completeness, timeliness and accuracy of our consolidated financial statements. Among other things, we have:

- improved coordination between our teams and departments, and in particular our finance and operations teams;
- introduced new procedures relating to documentation of cost of goods sold;
- implemented regular evaluation procedures in relation to outstanding account receivables;
- implemented periodical monitoring on projects to oversee progress to completion and report progress on these projects to our budgeting and forecast and general accounting teams.

KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) did not perform an audit or other types of assurance engagements on the effectiveness of internal controls over our financial reporting under auditing standards generally accepted in the United States ("U.S. GAAS") or auditing standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network) have not assessed the control deficiencies under U.S. GAAS or the auditing standards of the PCAOB and therefore have not evaluated such deficiencies as either significant deficiencies or material weaknesses as defined under U.S. GAAS or the auditing standards of the PCAOB. Certain issues they reported in their management letters are issues related to our internal controls relevant to financial reporting that they identified from their assessment of internal controls to determine the nature, extent and timing of the audit procedures for the purpose of expressing an opinion on the financial statements. The audit procedures were not specifically designed to, and were not required or requested to be specifically able to, detect any ineffectiveness in internal controls relevant to our financial reporting.

**Critical Accounting Policies**

Our critical accounting policies and practices are those that we believe are the most important to the presentation of our financial condition and results of operations and that require subjective judgment on behalf of management. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. We believe the policies and practices described below are our critical accounting policies and practices. For a summary of all our accounting policies, including the policies discussed below, see Notes 2 and 3 to the consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, which are included elsewhere in this Offering Memorandum.

In the application of our accounting policies, we are required to make estimates, judgments and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are based on historical experience and other factors we consider relevant.

Judgments made by our management in the process of applying our accounting policies that have the most significant effects on amounts in our consolidated financial statements relate to (i) the provision for the impairment of loans and receivables and (ii) oil and gas properties.

We base our assumptions and estimates on parameters that are available when our consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to changes in the market and conditions arising beyond our control. Areas in which we rely on the use of assumptions and estimates relate to (i) impairment of non-financial assets; (ii) reserve estimates; (iii) amounts due from government; (iv) accrual for bonuses; and (v) depreciation, estimate of residual values and useful lives of fixed assets.

***Provision for the Impairment of Loans and Receivables***

Provision for the impairment of receivables is maintained at a level considered adequate to provide for potentially uncollectible receivables. We assess specifically at each balance sheet date whether there is objective evidence that a financial asset is impaired (such receivables being uncollectible).

The level of provision is based on past collection experience and other factors that may affect collectability such as the probability of insolvency or significant financial difficulties of the debtor or significant delay in payments.

If there is objective evidence of impairment, timing and collectible amounts are estimated based on historical loss data. Provision for impairment is provided on accounts specifically identified as impaired. Loans and receivables written off are based on our decisions that the financial assets are uncollectible or cannot be realized regardless of actions taken. Evaluation of receivables to determine the total allowance to be provided is performed periodically during the year. Therefore, the timing and amount of provision for doubtful accounts recorded in each period might differ based on the judgments and estimates that have been used.

***Oil and Gas Properties***

We follow the principles of the "successful efforts" method of accounting for our oil and natural gas exploration and evaluation activities.

For exploration and exploratory-type stratigraphic test wells, costs directly associated with the drilling of those wells are initially capitalized as assets under construction within oil and gas properties, pending determination of whether potentially economically viable oil and gas reserves have been discovered by the drilling effort. The determination is usually made within one year after well completion, but can take longer, depending on the complexity of the geological structure. This policy requires us to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Such estimates and assumptions may change as new information becomes available. If we do not discover potentially economically viable oil and gas quantities in the well, the well costs are expensed as a dry hole and are reported in exploration expense.

***Impairment of Non-Financial Assets***

In accordance with our accounting policy, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit of a group of assets is measured at the higher of fair value less costs to sell and value in use.

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortization and are tested annually for impairment.

Proven oil and gas properties are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is determined as the greater of an asset's fair value less cost to sell and value in use.

To determine fair value and value in use, we are required to make estimates and assumptions about expected production and sales volumes, commodity prices (taking into consideration current and historical prices, price trends and related factors), reserves (see " — Reserve Estimates" below), operating costs, decommissioning and site restoration cost, and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty and changes in circumstances may alter these projections and impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired, or the impairment charge reduced, with the impact recorded in the profit or loss.

*Reserve Estimates*

The amounts recorded for depletion, depreciation and amortization as well as the recovery of the carrying value of oil and gas properties and fixed assets involving production of oil and gas depend on estimates of oil and gas reserves. The primary factors affecting these estimates are technical engineering assessments of producible quantities of oil and gas reserves in place and economic constraints such as the availability of commercial markets for natural gas production as well as assumptions related to anticipated commodity prices and the costs of development and production of the reserves.

The economic assumptions used to estimate reserves change from period to period, and additional geological data is generated during the course of operations, therefore estimates of reserves may change from period to period. Changes in reported reserves may affect our financial results and financial position in a number of ways, including:

- Asset carrying values may be affected due to changes in estimated future cash flows.

- Depreciation and amortization charged in the consolidated statements of comprehensive income may change where such charges are determined on a units of production basis, or where the useful economic lives of assets change.

- Decommissioning, site restoration, and environmental provision may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

- The carrying value of deferred tax assets/liabilities may change due to changes in estimates of the likely recovery of the tax benefits.

*Due from the Government*

We recognize amounts due from the Government for cost subsidies for certain fuel products, the kerosene conversion program and marketing fees in relation to the Government's share of crude oil, natural gas and LNG. The Group makes an estimation of the amount due from the Government based on historical information. The amount is subject to audit and approval by the BPK. The actual results may be different to the amounts recognized.

*Accrual for Bonuses*

The accrual for bonuses represents expenses from payment of employee benefits which consist of tantiem, bonuses and employee incentives. The accrual is based on a formula that was agreed by our management which depends on financial and non-financial performance measurement. We estimate the amount based on the existing supporting information at the balance sheet date. The amount may be changed if the actual financial and non-financial measurement of performance is finalized.

*Depreciation, Estimate of Residual Values and Useful Lives of Fixed Assets*

The useful lives of our investment properties and fixed assets are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluations and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of investment properties and fixed assets would increase the recorded depreciation and decrease the carrying values of fixed assets.

**Overview of Certain Key Line Items**

***Sales and Other Operating Revenues***

Our sales and other operating revenues are primarily derived from domestic sales of crude oil, natural gas and geothermal energy and refined products and subsidy reimbursements from the Government for subsidized fuel products. We also derive revenues from the export sales of crude oil and oil products, marketing fees and revenues from our other non-core businesses.

In 2011, 2012 and 2013, approximately 54.3%, 57.8% and 57.9%, respectively, of our sales and other operating revenue were derived from the distribution of subsidized fuel and LPG in 3kg cylinders pursuant to our PSO mandate. For fuels distributed under our PSO mandate, we receive both the retail price from the consumer as well as a cost subsidy reimbursement from the Government. See "Business — Pertamina Downstream Business — PSO" for a description of the PSO system and a description of how such cost subsidy reimbursements are determined.

*Domestic sales of crude oil, natural gas, geothermal energy and oil products*. For the fiscal years ended December 31, 2011, 2012 and 2013, domestic sales of these products represented 66.3%, 61.7% and 62.9%, respectively, of our total sales and other operating revenues. The largest component of our domestic sales of these products relates to the retail sale of automotive diesel oil and premium gasoline under our PSO mandate. The balance is composed of domestic sales of other products.

*Subsidy reimbursements from the Government*. As noted above, we receive regular cost subsidy reimbursements from the Government for subsidized fuel and LPG we distribute under our PSO mandate. These reimbursements represented 26.5% 30.9% and 28.6%, respectively, of our sales and other operating revenues for the years ended 2011, 2012 and 2013.

*Export of crude oil and oil products*. We export some of the oil products and crude oil we produce to foreign markets. In 2011, 2012 and 2013, these sales represented 6.4% , 6.6% and 7.7%, of our sales and other operating revenues.

We also derive sales and other operating revenues from marketing fees and from our other non-core businesses. In 2013, 2012 and 2011, the most significant contributions to revenue from our non-core businesses come from natural gas transportation services.

In our upstream segment, we derive sales and other operating revenues primarily from domestic sales of crude oil, natural gas and geothermal energy and also from export sales of crude oil and oil products.

In our downstream segment, we derive sales and other operating revenue primarily from domestic sales of oil products and subsidies from the Government in relation to the distribution of certain subsidized fuel products and LPG in 3kg cylinders. We also derive sales and other operating revenues from sales of non-subsidized fuel products, LPG in 12kg and 50kg cylinders, and refined products.

***Costs of Sales and Other Direct Costs***

Cost of sales and other direct costs consist of cost of goods sold, which is comprised of production costs and purchase of oil products and other products, upstream production and lifting costs, exploration costs and expenses relating to other operating activities.

In 2011, 2012 and 2013, cost of goods sold accounted for 95.4%, 94.9% and 95.0%, respectively, of our total cost of sales and other direct costs. The key components in cost of goods sold are:

*Production costs*. Production costs primarily represent costs related to the purchase of crude oil as feedstock for our refining operations. We import crude oil under term as well as spot contracts. The cost of importing crude oil accounts for a very substantial portion of our production costs, and is principally affected by the price and the quantity of crude oil we import. The quantity of crude oil imports is affected by the amount of domestic crude oil which the Government is entitled to receive under production sharing arrangements and cooperation contracts, which we process on their behalf. Our production costs also include certain overhead costs, including utilities, infrastructure and fuel consumed, rent, direct labor costs, depreciation, depletion and amortization costs of fixed assets used in our production activities, maintenance and repairs, and materials and equipment. These costs represented 55.9%, 54.4% and 55.6%, of our total cost of goods sold in 2011, 2012 and 2013, respectively.

*Purchases of oil products and others*. Because the supply of the oil and other petrochemical products we produce is not sufficient to meet domestic demand, we import some of these products from foreign sources, including premium gasoline, automotive diesel oil, industrial and marine fuel oil, kerosene, other oil products and geothermal energy, and we also make domestic purchases of other oil products. The related costs are recorded under this category. The costs of importing premium gasoline and automotive diesel oil comprise a significant portion of these costs and are affected by the extent to which Indonesia's domestic fuel consumption exceeds domestic fuel production. These costs represented 45.1%, 46.9% and 45.2%, of our total cost of goods sold in 2011, 2012 and 2013, respectively.

Our cost of sales and other direct costs represented 89.0%, 90.2% and 90.2% of our sales and other operating revenue for the years 2011, 2012 and 2013, respectively.

***Operating Expenses and Other Non-Operating Income/(Expenses) — Net***

Operating expenses and other non-operating income/(expenses) — net represents the balance for a given period of certain factors affecting our results of operations and is defined as the sum of the following income statement line items: (i) selling and marketing expenses, (ii) general and administrative expenses, (iii) reversal/(provision) for impairments of receivables; (iv) foreign exchange (loss)/gain; (v) reversal for the impairment of oil and gas properties; (vi) finance income; (vii) finance costs; (viii) share in net loss of associates, and (ix) other income — net. Selling and marketing expenses are primarily incurred in connection with freight and transportation, depreciation of fixed assets used in our selling, professional services and marketing activities, salaries, wages and other employee benefits. General and administrative expenses primarily include salaries, wages and other employee benefits and taxes, retributions and penalties. Other income — net is a general line item for other income, which varies from year to year and may include non-recurring items such as reversals of provisions for impairment on certain assets, contract and material penalties and claims.

***Income Tax Expense***

We have been subject to corporate income tax at the rate of 25% since 2010. As our subsidiaries are taxed on an individual basis, in addition to the taxes that we are subject to on a consolidated basis, our effective tax rates[1] for 2011, 2012 and 2013 were 46.6% , 42.4% and 39.1%, respectively.

Note:

(1) The effective tax rate is calculated as income tax expense divided by income before income tax expense.

*Income for the Year*

Our income for the year is attributable to owners of the parent and non-controlling interests which are the interests of third parties in the equity of our subsidiaries which are not wholly owned by us. Our income for the year attributable to owners of the parent is our net income and comprised 99.7%, 99.8% and 99.8%, of our total income for the years ended December 31, 2011, 2012 and 2013, respectively.

**Overview of Segment Results**

We have three operating segments: upstream, downstream and others. The operating segment which we classify as "others" consists of office and house rentals, hotel operation, air transportation services, health services and operation of hospitals, investment management, gas transportation services, human resources development services and insurance services. Our segment results are derived from our total segment revenues, after deducting total costs of sales and other direct costs, selling and marketing expenses and general and administrative expenses relating to such segments. We eliminate intercompany balances and transactions to derive our total consolidated segment revenues and results after eliminations. These segment revenues and results are presented in Note 40 to the consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, which are included elsewhere in this Offering Memorandum.

**Results of Operations**

Unless otherwise indicated, our results of operations are presented and discussed below on a consolidated basis.

The following table provides a breakdown of our net income by showing each item as a percentage of sales and other operating revenue for the periods indicated. This table should be read together with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Offering Memorandum.

| | For the Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (US$ in millions, except percentages) | | | | | |
| | | % | | % | | % |
| Total sales and other operating revenue | 67,297.4 | 100.0 | 70,924.4 | 100.0 | 71,102.1 | 100.0 |
| Total cost of sales and other direct costs | (59,906.2) | 89.0 | (63,988.2) | 90.2 | (64,102.9) | 90.2 |
| Total operating expenses and other non-operating income/ (expenses)[1] | (2,886.5) | 4.3 | (2,134.0) | 3.0 | (1,966.4) | 2.8 |
| Income before income tax expense | 4,504.8 | 6.7 | 4,802.3 | 6.8 | 5,032.9 | 7.1 |
| Total income tax expense | (2,099.5) | 3.1 | (2,036.6) | 2.9 | (1,965.8) | 2.8 |
| Income for the year | 2,405.3 | 3.6 | 2,765.7 | 3.9 | 3,067.1 | 4.3 |
| Income for the year attributable to | | | | | | |
| — owners of the parent | 2,399.2 | 3.6 | 2,760.7 | 3.9 | 3,061.6 | 4.3 |
| — non-controlling interests | 6.1 | 0.0 | 5.1 | 0.0 | 5.4 | 0.0 |
| Income for the year | 2,405.3 | 3.6 | 2,765.7 | 3.9 | 3,067.1 | 4.3 |

Note:

(1) Comprised of selling and marketing expenses, general and administrative expenses, reversal/(provision) for impairment of receivables, foreign exchange (loss)/gain, reversal for impairment of oil and gas properties, finance income, finance costs, share in net loss of associates and other income — net.

The following tables provide a breakdown of our sales (before elimination of inter-segment sales and expenses) and the results for our upstream and downstream segments for the periods indicated. See "Business — Pertamina Upstream Business" and "Business — Pertamina Downstream Business" for a description of our upstream and downstream segments. This table should be read together with our consolidated financial statements, including the notes thereto, appearing elsewhere in this Offering Memorandum.

***Upstream***

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | | (US$ in millions) | |
| External sales | 3,445.6 | 3,667.0 | 3,651.4 |
| Inter-segment sales | 4,261.6 | 4,505.9 | 4,156.8 |
| Total segment revenues | 7,707.2 | 8,172.9 | 7,808.3 |
| Segment results | 4,520.2 | 4,458.9 | 4,347.0 |

***Downstream***

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | | (US$ in millions) | |
| External sales | 63,536.8 | 66,424.7 | 66,048.2 |
| Inter-segment sales | 195.5 | 211.1 | 128.4 |
| Total segment revenues | 63,732.3 | 66,635.8 | 66,176.6 |
| Segment results | 827.6 | 66.1 | 103.9 |

**2013 compared with 2012**

***Sales and Other Operating Revenues***

In 2013, our sales and other operating revenues increased by US$177.7 million, or 0.3%, to US$71,102.1 million from US$70,924.4 million in 2012. This increase in our sales and operating revenues was primarily due to higher sale volumes of crude oil arising from our sale of Basra light crude which we had purchased under a sale contract entered into with the government of Iraq in 2013, and higher sale volumes of our petrochemicals, lubricants, marine fuel, LNG and domestic gas.

In our upstream segment, our revenues before eliminations in connection with our accounts consolidation decreased by US$364.6 million, or 4.5%, to US$7,808.3 million from US$8,172.9 million in 2012. This decrease was due to decreased selling prices of our products as a result of a significant decrease in ICP from 2012 to 2013, a key benchmark for the selling prices of our crude oil and oil products.

In our downstream segment, our revenues before eliminations in connection with our accounts consolidation decreased by US$459.2 million, or 0.7%, to US$66,176.6 million from US$66,635.8 million in 2012. This decrease was due to a decrease in our revenue from our domestic sales of downstream products, which are conducted in Rupiah and booked in U.S. dollars, as the Indonesian Rupiah depreciated against the U.S. dollar by over 25% from 2012 to 2013.

### *Cost of Sales and Other Direct Costs*

In 2013, our cost of sales and other direct costs increased by US$114.7 million, or 0.2%, to US$102.9 million from US$63,988.2 million in 2012. This increase was generally in line with our increase in revenue and primarily due to an increase in our cost of goods sold by US$210.9 million, or 0.3%, to US$60,910.2 million in 2013 from US$60,699.3 million in 2012. Cost of sales and other direct costs as a percentage of revenue decreased marginally to 90.2% in 2013 by less than 0.1% compared to 2012, primarily as we realized economies of scale as we sold higher volumes of our products in 2013, without significantly increasing our production and operating costs.

### *Segment Results*

In 2013, our consolidated segment results after eliminations increased by US$74.1 million, or 1.6%, to US$4,838.3 million from US$4,764.2 million in 2012. Our consolidated segment results after eliminations as a percentage of our sales and other operating revenues for 2013 was 6.8% compared to 6.7% for 2012 due to higher sale volumes of our crude oil, petrochemicals, lubricants, marine fuel, LNG and domestic gas, while our production and operating costs remained at generally similar levels between 2012 and 2013.

In 2013, in our upstream segment, our results before eliminations decreased by US$111.9 million, or 2.5%, to US$4,347.0 million from US$4,458.9 million in 2012. This decrease was primarily due to our upstream segment revenues declining from 2012 to 2013 as the selling prices for our upstream products decreased in line with the decrease in ICP, while our upstream costs and expenses did not increase significantly.

In 2013, in our downstream segment, our results before eliminations increased significantly by US$37.8 million, or 57.2%, to US$103.9 million from US$66.1 million in 2012. This was primarily due to increased margins from our sale of oil products as the spreads between ICP, which is a reference for the pricing of our crude oil purchases, and MOPS, which is a reference for the pricing of our oil product sales, generally increased.

### *Operating Expenses and other Non-Operating Income/(Expenses) — Net*

In 2013, we had operating expenses and other non-operating income/(expenses) — net of US$1,966.4 million compared to operating expenses and other non-operating income/(expenses) — net of US$2,134.0 million in 2012, a decrease of US$167.6 million or 7.9%. The decrease was primarily attributable to our foreign exchange loss in 2013 as compared to our foreign exchange gain in 2012, as the Indonesian Rupiah depreciated against the U.S. dollar from 2012 to 2013, and our reversal for impairment of certain receivables in 2013, in particular, (i) our receivables in relation to our customer, PT Trans Pacific Petrochemical Indotama ("TPPI"), which entered into a composition plan and resumed its refinery operations, and (ii) certain receivables from the Government for the reimbursement of certain costs we had incurred under the kerosene conversion program, as the Ministry of Finance had issued a proposal to settle these receivables in 2014.

### *Income Tax Expense*

In 2013, our income tax expense decreased by US$70.8 million, or 3.5%, to US$1,965.8 million from US$2,036.6 million in 2012. The decrease in income tax expense was due to our recognition of carried forward tax losses as a deferred tax asset in 2013, which reduced our taxable income and consequently reduced our income tax expense. Our effective tax rate[1] was 39.1% in 2013 and 42.4% in 2012.

Note:

(1) The effective tax rate is calculated as income tax expense divided by income before income tax expense.

### *Income for the Year*

In 2013, our income for the year increased by US$301.4 million, or 10.9%, to US$3,067.1 million from US$2,765.7 million in 2012. As a percentage of our sales and other operating revenue, income for the year increased from 3.9% in 2012 to 4.3% in 2013.

## 2012 compared with 2011

### *Sales and Other Operating Revenues*

In 2012, our sales and other operating revenues increased by US$3,627.0 million, or 5.4%, to US$70,924.4 million from US$67,297.4 million in 2011. This increase in our sales and operating revenues was primarily due to an increase of 4.6% in our revenues before eliminations in our downstream segment, which was primarily due to an increase in crude oil prices globally which resulted in subsidy reimbursements from the Government under our PSO mandate amounting to US$21,924.0 million, an increase of US$4,063.5 million or 22.8% over the US$17,860.5 million received in 2011.

In our upstream segment, our revenues before eliminations in connection with our accounts consolidation increased by US$465.7 million, or 6.0%, to US$8.172.9 million from US$7,707.2 million in 2011. This increase was due to an increase in our sale volumes in line with an increase in our production volume of crude oil in the Cepu block and an increase in our production volume of gas due to the increase in our working interest in the Offshore Northwest Java and West Madura Offshore blocks. The increase in the prices of crude oil globally also increased our domestic revenues for the supply of crude oil to our refineries.

In our downstream segment, our revenues before eliminations in connection with our accounts consolidation increased by US$2,903.6 million, or 4.6%, to US$66,635.8 million from US$63,732.3 million in 2011. This increase was primarily due to (i) higher subsidy reimbursements from the Government, in line with the increase in crude oil prices globally and MOPS and (ii) higher sales volumes of PSO fuel products, in particular for premium gasoline, automotive diesel oil and LPG refill in 3kg cylinders, and non-PSO fuel products, in particular for marine fuel oil, in line with growth of the Indonesian economy.

### *Cost of Sales and Other Direct Costs*

In 2012, our cost of sales and other direct costs increased by US$4,082.0 million, or 6.8%, to US$63,988.2 million from US$59,906.2 million in 2011. This increase was generally in line with our increase in revenue and due primarily to an increase in our cost of goods sold by US$ 3,533.4 million, or 6.2%, to US$60,699.3 million in 2012 from US$57,165.9 million in 2011. Our cost of goods sold are comprised of production costs which did not increase significantly between 2011 and 2012 and costs related to purchases of products and others which increased due to the increase in crude oil prices globally and higher import volumes of such products to meet domestic demand. Cost of sales and other direct costs as a percentage of revenue increased marginally to 90.2% in 2012 compared to 89.0% in 2011, primarily as a result of a greater proportionate increase in our costs of sales and other direct costs as compared to revenues due to the increase of crude oil prices globally.

### *Segment Results*

In 2012, our consolidated segment results after eliminations decreased by US$589.7 million, or 11.0%, to US$4,764.2 million from US$5,353.9 million in 2011. Our consolidated segment results after eliminations as a percentage of our sales and other operating revenues for 2012 was 6.7% compared to 8.0% for 2011 due to increased costs of sales and other direct costs in our downstream segment in 2012 as a result of the increase in crude oil prices globally and increased costs from the higher volumes of oil products we purchased to meet domestic demand.

In 2012, in our upstream segment, our results before eliminations decreased by US$61.3 million, or 1.4%, to US$4,458.9 million from US$4,520.2 million in 2011. This decrease was primarily due to an increase in the number of oil and gas wells under development, which increased production and lifting costs, in particular, equipment and material expenses incurred in maintaining our oil and gas production and related depletion expenses.

In 2012, in our downstream segment, our results before eliminations decreased significantly by US$761.5 million, or 92.0%, to US$66.1 million from US$827.6 million in 2011. This was primarily due to reduced margins from our sale of oil products as the spreads between ICP, which is a reference for the pricing of our crude oil purchases, and MOPS, which is a reference for the pricing of our oil product sales, generally decreased.

***Operating Expenses and other Non-Operating Income/(Expenses) — Net***

In 2012, we had operating expenses and other non-operating income/(expenses) — net of US$2,134.0 million compared to operating expenses and other non-operating income/(expenses) — net of US$2,886.5 million in 2011, a decrease of US$752.5 million or 26.1%. The decrease was primarily attributable to the reversal of an impairment charge made in 2011 in relation to our SK 305 block in Malaysia following an increase in sales revenues of crude oil and gas from this block and a significant decrease in our provision for the impairment of receivables as compared to the provision for the impairment of receivables made in 2011.

***Income Tax Expense***

In 2012, our income tax expense decreased by US$62.9 million, or 3.0%, to US$ 2,036.6 million from US$2,099.5 million in 2011. The decrease in income tax expense was due to lower current tax payable for certain members of our group which reduced income tax expense on a consolidated basis. Our effective tax rate(1) was 42.4% in 2012 and 46.6% in 2011.

***Income for the Year***

In 2012, our income for the year increased by US$360.4 million, or 15.0%, to US$ 2,765.7 million from US$2,405.3 million in 2011. As a percentage of our sales and other operating revenue, income for the year increased from 3.6% in 2011 to 3.9% in 2012.

**Liquidity and Capital Resources**

We believe that our future cash flows from operations, borrowing capacity and funds raised from our debt offerings will be sufficient to fund our planned capital expenditures and investments, debt maturities and working capital requirements through 2014. We regularly evaluate our current and future financing needs and may, depending on market conditions, access the capital markets opportunistically from time to time to strengthen our capital position and provide us with additional liquidity. Our ability to obtain adequate financing may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets.

Note:

(1) The effective tax rate is calculated as income tax expense divided by income before income tax expense.

The following table sets forth a summary of our consolidated cash flows for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Net cash generated from operating activities | 1,974.6 | 1,792.9 | 2,483.0 |
| Net cash used in investing activities | (2,209.1) | (2,578.1) | (6,003.9) |
| Net cash generated from financing activities | 1,136.4 | 2,009.7 | 4,117.4 |
| Net increase in cash and cash equivalents | 901.9 | 1,224.5 | 596.5 |
| Effect of exchange rate changes on cash and cash equivalents | (39.3) | (128.5) | (205.9) |
| Cash and cash equivalents at the beginning of the year | 2,336.7 | 3,199.3 | 4,295.4 |
| Cash and cash equivalents at the end of the year | 3,199.3 | 4,295.4 | 4,686.0 |

***Net Cash Flows Generated From Operating Activities***

Net cash flows from operating activities include funds generated from our operating activities and net cash inflows or outflows from changes in operating assets and liabilities.

Net cash generated from operating activities was US$2,483.0 million in 2013, which consisted of cash receipts of US$69,956.1 million and cash payments of US$67,473.1 million. The increase in net cash flows from operating activities in 2013, as compared to 2012, was primarily attributable to an increase in the difference between cash receipts from the Government in relation to subsidies and marketing fees, and cash paid to the Government, as the amounts we were scheduled to pay to the Government were less than the amounts the Government was scheduled to pay to us, in the course of 2013.

Net cash generated from operating activities was US$1,792.9 million in 2012, which consisted of cash receipts of US$68,576.3 million and cash payments of US$66,783.4 million. The decrease in net cash flows from operating activities in 2012, as compared to 2011, was primarily attributable to an increase in the cash paid in operating activities, primarily consisting of payments to the Government for its share of crude oil supplied to our refineries and for procurement of crude oil and other petroleum products which was higher than the increase in our sales revenues and subsidy reimbursements as a result of the increase in the price of crude oil globally in 2012.

Net cash generated from operating activities was US$1,974.6 million in 2011, which consisted of cash receipts of US$59,952.9 million and cash payments of US$57,978.3 million. The decrease in net cash flows from operating activities in 2011, as compared to 2010, was primarily attributable to an increase in the cash used in operating activities, primarily consisting of (i) increases in payments to suppliers as a result of the increases in the purchase prices of crude oil and oil products and (ii) increases in payments to the Government and in our corporate income tax liability as a result of our increased income in 2011. This decrease was partially offset by increases in receipts from customers and from the Government due to the increase in our sales revenues and subsidy reimbursements as a result of the increase in the price of crude oil globally in 2011.

***Net Cash Used in Investing Activities***

Net cash used in investing activities was US$6,003.9 million in 2013, US$2,578.1 million in 2012 and US$2,209.1 million in 2011. These amounts are primarily attributable to purchases of fixed assets of US$1,425.2 million in 2013, US$729.3 million in 2012 and US$1,084.5 million in 2011, and purchases of oil and gas and geothermal properties of US$2,311.5 million in 2013, US$1,577.4 million in 2012 and US$1,280.5 million in 2011. Other factors contributing to our net cash used in investing activities include net cash outflows for advance payments for business acquisitions of US$15.0 million in 2013 for our deposit for a proposed acquisition of an interest in the Pangkah block and US$283.7 million in 2012 for the acquisition of businesses with interests in oil and gas assets in Algeria and

Venezuela. These amounts were partially offset by receipts of interest payments from our investment amounting to US$82.8 million in 2013, US$63.9 million in 2012 and US$74.4 million in 2011, receipts from returns on cash advances for business acquisitions of US$108.8 million in 2013, and receipts from repayments of principal amounts underlying the medium term notes of PLN that we received in connection with a restructuring of PLN's outstanding receivables, which amounted to US$91.9 million in 2013, US$104.7 million in 2012 and US$113.3 million in 2011.

***Net Cash Generated From Financing Activities***

We recorded net cash generated from financing activities of US$4,117.4 million in 2013, US$2,009.7 million in 2012 and US$1,136.4 million in 2011.

Our net cash generated from financing activities of US$4,117.4 million in 2013 consisted primarily of proceeds from short-term loans of US$18,693.0 million, proceeds from long-term loans of US$1,522.4 million, proceeds from our issuance of senior unsecured bonds due in 2022 and 2042 in the amount of US$3,250.0 million and cash receipts from restricted funds, which are cash restricted for repayment of currently maturing obligations, of US$34.1 million. This was partially offset by payments of finance costs of US$472.0 million, payment of a dividend of US$754.2 million to the Government, repayment of short-term loans of US$17,541.0 million and repayment of long-term loans in the amount of US$546.6 million.

Our net cash generated from financing activities of US$2,009.7 million in 2012 consisted primarily of proceeds from short-term loans of US$11,856.4 million, proceeds from long-term loans of US$696.4 million, proceeds from our issuance of senior unsecured bonds due in 2022 and 2042 in the amount of US$2,500.0 million and cash receipts from restricted funds, which is cash restricted for repayment of currently maturing obligations, of US$64.3 million. This was partially offset by payments of finance costs of US$304.0 million, payment of a dividend of US$763.7 million to the Government, repayment of short-term loans of US$10,955.9 million and repayment of long-term loans in the amount of US$1,083.8 million.

Our net cash generated from financing activities of US$1,136.4 million in 2011 consisted primarily of proceeds from short-term loans of US$11,112.0 million, proceeds from long-term loans of US$178.9 million, proceeds from our issuance of senior unsecured bonds due in 2021 and 2041 in the amount of US$1,500.0 million and cash receipts from restricted funds of US$89.8 million. This was partially offset by payments of finance costs of US$230.6 million, payment of a dividend of US$663.0 million to the Government, repayment of short-term loans of US$10,330.8 million and repayment of long-term loans of US$519.8 million.

***Indebtedness***

The following table shows the amount of our total consolidated short-term loans, long-term bank loans (including current portion), two-step loans and bonds outstanding as of December 31, 2011, 2012 and 2013.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions) | | |
| Short-term loans | 2,923.1 | 3,843.0 | 4,995.0 |
| Long-term bank loans (including current portion) | 1,940.8 | 1,486.3 | 2,508.9 |
| Two-step loans[1] | 13.9 | 13.7 | 11.8 |
| Bonds | 1,465.7 | 3,937.9 | 7,185.5 |
| Total debt | 6,343.5 | 9,280.9 | 14,701.2 |

Note:

(1) The two-step loans are Government-channeled financings obtained from the Overseas Economic Cooperation Fund Japan and the Japan International Cooperation Agency. See Notes 16d and 16e of our audited consolidated financial statements for more information on the two-step loans.

As of December 31, 2013, the current portion of our long-term bank loans was US$696.8 million and the non-current portion was US$1,812.1 million.

Our long-term loans outstanding during December 31, 2011, 2012 and 2013 consisted of both Rupiah and foreign currency obligations. The following table shows the currency denomination of our outstanding long-term bank and two-step loans and bonds as of December 31, 2013.

| | U.S. dollar (in millions) | Rupiah (in billions) | Japanese Yen (in billions) |
|---|---|---|---|
| Total long-term bank loans (including current portion), two-step loans and bonds | 9,667 | 334.7 | 1.2 |

The annual interest rate on our two-step loan from the Overseas Economic Cooperation Fund Japan is 3.1% per annum. The annual interest on our two-step loan from the Japan International Cooperation Agency is 0.6% with respect to a tranche of ¥25,834 million (US$222.7 million) and 0.02% with respect to a tranche of ¥1,132 million (US$9.8 million). The interest rates on our long-term banks loans and bonds during 2011, 2012 and 2013 were as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Rupiah long-term loans | 8.23% – 9.62% | 5.98% – 12.50% | 5.75% – 12.50% |
| U.S. dollar long-term loans | 1.07% – 3.16% | 2.57% – 3.81% | 1.69% – 3.01% |
| Senior unsecured bonds due 2021 | 5.25% | 5.25% | 5.25% |
| Senior unsecured bonds due 2041 | 6.50% | 6.50% | 6.50% |
| Senior unsecured bonds due 2022 | — | 4.875% | 4.875% |
| Senior unsecured bonds due 2042 | — | 6.00% | 6.00% |
| Senior unsecured bonds due 2023 | — | — | 4.30% |
| Senior unsecured bonds due 2043 | — | — | 5.625% |

As of December 31, 2013, we have issued US$1,000.0 million 5.25% senior unsecured bonds due 2021, US$500.0 million 6.5% senior unsecured bonds due 2041, US$1,250.0 million 4.875% senior unsecured bonds due 2022 and US$1,250.0 million 6.0% senior unsecured bonds due 2042.

We established the Program on May 3, 2013 and increased the Program Limit from US$5.0 billion to US$10.0 billion as of the date of this Offering Memorandum. As of December 31, 2013, we had issued, under the Program, US$1,625.0 million 4.3% senior unsecured bonds due 2023 and US$1,625.0 million 5.625% senior unsecured bonds due 2043. We regularly evaluate our current and future financing needs and may opportunistically pursue financing opportunities from time to time, including through further issuances of Notes under the Program, if we consider market conditions to be favorable.

As of December 31, 2013, we have access to unsecured short-term revolving credit facilities in the form of letters of credit post import financing of up to US$8.6 billion in aggregate from 22 Indonesian and international banks, including PT Bank Rakyat Indonesia (Persero), PT Bank Negara Indonesia (Persero), PT Bank Mandiri (Persero) Tbk, Banque Nationale de Paris Paribas, PT Bank Central Asia Tbk, The National Commercial Bank, The Bank of Tokyo Mitsubishi UFJ, LTD., Credit Agricole CIB, PT Bank ANZ Indonesia, JP Morgan Singapore Pte. Ltd. and Citibank N.A., which we use in connection with our trading activities, of which we have utilized US$4,995.0 million as of December 31, 2013. Drawdowns from these facilities are subject to further approvals of the relevant financial institutions. These short-term revolving credit facilities will expire in accordance with their terms in the course of each financial year. We have entered or intend to enter into new revolving credit facilities with the same or new lenders and maintain access to up to US$8.0 billion in aggregate of short-term revolving credit facilities in the course of the year.

Our bank loans are to finance our capital expenditures and to provide working capital. Our subsidiaries' long-term bank loans are collateralized by certain of our subsidiaries' assets such as receivables, inventories, long-term assets and other assets. As of December 31, 2013, we were in compliance with all of the covenants under our outstanding long-term bank loans.

In 2013, we entered into a US$1,137 million term loan for capital expenditures and general corporate purposes. This credit facility is unsecured and requires that we provide certain information undertakings as well as financial covenants.

In 2012, we entered into a US$965 million syndicated term loan for capital expenditures, repayment of existing debt and general corporate purposes. This credit facility is unsecured and requires that we provide certain information undertakings as well as financial covenants.

We have also received financing from the Government in the form of a two-step loan from Overseas Economic Cooperation Fund Japan ("OECF"). The Government originally lent to OECF an amount of ¥11,816.0 million (US$101.9 million), pursuant to a loan agreement between the Government and OECF dated November 29, 1994. We, in turn, borrowed ¥1,172.9 million (US$10.1 million) from OECF under a two-step loan agreement dated May 7, 2007 among us as borrower, the Government as co-obligor and OECF as lender. The proceeds of this loan were used to finance the construction of the Airport Fuel Filling Depot of Ngurah Rai International Airport in Bali. The two-step loan matures 30 years from November 29, 1994, the date of the loan agreement between the Government and OECF. There is no collateral given by the Company for the two-step loan, as the Government remains the primary obligor of the loan. The two-step loan bears interest at 3.1% per annum. Any late principal payments will be subject to a 2% per annum penalty.

We have also received financing from the Government in the form of a two-step loan from Japan International Cooperation Agency ("JICA"). The Government obtained a loan of ¥26,966.0 million (US$232.5 million) from JICA under which we were appointed as executing and implementing agency, pursuant to a loan agreement between the Government and JICA dated March 29, 2011. The loan is to be utilized for the implementation of the Lumut Balai geothermal power plant project. There is no collateral given by the Company for this two-step loan, as the Government remains the primary obligor of the loan. The two-step loan is available as two loan facilities, one of which is ¥25,834.0 million (US$222.7 million) and is related to the construction of the project and bears interest at 0.6% per annum and the other facility is ¥1,132.0 million (US$9.8 million) and is related to consultants for the project and bears interest at 0.02% per annum. Any late principal payments will be subject to a 2% per annum penalty.

## Capital Expenditures

Our capital expenditures relate primarily to our exploration, development and production projects, to purchase interests in other companies engaged in exploration, development and production projects, the maintenance and upgrading of our refineries and repayments of outstanding debt.

The following table sets out our actual capital expenditures by business segment for each of the years ended December 31, 2011, 2012 and 2013.

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **(US$ in millions)** | | |
| Upstream | 1,557.3 | 1,793.6 | 4,813.0 |
| Downstream | 792.6 | 646.4 | 1,161.0 |
| Others | 17.0 | 26.3 | 373.5 |
| **Total** | **2,366.9** | **2,466.3** | **6,347.5** |

We consider any purchase orders which are outstanding as of December 31, 2013 to be our outstanding capital expenditure commitments. See Note 47b to the consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, which are included elsewhere in this Offering Memorandum.

Our actual capital expenditures significantly increased in 2013 as compared to 2012 and 2011. This was primarily due to an increase in our capital expenditures in relation to our upstream segment in 2013, as a result of our completion of a number of significant upstream acquisitions in 2013. See "Business — Pertamina Upstream Business — Upstream Strategy" for more details of these acquisitions. We also incurred significantly higher capital expenditures in relation to our "others" segment in 2013, as a result of increased investment in 2013 in our gas infrastructure projects such as the Arun-Belawan Pipeline and the Tambak Lorok CNG plant.

The following table sets out our budgeted capital expenditures by business sector for each of the years 2014 and 2015. Our budgeted capital expenditures include amounts budgeted for potential acquisitions in each year and other uncommitted capital expenditures, as opposed to our actual capital expenditures, which are comprised of our cash expenditures in each of the years ended December 31, 2011, 2012 and 2013. This information reflects our current expectations only and our actual capital expenditures in any such year may differ materially from the projections set out below. See "Risk Factors — Risks Relating to Our Company — We may be unable to accomplish our development plans on schedule or within our budgeted costs or that these plans, if completed, will achieve our development aims" and "Risk Factors — Risks Relating to our Company — Our business is capital intensive, and if we are unable to obtain financing on reasonable terms to fund future capital expenditures, we may be unable to implement our development plans".

| | **For the Year Ended December 31,** | |
|---|---|---|
| | **2014** | **2015** |
| | **(US$ in millions)** | |
| **Upstream** | | |
| Oil and gas exploration and production | 5,091.3 | 7,872.9 |
| Geothermal | 319.6 | 478.2 |
| Drilling services | 90.8 | 96.1 |
| **Total** | **5,501.7** | **8,447.1** |
| **Downstream** | | |
| Refining | 553.9 | 740.0 |
| Marketing and trading | 234.5 | 281.6 |
| Shipping | 245.8 | 344.9 |
| **Total** | **1,034.2** | **1,366.5** |
| **Gas** | **1,050.6** | **2,037.8** |
| **Non-Core businesses** | **242.4** | **242.4** |
| **Others** | **22.6** | **202.4** |

As part of our capital expenditure program, we expect to make equity contributions to our joint venture businesses. From 2013 to 2018, we anticipate that substantially all of our equity investments in our joint venture businesses will amount to US$4,343.5 million. Our capital expenditures have also been allocated towards paying the purchase consideration for our acquisitions of certain oil and gas assets. See "Business — Pertamina Upstream Business — Upstream Strategy" for details of these acquisitions. We have increased our budgeted capital expenditures in 2014 and 2015 significantly in relation to upstream mergers and acquisitions, as part of our strategy of pursuing growth through strategic acquisitions.

We expect that investment in oil and gas exploration and development and our refineries will continue to represent the majority of our capital expenditures. Such capital expenditures are expected to relate to domestic and international acquisitions of new fields and development of existing fields or interests therein and expansion of our existing refineries and construction of new refineries in East Java and Balongan. In our upstream business sector, we also intend to continue to develop our gas transmission network and our geothermal fields. In our downstream business sector, we also intend to expand our shipping fleet, construct a refrigerated LPG terminal and expand our network of retail fuel stations which are owned and operated by us.

We plan to fund the capital and related expenditures principally through cash provided by operating activities and long-term debt.

### Working Capital

Taking into account the financing that has been arranged, banking facilities and loans and net operating cash inflow, our Directors are of the opinion that we have sufficient working capital for our present requirements.

### Contractual Obligations

The following table summarizes our contractual financial liabilities (including anticipated interest payable) and operating lease commitments as of December 31, 2013.

| | Total | Less than 1 Year | 1 – 5 Years | More than 5 Years |
|---|---|---|---|---|
| | (US$ in millions) | | | |
| Short-term loans | 4,995.0 | 4,995.0 | — | — |
| Trade payables | 5,082.9 | 5,082.9 | — | — |
| Due to the Government | | | | |
| Two-step loans | 13.9 | 1.1 | 5.0 | 7.8 |
| Other amounts due to the Government | 2,982.7 | 2,453.7 | 127.5 | 401.5 |
| Accrued expenses | 1,454.2 | 1,454.2 | — | — |
| Other payables | 287.9 | 287.9 | — | — |
| Long-term liabilities | | | | |
| Bank loans | 2,793.3 | 852.7 | 1,940.6 | — |
| Financial leases | 264.2 | 17.3 | 191.9 | 55.0 |
| Bonds payables | 7,242.0 | 382.2 | 1,493.9 | 5,365.9 |
| Other non-current payables | 43.5 | — | 43.5 | — |
| **Total financial liabilities** | **25,159.6** | **15,527.0** | **3,802.4** | **5,830.2** |
| Operating lease commitments | 1,600.5 | 673.0 | 807.3 | 120.2 |

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future material effect on our financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### Inflation

According to the Central Bureau of Statistics (*Badan Pusat Statistik,* formerly known as *Biro Pusat Statistik*) Indonesia, Indonesia's annual overall inflation rate as measured by the consumer price index was approximately 3.8% in 2011, 4.3% in 2012 and 8.4% in 2013.

## Market Risks

Our primary market risk exposures are to fluctuations in oil and gas prices, exchange rates and interest rates.

### *Commodity Price Risks*

We are exposed to fluctuations in prices of crude oil, natural gas, refined products and petrochemicals whose prices are determined by reference to international market prices which are volatile. Due to the cost recovery provided to us under our production sharing arrangements and cooperation contracts, we do not currently hedge market risk resulting from fluctuations in oil and gas prices, as cost recovery gives us a partial natural hedge against commodity price fluctuations. We purchase substantial volumes of crude oil from international suppliers in connection with our downstream operations and sell substantial volumes of refined products and petrochemicals to domestic and international buyers. We do not currently enter into commodity derivative instruments or futures to hedge the potential price fluctuations of these products or for other purposes. Therefore, fluctuations of prices of crude oil, natural gas, refined products and petrochemicals may have a significant effect on our operating expenses other non-operating income/(expenses) and net income. We are considering hedging arrangements to manage our commodity price risks and may enter into such arrangements in the future. See "Risk Factors — Risks Relating to Our Company — The volatility in the prices of crude oil, natural gas and our refined products and the uncertainty of the market dynamics for oil and gas could adversely affect our business, financial condition, results of operations and prospects".

### *Foreign Exchange Rate Risks*

We conduct our business primarily in U.S. dollars, which is our functional and reporting currency. Our payments within Indonesia are conducted in Rupiah due to compliance with applicable laws in Indonesia requiring payments to be denominated in Rupiah, while most of our operating costs, particularly in relation to the procurement of crude oil and oil products, are made in U.S. dollars. As a result, we are exposed to the fluctuations of the exchange rate of the Rupiah to the U.S. dollar. As export sales of crude oil, condensate and gas are determined and paid in U.S. dollars, while domestic sales of refined products are conducted in Rupiah, but based on market prices denominated in U.S. dollars, approximately 80% of our revenues are directly or indirectly denominated in U.S. dollars which reduces our exposure for foreign exchange risks.

A significant portion of our long-term total debt is denominated in U.S. dollars. The following table sets forth certain information regarding our U.S. dollar long-term total debt exposure for the periods indicated.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (US$ in millions, except percentages) | | |
| Total U.S. dollar denominated debt[1] | 3,307.3 | 5,424.2 | 9,667.0 |
| Total U.S. dollar debt as a percentage of total long-term bank loans (including current portion) and bonds | 97.1% | 100.0% | 99.7% |

Note:

(1) Consists of U.S. dollar denominated long-term bank loans (including the current portion) and bonds.

The Rupiah is a generally freely convertible currency but as a state-owned company, we are subject to Bank Indonesia requirements which restrict our ability to source U.S. dollars to three Indonesian banks, PT Bank Mandiri (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Rakyat Indonesia (Persero) Tbk.

We do not engage in any hedging activities against foreign exchange rate risks.

***Interest Rate Risks***

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short-term and long-term debt. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings. As of December 31, 2013, we had short-term loans and long-term bank loans (including current portion) of US$7,503.9 million and all of such loans which bore interest at variable rates. See "Liquidity and Capital Resources — Indebtedness". Borrowings issued at variable rates expose us to cash flow interest rate risk. We monitor interest rates to assess the potential impact of changes in these rates on our financial position. We do not currently engage in any hedging activities against interest rate risk.

For additional discussions of our market risks, see "Risk Factors".

***Counterparty and Concentration of Credit Risk***

We are exposed to counterparty credit risks on our investments and receivables. As of December 31, 2013, we had trade receivables of US$4,017.1million, approximately 50.8% of which was owed to us by related parties. The largest trade receivable balance was due from PLN and its subsidiaries, in the amount of US$1,004.1 million.

We make impairment provisions for our trade receivables in accordance with our accounting policies. Provisions are made for commercial trade receivables based on receivable aging analysis at the end of each accounting period. As of December 31, 2011, we did not make provisions for impairment of trade receivables from Government-related parties as, following our periodic review of outstanding balances, our management was of the view that the provision for impairments of trade receivables was adequate. As of December 31, 2012 and 2013, we have reassessed the adequacy of the provision for impairment and determined that additional provisions were required to cover amounts that are deemed uncollectible.

***Liquidity Risk***

The amount of liquidity we require for our operations is uncertain and our operations may be adversely affected if we do not have sufficient working capital to meet our cash and operational requirements. This may occur as a result of, amongst other reasons, delays in the payment of the Government's subsidies. We use a significant amount of cash in our operations, primarily to procure commodities and raw materials. In particular, one of our principal operating costs is the acquisition of feedstock for our refineries. Due to the volatility in market prices for crude oil, natural gas and their refined products and fluctuations in exchange rates, our working capital and costs for our upstream and downstream operations tend to be uncertain.

We fund our operations principally through cash flow from operations, a significant portion of which comprises sales, subsidy payments, short-term working capital facilities (including bank overdrafts, letters of credit and revolving credits), and long-term bank loans. In accordance with the terms of the PSO mandate, we are required to submit our claim for subsidy to the Government at the end of each month for the subsidized fuel distributed in that month.

As of December 31, 2011, 2012 and 2013, we had cash and cash equivalents of US$3,199.3 million, US$4,295.4 million and US$4,686.0 million, respectively.

We manage our liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of account receivables and payables.

*The following industry and market data has been prepared by and obtained from our energy industry consultant, Wood Mackenzie, in a report dated April 3, 2013, using information provided by us as well as publicly available information. Such data has not been independently verified or updated, and neither we, except with respect to information which we have provided, nor the Arrangers or any Dealer make any representation as to the accuracy or completeness of such data or any assumptions relied upon thereon. See "Forward-Looking Statements" and "Energy Industry Consultant" which are included elsewhere in this Offering Memorandum.*

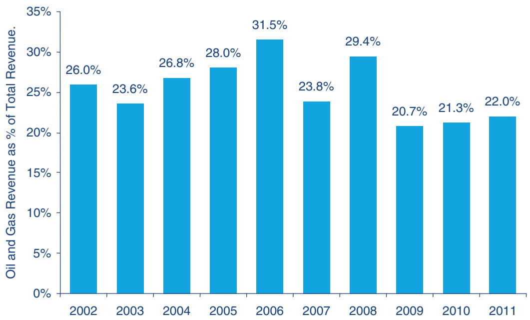
## Indonesia Overview

### *Macroeconomic Overview*

Indonesia is the largest economy in Southeast Asia, both in terms of domestic value-added GDP and population size. Registering growth of 6.5% in 2011, Indonesia is expected to maintain its growth momentum. Low dependence on exports (about 30% of GDP) and a large domestic economy also kept Indonesia relatively sheltered from the global financial crisis in 2008 to 2009.

Industry consultant, Wood Mackenzie, expects Indonesia's GDP to grow from US$310 billion (in 2000 dollars) in 2011 to US$556 billion by 2025, a compound annual growth rate ("CAGR") of 4.3%. Wood Mackenzie expects this to be supported by an increase of 27 million in population size from the current population of 245 million. The oil and gas industry has long been and remains an underpinning factor for the Indonesian economy, contributing 9% to the GDP in 2011 and comprising 22% of the total revenue of the Government. With domestic demand for oil and gas projected to increase by 37% from 2012 to 2025, the sector is expected to remain a significant driver of Indonesia's economic growth.

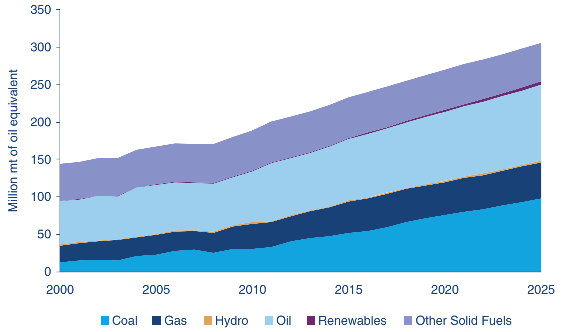
**Oil and gas revenue as percentage of total Government revenue**




*Source: Wood Mackenzie*

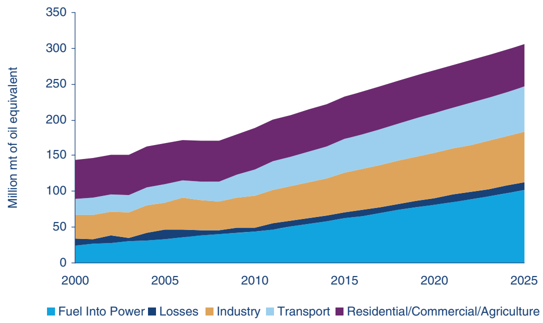
Indonesia's total energy consumption is currently dominated by oil which is mainly used in the transport sector. The use of other solid fuels, which consists mainly of non-commercial biomass used for cooking in the residential, commercial and agricultural sectors, also features prominently in the energy mix given that a large proportion of Indonesians reside in rural areas and remain unconnected to the power grid. However, the use of indigenous coal in the power and industry sectors, which is in abundant supply, is expected to experience the strongest growth.

**Projected energy consumption by fuel source, 2000-2025**




*Source: Wood Mackenzie*

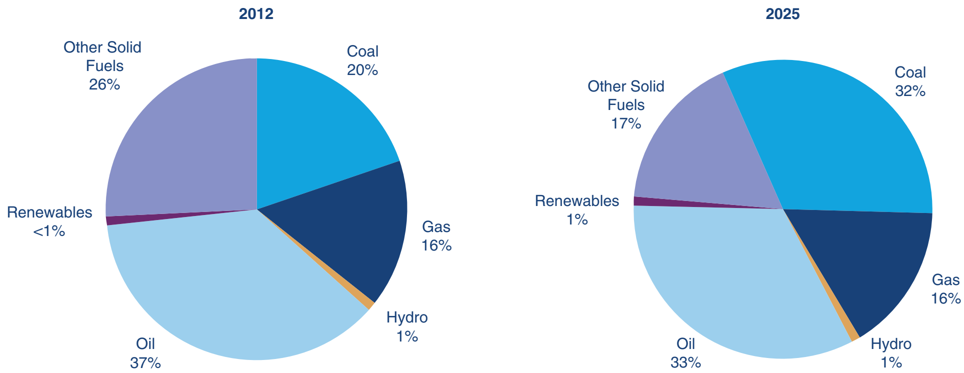
**Projected energy consumption by sector, 2000-2025**




*Source: Wood Mackenzie*

Wood Mackenzie expects Indonesia's total energy demand to increase from 207 mmtoe in 2012 to 306 mmtoe by 2025. While the industrial and transport sectors are expected to maintain their shares in total demand throughout the forecast period, it is the robust growth of the power sector which is expected to drive total demand. Demand for fuel in the power sector is expected to double by 2025 with increasing GDP, population growth and rural electrification. Demand from the residential, commercial and agricultural sectors is expected to remain flat over the forecast period, though significant fuel-switching is expected to occur from other solid fuels such as biomass to other sources of energy such as LPG and electricity in relation to the residential, commercial and agricultural sectors.

**Projected energy consumption by fuel, 2012 and 2025**




*Source: Wood Mackenzie*

## Reserves

Wood Mackenzie categorizes oil and gas reserves as:

- *Commercial Reserves* — these are fields which are currently in production, under development or regarded as probable developments. Fields under development are those with development plans that have been approved by the government authorities and the field participants have made the final investment decisions for the projects to proceed. Probable developments are discoveries where reserve estimates have been sufficiently proved-up and where any development plan would be economically viable. Wood Mackenzie would expect probable developments to be either on-stream or under development within a five-year timescale. As such, Wood Mackenzie regards these as commercial reserves. Using Wood Mackenzie's methodology, commercial reserves are broadly equivalent to *proved* and *probable* reserves.

- *Technical Reserves* — these are discoveries which have been made, but are not regarded as probable developments by Wood Mackenzie. This may be due to the discovery requiring further appraisal to confirm reserve estimates. In some cases the discovery may be too small and/or too expensive to be developed in order to give the participants an adequate return on their investment. Some discoveries — particularly for gas — may be stranded, with no current viable markets for any production from the discovery. Many of the technical reserves will become commercial reserves and production as and when these issues are resolved.

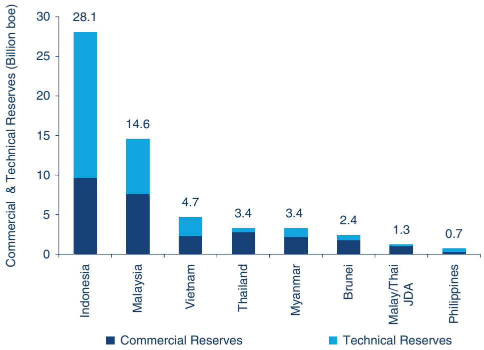
Wood Mackenzie has been publishing analyses of commercial reserves on a field-by-field basis for almost 40 years in its 'Upstream Service'. The analyses and supporting data, such as reserves, production profiles and timings, are Wood Mackenzie's own opinion. These are developed based on Wood Mackenzie's conversations with the operator of each field (and often with the non-operating partners as well). This research is supplemented by an assessment of materials in the public domain, including government estimates of reserves, and documentation released by oil companies for public relations and regulatory purposes.

Technical reserves are estimated on a discovery-by-discovery basis by Wood Mackenzie. As with the commercial fields, Wood Mackenzie discusses the size of the technical reserves in each discovery with the operator and often the non-operating partners. Where this information is confidential for a discovery, Wood Mackenzie estimates the size of the technical reserves based on recent discoveries in the region. In addition, technical reserves may change as appraisal is carried out on a discovery. Procedures used to estimate technical reserves are less rigorous than those used for commercial reserves.

*Regional Comparison*

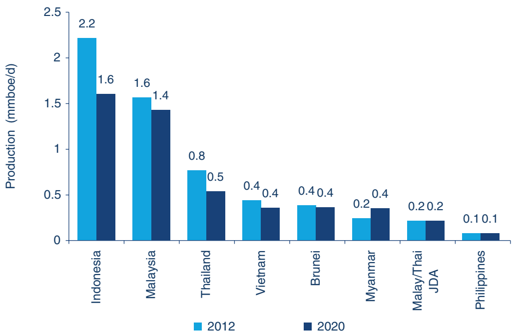
As at January 1, 2013, Indonesia had the largest commercial oil and gas reserves in Southeast Asia with around 9.6 billion boe, 75% of which is gas. Malaysia is the next largest holder of reserves with commercial reserves of around 7.7 billion boe, 67% of which is gas. The other countries in Southeast Asia have significantly smaller volumes of commercial reserves. Including technical reserves, Indonesia also has the largest reserves base in Southeast Asia, with 28.1 billion boe, of which 84% is gas.

**Estimated remaining commercial and technical reserves as at 1st January 2013**




*Source: Wood Mackenzie*

**Regional production comparison: 2012 vs. 2020 (Projected)**




*Source: Wood Mackenzie*

*Production*

Indonesia had the highest oil and gas production in Southeast Asia in 2012, in line with its leading regional position as the largest holder of commercial reserves. In 2012, Indonesia produced

2.2 mmboe/d of which 60% was gas. Malaysia produced around 1.6 mmboe/d with 65% being gas. The other countries in Southeast Asia had significantly lower production levels than Indonesia and Malaysia.

By 2020, production from Indonesia's existing commercial fields is expected to fall to around 1.6 mmboe/d, with gas expected to be around 74%. This is slightly ahead of Malaysia which is expected to produce just over 1.4 mmboe/d, with gas expected to be around 70%.

By 2020, Wood Mackenzie expects that some of Indonesia's technical reserves would have matured into commercial developments. These future commercial fields are excluded from the 2020 production forecast, but may have a significant impact on future production levels.

*Consumption*

The Southeast Asian region, comprising of Singapore, Thailand, Philippines, Vietnam, Malaysia and Indonesia, currently accounts for about 19% of total Asia Pacific demand for oil products. Total demand for oil products in Southeast Asia is forecasted by Wood Mackenzie to grow from 5.7 mmbbls/d in 2012 to over 7.7 mmbbls/d by 2025 — a growth rate of 2.4% CAGR compared to a projected CAGR of 2.3% for the whole of Asia Pacific during the same period. Among the countries in Southeast Asia, Vietnam is expected to have the highest rate of growth in demand, anticipated at above 6% CAGR between 2012 and 2025. Indonesia is expected to see a CAGR of 2.3%.

**Southeast Asia oil demand, 2012 and 2025 (Projected)**


*Source: Wood Mackenzie*

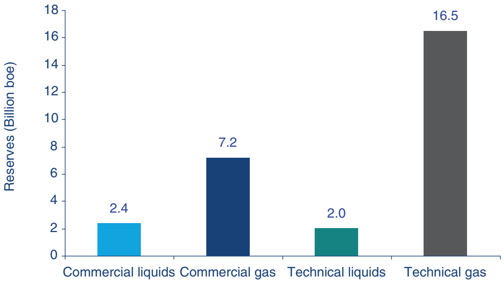
**Indonesia Upstream Oil & Gas Overview**

***Oil and Gas Reserves***

By Wood Mackenzie's estimates, Indonesia has remaining liquids reserves of 4.5 billion barrels, of which around 2.4 billion barrels are commercial reserves and 2.1 billion barrels are technical reserves. Total remaining commercial and technical gas reserves in Indonesia are 23.6 billion boe (or around 135,000 bcf of gas). Overall, remaining reserves in Indonesia are 28.1 billion boe as at January 1, 2013, split between liquids (16%) and gas (84%).

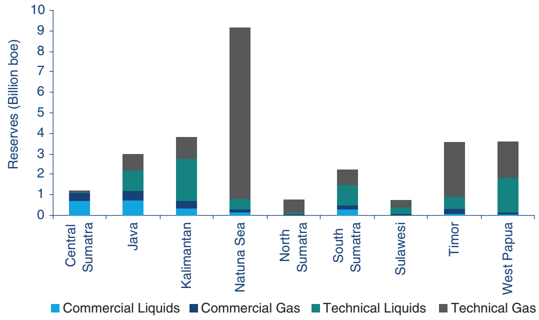
Most liquids reserves are located in Java (1.2 billion bbls), Central Sumatra (1.1 billion bbls), and, to a lesser extent, Kalimantan (0.7 billion bbls) and South Sumatra (0.5 billion bbls). The key region for gas reserves is the Natuna Sea (8.5 billion boe) which contains the Natuna D Alpha gas discovery. West Papua (3.5 billion boe) and Timor (3.3 billion boe) are important regions for gas with several significant gas discoveries, although they are mainly classified as technical reserves.

**Indonesian remaining reserves by category (2012)**




*Source: Wood Mackenzie*

**Indonesian remaining reserves by regional distribution (2012)**

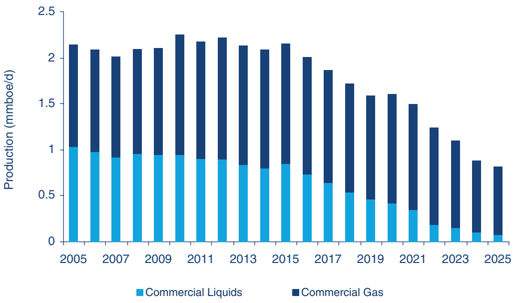



*Source: Wood Mackenzie*

***Oil and Gas Production***

Total oil and gas production in Indonesia in 2012 was 2.2 mmboe/d (40% oil), which represents an increase of 3.6% compared to the production level in 2005 (48% oil). Oil production has declined from 1.03 mmboe/d in 2005 to 0.89 mmboe/d in 2012. From 2005 to 2012, gas production has increased over the same period from 1.11 mmboe/d to 1.32 mmboe/d.

**Indonesian total oil and gas production (Projected)**




*Source: Wood Mackenzie*

Overall oil and gas production from the existing commercial fields in Indonesia is not expected to surpass its recent peak of 2.25 mmboe/d in 2010. Production is expected to be around 1.60 mmboe/d in 2020, falling to 0.82 mmboe/d in 2025, with oil contributing 26% and 10% of total production, respectively.

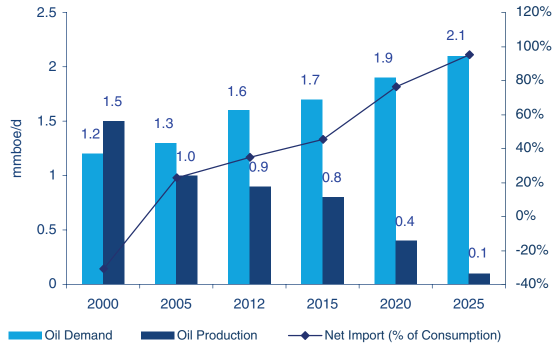
***Oil Demand and Supply Balance***

Indonesian oil products demand is projected to increase from 1.6 mmbbls/d in 2012 to 2.1 mmbbls/d in 2025, growing at a CAGR of 2.3%. The main driver of this demand growth is expected to be the transport sector, which accounted for 54% of oil demand in 2012. Industrial consumers (15% of oil demand in 2012) and the residential, commercial and agricultural sectors (14% of oil demand in 2012) are also expected to be major drivers of oil demand growth.

Domestic crude oil production is however in decline. Production in 2012 was about 0.9 mmbbls/d and is expected to continue to decline to under 0.1 mmbbls/d by 2025.

Indonesia switched from being a net crude oil exporter to being a net importer around 2004. In 2012, the country was estimated to have imported about 0.7 mmbbls/d (net) of oil, an estimated 43% of its overall demand. Based on Wood Mackenzie's supply and demand assumptions, Indonesia would be importing close to 0.9 mmbbls/d of oil by 2015, which constitutes 50% of its oil demand requirements.

**Indonesian oil demand and supply balance (Projected)**




*Source: Wood Mackenzie*

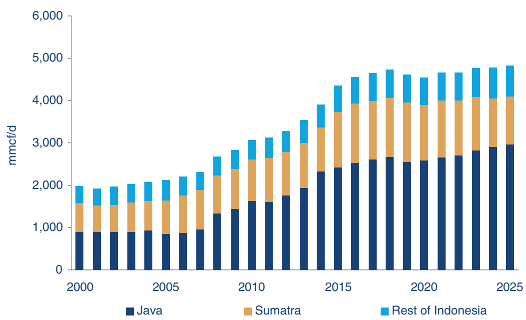
***Gas Supply and Demand Balance***

Domestic gas demand in Indonesia is projected to increase from 3,279 mmcf/d in 2012 to over 4,800 mmcf/d in 2025, implying a CAGR of 3.0%. Wood Mackenzie expects that the majority of this incremental demand will come from the industrial consumers and power sector. Regionally, Wood Mackenzie expects Java to continue to remain the largest demand center. In 2012, gas demand in Java was 1,759 mmcf/d (54% of the overall Indonesia gas demand) which was mostly met with supply sources from Java and South Sumatra. Domestic fields in Java contributed 1,075 mmcf/d (61% of the overall Java supply) and fields in South Sumatra supplied 611 mmcf/d (35% of the overall Java supply) to the Java market. Declining production in the matured West Java basins means that domestic LNG is needed to fully meet local demand. In 2012, 73 mmcf/d (4% of the overall Java supply) of LNG was needed to supplement the local production.

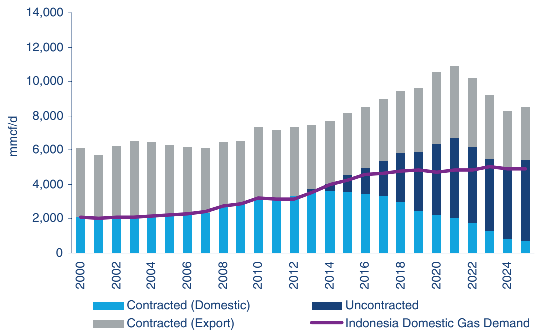
The Java and Sumatra regions will need to import LNG going forward to meet local demand. LNG will mainly come from DMO (Domestic Market Obligation) volumes from liquefaction projects in Indonesia e.g. Bontang, Tangguh and also from global markets, as required. Wood Mackenzie estimates that the share of LNG vis-à-vis piped domestic gas will increase over the forecast period. In 2025, LNG is expected to form 46% of overall gas supply in Java and 6% of overall gas supply in Sumatra.

Overall Indonesian gas production is forecasted to exceed domestic demand until 2025 and thereafter. Total gas production is projected to grow to nearly 8,500 mmcf/d in 2025 from 7,334 mmcf/d in 2012. South Sumatra, East Kalimantan and Papua are expected to be the main gas producing regions. Based on Wood Mackenzie's demand and supply estimates, Indonesia is expected to continue to be a major net exporter of gas to 2025 and thereafter.

**Indonesian gas demand by region (Projected)**




**Indonesian gas demand and supply balance (Projected)**




*Source: Wood Mackenzie*

### *Oil Pricing*

The pricing of Indonesia crude oil varies depending on crude quality and location. Duri crude, which is from one of the largest Indonesian production fields, was priced at a premium of 0.6% against Brent in 2012 though it has historically traded at discounts which varied from 6% in 2003 to 21% in 2007. This discount reflects the lower API gravity of Duri compared to other crude pricing benchmarks. The price discount of Sumatra Light Crude (from Minas and other light oil fields) as compared to Brent has varied over the past decade — from a discount of 4% in 2004 to a premium of 4% in 2009; a premium of 3.5% was seen in 2012.

### *Gas Pricing*

PLN, the Indonesian state-owned electricity company, is the main purchaser of gas in the power sector. Historically, delivered piped gas prices have been in the range of US$2.5-3.0/mmbtu, but recent contracts were as high as US$6-7/mmbtu.

In the non-power sector, gas is expected to compete with oil products and LPG. Currently, gas is sold by PGN (state-owned gas firm) in West Java at US$9.18/mmbtu and this is expected to rise further to US$10.20/mmbtu in April 2013 following a two-phase price increase. In theory, non-power buyers of gas could pay more than the current Government-approved PGN purchase price for gas as gas prices are still relatively competitive compared to those of oil products when expressed in energy equivalent terms. Wood Mackenzie estimates the recent price for diesel and LPG in Indonesia at US$26/mmbtu and US$16/mmbtu, respectively.

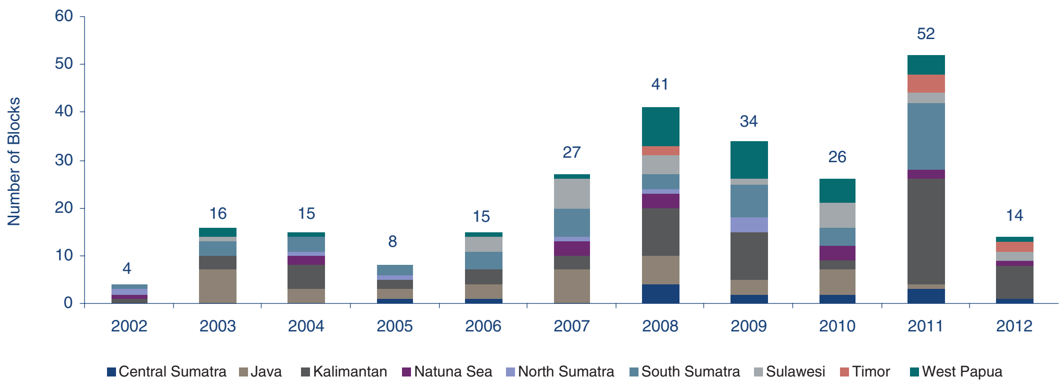
LNG prices will be higher than existing domestic gas prices—for example, the contract with Total for LNG volumes (from Bontang) into the West Java market is related to oil prices. At a crude price of US$100/bbl, the ex-regasification terminal price in the West Java market is expected to be in the range of US$14.5-15.0/mmbtu which is significantly above domestic gas prices. Thus, an increasing share of LNG in the overall gas supply mix would tend to push up domestic gas pricing levels. Though Wood Mackenzie anticipates domestic pricing levels to increase further in coming years, it is difficult for domestic gas to command LNG equivalent prices. Wood Mackenzie estimates domestic piped gas prices to settle in the range of US$8-13/mmbtu.

### *Upstream Licensing Trends*

Licensing rounds are usually held yearly in Indonesia. Blocks are either awarded in a competitive tender (where signature bonuses are payable by the companies that are awarded the acreage), or by a direct offer mechanism. The increase in the number of exploration licenses awarded between 2008 and 2011, together with a six-year exploration phase before the license has to be relinquished (unless a commercial discovery has been made), may provide further momentum for exploration activity in Indonesia in the short term.

The chart below shows the number of PSC awards each year from 2002 to 2012. The awards include competitive tender blocks, direct offer blocks, CBM licenses and other awards such as KSO (*Kerja Sama Operasi* or *Joint Operating Schemes*) contracts.

**Indonesian PSC awards**




*Source: Wood Mackenzie*

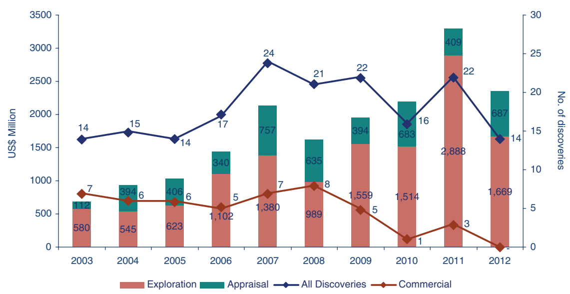
The number of PSCs awarded in Indonesia has increased significantly in recent years, with an average of 32 PSCs awarded each year between 2007 and 2012, as compared to an average of 22 PSCs yearly between 2001 and 2012. In 2011, a record 52 PSCs were awarded including 38 direct offer blocks and nine competitive tender blocks; however, in 2012 licensing slowed again, with 14 blocks awarded, 13 of them being direct offer blocks and one competitive tender block.

The first Indonesian CBM licenses were awarded in 2008, with seven blocks going to a mix of local and international companies. This was followed by 13 further awards in 2009, nine in 2010, and 23 in 2011, with all the acreage to date located either in Kalimantan or Sumatra. During 2012, four CBM blocks were awarded.

***Exploration Spending and Activity***

Between 2003 and 2012, Wood Mackenzie estimates that US$12.9 billion (real 2013 dollars) has been spent on exploration in Indonesia. A further US$4.8 billion (real 2013 dollars) is estimated to have been spent on appraisal during this period. Indonesia is viewed by many companies as having considerable oil and gas potential, particularly in the basins in Eastern Indonesia, where large areas, both onshore and offshore, remain relatively unexplored.

**Indonesian exploration and appraisal spending, 2003-2012 (real 2013 dollars)**




*Source: Wood Mackenzie*

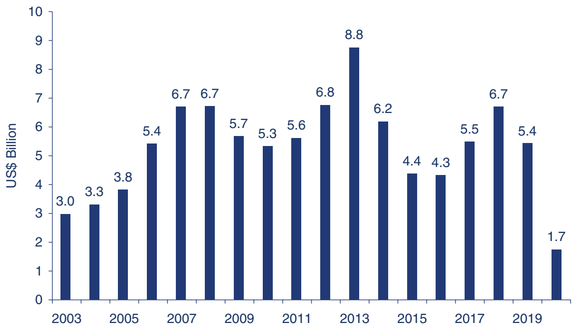
Exploration discoveries (commercial, technical, and contingent) peaked in 2007 with 24 discoveries. While there were 14 total discoveries in 2012, none of them have proved commercial thus far, following a declining trend in commercial discoveries since 2008.

Exploration drilling activity peaked in 2006 with 61 exploration wells drilled that year. Drilling levels have declined slightly since then, with 49 wells drilled in 2009 and 44 in 2012. Higher activity levels were expected in 2008 and 2009 but these were impacted by a shortage of suitable drilling rigs, and the effects of the economic downturn. South Sumatra and Java remain the most heavily drilled regions, although the Barito basin is starting to attract CBM drillers, with seven wells drilled in 2011-2012.

*Development Spending and Activity*

Between 2003 and 2012, it is estimated that capital expenditure on Indonesian upstream developments was US$52.4 billion (real 2013 dollars). From 2013 to 2020, it is estimated that a further US$43.1 billion (real 2013 dollars) of capital expenditure will be spent on Indonesian oil and gas fields and associated infrastructure such as pipelines and terminals. Much of this future spending — around US$20 billion — is expected to be incurred between 2013 and 2015, including investments in the Offshore Mahakam PSC (US$4.8 billion forecasted, real 2013 dollars) and the Cepu PSC (US$1.9 billion forecasted, real 2013 dollars).

**Indonesian development spending, 2003-2020 (real 2013 dollars)**




*Source: Wood Mackenzie*

From 2003 to 2008, development expenditure in Indonesia increased from US$3.0 billion per year to US$6.7 billion per year. A significant part of this expenditure was spent on the continuing development of some of Indonesia's older fields such as the enhanced oil recovery scheme on the Rokan PSC in the Caltex Pacific Indonesia area and ongoing development drilling and upgrading production facilities at the Offshore Mahakam PSC.

In addition to investment in older fields, 2007 and 2008 also saw significant capital spending on new fields in Indonesia, such as the giant Tangguh gas field. Overall, development spending in Indonesia is expected to increase sharply in 2013, with US$8.8 billion (real 2013 dollars) anticipated in total investment during the year. Annual development spending is projected to remain about US$4.0 billion (real 2013 dollars) through the end of the decade.

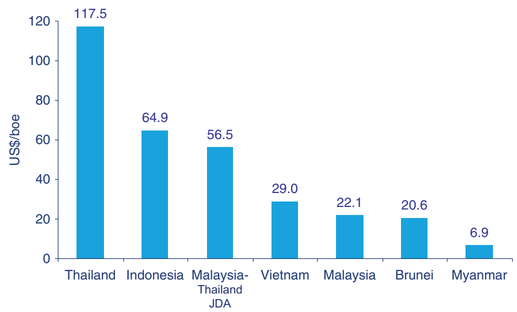
In addition to investment in the development of commercial fields which are either currently in production or under development, additional capital expenditure is anticipated on projects which have not received official approval yet.

Wood Mackenzie's projections only include fields which are currently regarded as being commercial. The largest discovery not regarded as commercial yet is the Natuna D Alpha gas field.

*Regional Cost Competitiveness*

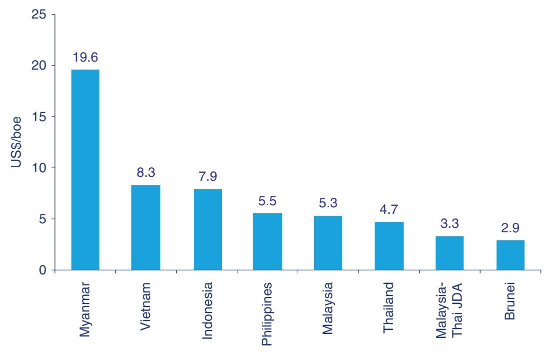
The average exploration, appraisal and development capex associated with a field development, the "Finding and Development Cost", for Indonesia in the period 2003 to 2012 was US$64.90 per boe (real 2013 dollars). The finding and development cost is measured by the reserves discovered during the time period through exploration, and may not capture the total number of reserve additions due to enhanced oil recovery ("EOR"). The average cost associated with the production of oil and gas once a field is in operation, the "Operating Cost", for Indonesia in 2012 was US$7.90 per boe (real 2013 dollars).

**Finding and development costs, 2003-2012 (10 year average, real 2013 dollars)**




*Source: Wood Mackenzie*

**Operating costs, 2012 (real 2013 dollars)**




*Source: Wood Mackenzie*

***Oil and Gas Infrastructure***

Most of the oil infrastructure in Indonesia is already in place. The only major new upstream infrastructure being installed at present is for the development of the Banyu Urip field in the Cepu PSC, Java.

Gas production in Indonesia has mostly been developed for export and accordingly, most of the infrastructure investment has been in LNG facilities. Existing LNG liquefaction plants are the Bontang plant in East Kalimantan, the Arun facility in Aceh and the Tangguh plant in Papua. Indonesia exported about 15 million mtpa of LNG to Japanese, Korean and Taiwanese customers in 2012, which met approximately 11% of their overall LNG demand.

The Bontang LNG plant is owned by the Government and operated by PT Badak NGL. The Arun LNG plant is owned by the Government and operated by PT Arun NGL. Pertamina owns 55% of both PT Badak NGL and PT Arun NGL. However, with declining supplies, the Arun plant is expected to be closed in 2013 and converted to a 3.0 mtpa regasification terminal by 2014. The Tangguh plant is operated by BP Indonesia as a contractor to SKK MIGAS.

Two new LNG liquefaction projects are planned for in Indonesia. Donggi Senoro LNG, a 2.0 mtpa liquefaction plant owned by PHE, PT Medco LNG Indonesia and Sulawesi LNG Development is under construction. Abadi LNG, a 2.5 million mtpa liquefaction project has been proposed by INPEX. Tangguh LNG is also proposing a brown field expansion to add a third train of 3.8 mmtpa by the end of this decade.

In terms of the domestic market, the main demand centres for gas are located in Java and Sumatra and hence development of pipeline infrastructure is concentrated in these islands. Limited pipeline infrastructure exists outside these islands.

The ownership of the gas transmission and distribution system in Indonesia is dominated by the state-owned companies, Pertamina and PGN. Pertamina owns and operates a pipeline network that covers South Sumatra, West Java, East Java and East Kalimantan. PGN owns and operates the SSWJ pipeline. Transportasi Gas Indonesia, a subsidiary of PGN owns and operates the Grissik-Duri and Grissik-Singapore pipelines.

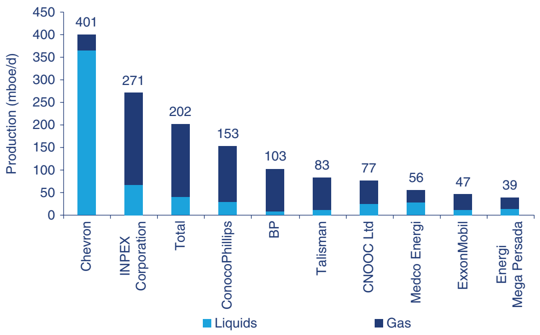
A number of new pipelines have been planned to increase gas penetration in the domestic market. PGN is currently working on a project to extend the transmission line from Cilegon to Serpong to supply the Banten industrial corridor. Gresik to Semarang and Semarang to Cirebon pipeline sections are part of the Trans-Java pipeline system connecting West Java market to East Java although the latter section is unlikely to happen due to lack of excess supplies in East Java. Additionally, BPH MIGAS has proposed a pipeline from East Kalimantan to Semarang, if sufficient reserves are proven and PT Pertamina Gas plans to build a pipeline connecting Arun and Medan.

To tackle regional gas deficits, Indonesia is also planning to build floating storage and regasification units ("FSRU") in Java and Sumatra. These FSRU projects will be supplied with gas delivered under DMO from upstream projects in Indonesia and also import LNG from global markets, as and when required. PT Nusantara Regas, a joint venture between Pertamina & PGN, has completed the construction of a FSRU in the Jakarta bay area (West Java) with 3 mmtpa capacity and has started operations in May 2012. PGN is building another FSRU in Lampung, South Sumatra with 1.8 mmtpa capacity to be operational by 2014. The Semarang regasification terminal is another proposed FSRU project in East/Central Java. Also, the Minister of State-Owned Enterprises has approved the conversion of the Arun liquefaction plant in Aceh into a regasification terminal.

*Competitive Analysis*

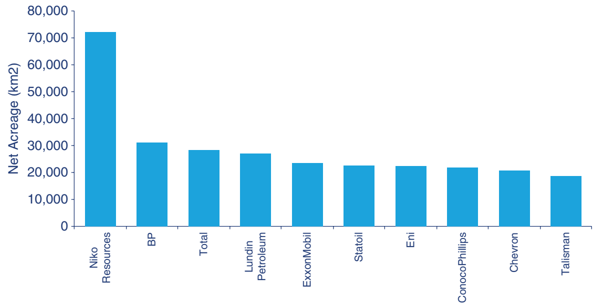
The following charts illustrate companies in Indonesia (excluding Pertamina) ranked by Wood Mackenzie's estimates of oil equivalent production in 2012 and net acreage as at January 1, 2013.

**Indonesia production in 2012 by company**




*Source: Wood Mackenzie*

**Indonesia net acreage as at January 1, 2013 by company**

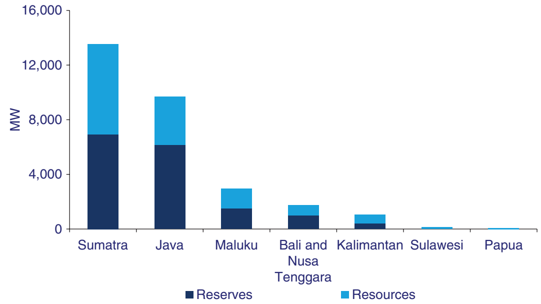



*Source: Wood Mackenzie*

**Indonesia Geothermal Industry Overview**

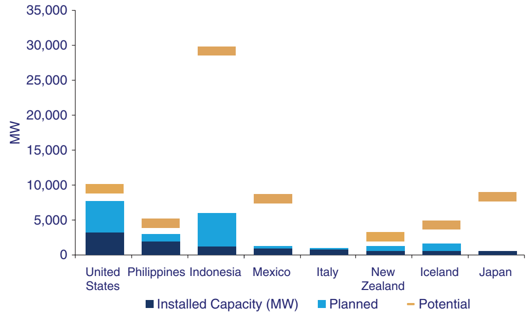
The Government estimates significant potential for geothermal energy in Indonesia. In 2011, the Directorate General of Mineral, Coal and Geothermal ("DGMCG") estimated 29,215 megawatt (MW) of geothermal reserves and resources in Indonesia. Sumatra and Java are identified as the islands with lead prospects, accounting for nearly 80% of the total geothermal reserves and resources. Sumatra is expected to contribute 13,521 MW, over 46% of the overall estimate for reserves and resources. Java is expected to have nearly 10,000 MW, mostly located in the western and central parts of the island.

**Indonesia geothermal reserves and resources as of Dec 2011**




*Source: Directorate General of Mineral, Coal and Geothermal*

**Potential for geothermal production**




*Source: Wood Mackenzie*

At present, global installed capacity for geothermal power is 10,900 MW. Indonesia, with 1,227 MW or 11% of the global capacity, has the third highest installed capacity after the United States and the Philippines. Indonesia has the highest geothermal potential in the world with 29,215 MW of geothermal resources. Only 4% of this potential has been harnessed and another 16% is planned for development.

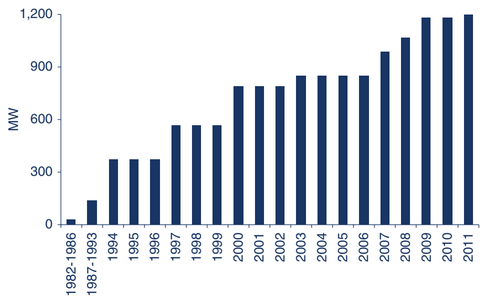
### *Geothermal Projects*

The application of geothermal power started in 1982 when Pertamina developed the first unit of the Kamojang geothermal plant in West Java. Development of geothermal projects has gradually increased since 1997. Overall geothermal capacity increased further when Darajat and Wayang Windu generation plants came online in 2000.

**Existing geothermal projects**

| Name | Province | Developer | Installed Capacity (MW) |
|---|---|---|---|
| Gunung Salak | West Java | PGE-CGS | 377 |
| Darajat | West Java | PGE-CGI | 271 |
| Wayang Windu | West Java | PGE-SE | 227 |
| Kamojang | West Java | PGE | 200 |
| Lahendong | North Sulawesi | PGE | 80 |
| Dieng | Central Java | GDE | 60 |
| Sibayak | North Sumatra | PGE | 12 |
| | | Total | 1227 |

**Geothermal capacity (1982-2011)**

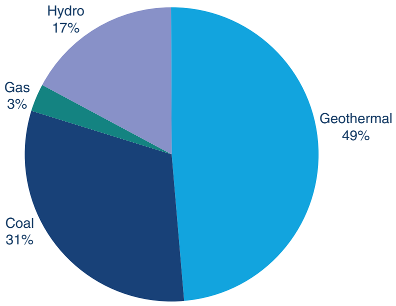



*Source: Wood Mackenzie, DGMCG*

*Note: PGE: Pertamina Geothermal Energy, CGS: Chevron Geothermal Salak, CGI: Chevron Geothermal Indonesia, GDE: Geo Dipa Energy, SE: Star Energy*

Through Minister Regulation No.01/2012, the Government announced a number of power generation plants to be developed under the Fast Track Program Phase 2. Unlike in Fast Track Program Phase 1 where all plants were coal-based, Phase 2 consists of a combination of coal, geothermal, gas and hydro-based generation plants. Geothermal plants are to form 49% of the generation plants in the Fast Track Program Phase 2.

**Power generation plants (Fast Track Program Phase 2)**




*Source: Wood Mackenzie*

PT Pertamina Geothermal Energy is the main player in the geothermal industry in Indonesia. The other players include Geo Dipa Energi, Chevron, Star Energy, Supreme Energy, Bumigas Energi and Medco Energi. Up till 2011, Pertamina was involved in all existing geothermal plants in Indonesia either through its own operations or joint operations with other partners. However, Pertamina transferred its ownership in Geo Dipa Energi to the Government in 2011. With this transfer, GDE is expected to be a competitor to Pertamina for the allocation of geothermal working areas and projects in future.

To speed up geothermal development, the Government has replaced the ministerial regulation 2/2011 that specifies a standard purchase price by PLN for geothermal power at US$97/MWh. In the new regulation 22/2012, the selling price is regionally differentiated taking into consideration the alternate source for the region.

**Geothermal Selling Price (Ministerial Regulation 22/2012)**

| Region | HV Connection (US$/Mwh) | LV Connection (US$/Mwh) |
|---|---|---|
| Sumatra | 100 | 115 |
| Java, Madura, Bali | 110 | 125 |
| Sulawesi | 120-130 | 135-145 |
| Nusa Tenggara | 150 | 165 |
| Maluku, Papua | 170 | 185 |

*HV: high voltage LV: low voltage*

*Source: Wood Mackenzie*

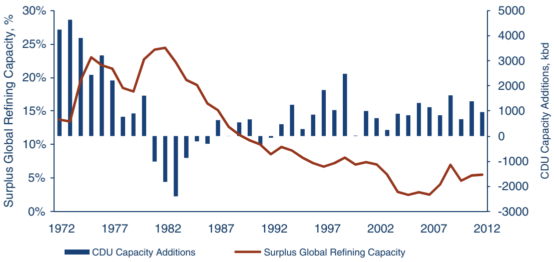
However, despite increased activities in geothermal licensing, Wood Mackenzie expects that it will still take a while for the geothermal players to finalize power purchasing agreements with PLN.

**Downstream Industry Overview**

***Global and Regional capacity***

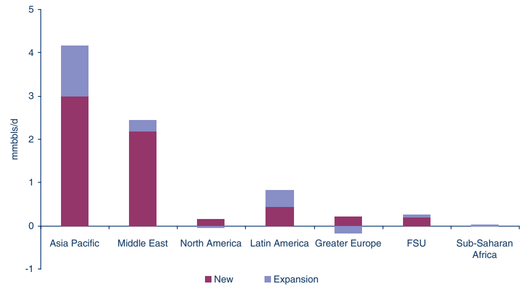
Global refining capacity grew strongly during the 1970s with the anticipation of sustained strong oil demand growth. However, a large surplus of capacity developed as oil demand fell due to the oil price shocks during the decade. The large surplus of capacity persisted for many years leading to global industry rationalization and an extended period of poor refining margins.

**Surplus global refining capacity, 1972 to 2012**




*Source: Wood Mackenzie, BP Statistical Review, IEA*

**Planned refinery capacity additions, 2013 to 2018**




*Source: Wood Mackenzie*

The period from 2004-2008 saw a sharp reduction in spare refining capacity which led to a sustained period of strong refining margins. The combination of strong margins and high capacity utilization led to a surge in refining investments around the world. Capacity was added through a combination of new grassroots refineries, brownfield expansions and upgrading programs at existing sites. The total amount of potential capacity additions generated concerns about a potential oversupply of refining capacity re-emerging even as demand continued to grow.

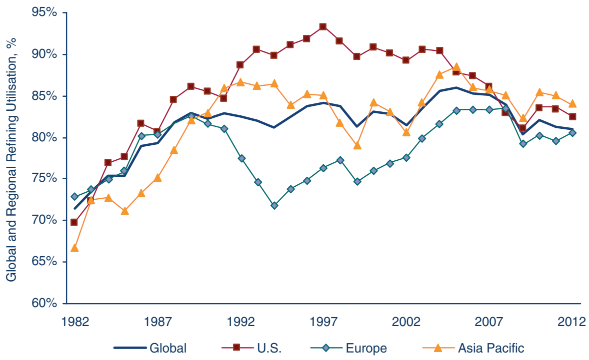
The onset of the recession in 2008 led to the first decline of oil demand in 25 years which was followed by a larger decline in 2009. Declining demand, combined with significant new capacity becoming available has resulted in an oversupply of refining capacity globally. However, in the emerging economies of Asia and the Middle East in particular, demand has resumed its upward path. New refining projects continue to be added especially in China and India. Wood Mackenzie forecasts that from 2013 to 2018, nearly 8 mmbbls/d of capacity will be added globally. The net result of these changes will see Asia and the Middle East increasing their combined share of global capacity from 41% to 43% between 2013 and 2018.

***Global and Regional Utilization Rates***

Global refinery utilization rates were relatively low in the 1980s reflecting the high levels of spare capacity. As the industry rationalized and demand continued to grow, utilization rates gradually increased. The increase was most pronounced in the U.S. where oil product deficits began to develop in the second half of the 1980s. Strong gasoline demand growth was satisfied through imports and refinery utilization rates remained high. Strong demand growth in Asia fuelled by the economic boom also led to a strong refining market and higher utilization rates. This stimulated a wave of capacity additions which coincided with a period of weaker demand immediately after the Asian financial crisis of 1997. This led to a temporary oversupply situation and hence lower utilization rates. In Europe, persistent overcapacity combined with sluggish demand growth has led to low utilization rates for an extended period.

Utilization rates were higher globally from 2004 onwards. Refineries were operated at rates close to maximum sustainable rates in many regions. However, constraints in the refining market were not caused by a lack of crude distillation capacity per se but by a number of factors in the market including more stringent quality specifications, hurricane related outages in the U.S. Gulf Coast and high market demand for middle distillates such as jet fuel and diesel. These factors resulted in bottlenecks in the overall system.

**Global and regional refining utilization, 1981 to 2012**




*Source: Wood Mackenzie, BP Statistical Review, IEA*

Utilization rates dropped during the recent recession and recovered slightly in 2010 through to 2012. They are expected to remain depressed for some years to come. The exception to this is Asia Pacific where strong demand growth is expected to reduce the surplus capacity and lead to a more favorable refining market environment in the next few years.

Asia Pacific is the world's largest oil demand center and total oil demand is forecast to grow from 1,374 mmtpa in 2012 to 1,840 mmtpa by 2025. The growth rate during this period is expected to average 2.3% per annum.

The transport sector continues to be the main driver of demand growth in Asia Pacific, contributing to 78% of demand growth over the forecast period from 2012 to 2025. Road diesel is forecast to grow 5.2% per annum between 2012 and 2025, exceeding the pace of gasoline demand growth of 2.8% per annum. In aviation and seaborne transport, both aviation jet fuel demand and marine bunker use of fuel oil are forecast to grow at 3.0% and 2.5% per annum respectively.

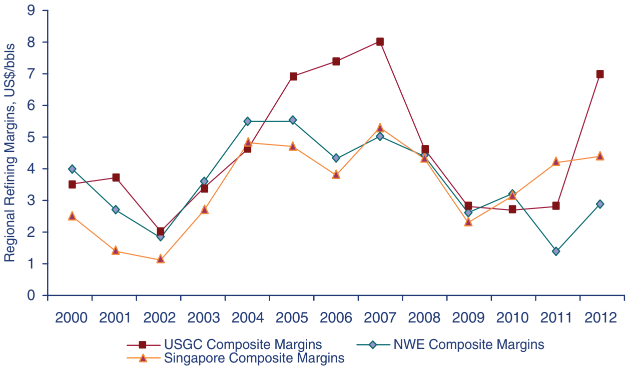
More than 80% of the demand growth between 2012 and 2025 is expected to come from China and India. China currently accounts for 35% of the oil demand in Asia Pacific, and as a result of its strong growth this proportion is expected to grow to 43% by 2025. Other sources of demand growth are India, which is expected to increase its share from 12% in 2012 to 14% by 2025, while Southeast Asia is expected to maintain its share of 19% in the same period.

Oil demand in OECD Asia (Japan, South Korea, Australia and New Zealand) is generally in decline; both Japan and South Korea are expected to see their share reduced to 9% and 6% respectively by 2025, compared to 16% and 8% respectively in 2012.

***Regional Refining Margins***

Post 2003, strong refining margins transformed the refining sector from an industry of weak returns into one that attracted significant investments. The convergence of a series of factors improved profitability dramatically. Strong demand growth, lagging refinery supply growth (due to a long history of under-investment) and high crude prices and wide light heavy crude price differentials provided a significant boost to profitability. Furthermore, growing regional product imbalances and product specification changes in many developed markets further stoked the refining boom.

**Indicator gross refining margins, 2000 to 2012**




*Source: Wood Mackenzie*

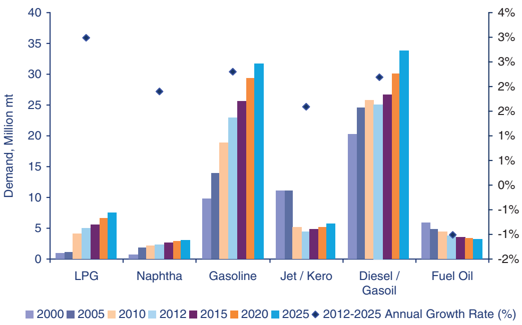
Refining margins increased globally but especially so in the United States Gulf Coast where the highly complex refineries were best able to capture the exceptionally wide light heavy crude price differentials. The boom ended with the onset of the recession which began in 2008 and resulted in lower margins in 2009 and 2010. Margins have been seen to strengthen in 2011 and 2012 as economic recovery in various parts of the world resulted in oil demand recovery. Wood Mackenzie expects a gradual recovery in refining margins globally. In the United States and Europe, Wood Mackenzie expects margins to recover slowly as demand recovers and older, weaker facilities are retired. In Asia, although margins are temporarily suppressed due to significant new capacity additions, Wood Mackenzie expects a robust recovery in margins.

## Indonesia Downstream Overview

### *Oil Products Demand*

Total demand increased from 60.5 million mt in 2010 to 63.4 million mt in 2012, as growth in the transport sector has been mostly offset by lower demand in the industry sector. From 2012 through to 2025, demand is expected to increase by 2.3% CAGR to reach 84.7 million mt, driven principally by growth in the transport sector and to a lesser degree, the residential sector. Use of oil in power generation is expected to decline.

**Indonesia oil demand by product (Projected)**

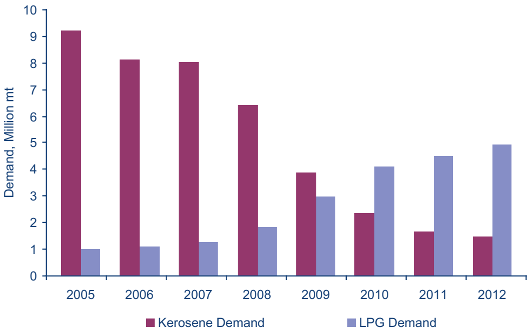



*Source: Wood Mackenzie*

### *LPG Conversion Program*

Kerosene is widely used as a major subsidized fuel for household cooking in Indonesia. However, the significant run-up of oil prices globally since 2004 prompted the Indonesian government to review the kerosene subsidy. The kerosene to LPG conversion program was started in 2006 as the subsidy for LPG is lower than kerosene and consumption for LPG is expected to be lower with its higher calorific value. The program has generally been considered a success. At the end of 2011, more than 50 million households had converted to LPG and LPG demand has been increasing steadily since the start of the program to reach 5 million mt in 2012, with kerosene demand declining at the same time.

**Indonesian LPG and kerosene demand, 2005-2012**




*Source: Wood Mackenzie*

### *Refining Capacity*

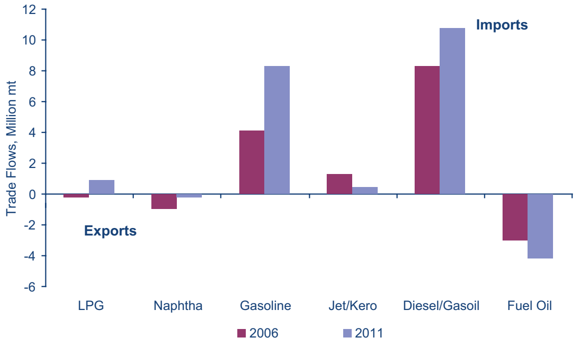
Indonesia has six main refineries, which are owned and operated by Pertamina. They are located on East Kalimantan, Java, Sumatra and West Papua and have a combined installed capacity of 1,039.2 mbbls/d. The refineries are relatively simple with an average capacity of 173.2 mbbls/d (compared to the Asia Pacific average of 151 mbbls/d) and average Nelson Complexity Index ("NCI") of 5.4 (compared to the Asia Pacific average NCI of 7.0). In addition, PT Trans Pacific Petrochemical Indotama operates a 100 mbbls/d condensate splitting complex that is integrated with its Aromatics complex in Tuban – this facility which was started up in 2006 has been operating at fairly low utilization rates due to a combination of technical and financial issues.

Indonesia has a stated objective to reduce its reliance on imported petroleum products. It aims to meet this objective by increasing domestic products output by increasing refining capacity through expansions at existing sites and the construction of new grassroots refineries.

### *Imports and Exports*

LPG exports have been reduced over the years with growing domestic demand due to a shift from kerosene for residential cooking. At the same time, net imports of jet fuel and kerosene have reduced considerably. Indonesia is a large importer of gasoline, diesel and gasoil. Net imports of gasoline have been increasing steadily for many years though 2012 saw a slight decline. Diesel and gasoil imports reached 10.4 million mt in 2008, although they fell back somewhat in 2009 and 2010, as demand declined. Demand recovered to 11.7 million mt in 2011. Indonesia has been a regular net exporter of fuel oil over the years with an annual export volume of about 4.3 million mt in 2011.

**Historical trade flows of refined products, 2006 vs. 2011**




*Source: Wood Mackenzie*

***Regional Competitive Analysis***

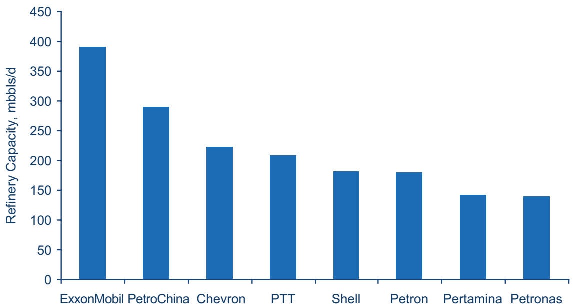
Indonesia's downstream refining segment operates within the highly competitive refining sector of Southeast Asia which includes regional refiners such as Petronas, PTT, Petron, ExxonMobil, Shell, Chevron, Singapore Refining Company and PetroVietnam.

A number of different measures can be used to compare and benchmark refinery performance both by asset and by company.

- *Size* — refining is capital intensive and large facilities capture scale economies and have lower per unit operating costs. For the same configuration a larger facility would typically be more cost efficient and hence able to capture a higher cash cost margin than a smaller facility.

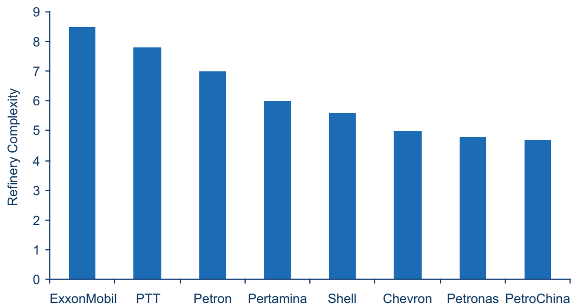
- *Complexity* — a measure of the refinery's capability to process difficult feeds such as heavy and high sulphur crudes, and to convert low value streams such as fuel oil to higher value transportation fuels. A higher complexity means a greater ability to take advantage of lower-cost crudes to produce a greater proportion of high value products and hence realize higher gross margins. The NCI is a typical indicator to compare the complexity levels of refineries. Typically a complex refiner will realize a higher gross margin compared to a simple refiner under the same market environment.

**Average refining capacity by company**




*Source: Wood Mackenzie*

**Average refining NCI by company**




*Source: Wood Mackenzie*

**Indonesia Marketing Industry Overview**

The downstream marketing business in Indonesia is conducted by business entities legally registered in Indonesia that have obtained a business permit from the Ministry of Energy and Mineral

Resources. Marketing business activities which require business licenses are processing, transportation, storage and trading. Although various business entities have obtained licenses to operate in one or more sectors, Pertamina is the only company which has full value chain integration in the downstream marketing business as it still owns the majority of the downstream infrastructure to process, transport, store and distribute oil products.

***Infrastructure***

Indonesia comprises more than 17,000 islands with over 900 of those permanently inhabited. Distributing oil products throughout Indonesia is a challenging task due to the vast geographical coverage and the spread of various inland demand areas separated by water bodies and land. In addition infrastructure constraints such as port limitations, limitations on vessel sizes and the location of terminals and inland depots add to the challenge. The supply chain can be long and involve complex logistics.

For the ease of sales and distribution of refined products, BPH MIGAS has divided the country into four main regions — WDN I to IV. WDN stand for Wilayah Distribusi Niaga in Bahasa, or commercial distribution area. WDN I comprises Sumatra and includes cities such as Medan and Palembang. WDN II comprises Java and includes cities such Bandung and Surabaya, and Bali. WDN III has the biggest geographical coverage and comprises the islands of Kalimantan, Sulawesi, Maluku and Irian Jaya. WDN IV comprises other smaller islands outside WDN I, II and III.

Many infrastructure-related assets are needed to support and complete the supply chain. There are seven major ports and terminals which are able to handle ocean going vessels. There are another 113 fuel depots and 56 aviation depots which have smaller storage capacity compared to the terminals. These depots are scattered across the country and can be found near demand areas. In addition, this installed infrastructure is supported by floating storage. Pertamina owns and operates this infrastructure.

With the exception of WDN IV, each of the distribution areas has its own refineries and domestic supply of refined products. The main refineries are Dumai and Plaju in WDN I, Balongan and Cilacap in WDN II, and Balikpapan in WDN III. The local demand is mostly met by domestic supplies. WDN II is the area with very high oil product demand that attracts imports not only from other areas such as WDN I and III but also from outside the country.

Distribution costs can be low due to the existence of pipeline connections to the demand areas or high if the supply chain is long with many intermediaries.

**Sales and distribution areas of refined products**


*Source: MIGAS*

There are over 5,000 retail fuel filling stations in Indonesia and almost all of them are Pertamina branded stations. The retail marketing sector is dominated by Pertamina. Over 90% of retail fuel filling stations in Indonesia are owned and operated by dealers. Pertamina has around 79 company-owned and company-operated stations and only began this mode of operation in 2005.

***Key players***

Indonesia is a key strategic market for many foreign oil companies. International oil companies such as Shell, Chevron and Total have expressed interest to develop and grow their downstream marketing business in Indonesia if it is further deregulated and they are given access to the market.

The liberalization of Indonesia's downstream oil and gas sector has been under discussion for several years. Pertamina maintained its retail and distribution monopoly for petroleum products until July 2004, when the first licenses for retail sale of petroleum products were granted to Shell and Petronas. Shell was the first foreign oil company to enter Indonesia's retail market with the opening of its first station in early 2005. This was followed by Petronas and Total. Although the downstream marketing industry has attracted more players since Pertamina's monopoly over non-subsidized fuels sales was revoked, the progress has been slow to date. Shell currently has around 57 retail fuel filling stations, Petronas has 19 service stations and Total now has 13 stations out of over 5,000 retail stations. Although Pertamina no longer has a monopoly on the downstream sector since the liberalization, it still has close to 100% of the market share for the retail sector.

These service stations built by foreign oil companies are mainly located in Greater Jakarta with a few stations found in Bandung and Medan. Before 2010, they could only sell non-subsidized fuels in their service stations. However, Petronas and AKR were selected to sell a limited volume of subsidized fuels in specific areas in 2010 and 2011. Although the downstream marketing sector has been gradually liberalized, the Government has been doing it in a tightly controlled manner through the PSO scheme offered to foreign oil companies. It is likely that Pertamina will remain a dominant player for several years because of its infrastructure and market presence.

***Public Service Obligation***

Indonesia has experienced major transformation in the management of the PSO scheme. In the past, the Government appointed Pertamina exclusively as distributor of subsidized oil products under the PSO scheme leading to Pertamina's provision and distribution of the subsidized oil products.

With the introduction of the Oil and Gas Law of 2001, the Government has set the objective to liberalize the role of the PSO. Although the downstream marketing industry has attracted more players since Pertamina's monopoly over subsidized fuels sales was revoked, progress has been slow to date. The concern potential players have relates to the predictability and clarity around implementation of the governing regulations. This is very important for such players as they are required to make substantial investments. The Government intends to reduce the impact of subsidizing fuels on Indonesians and there are plans to open the market for subsidized fuel.

In 2010 and 2011, BPH MIGAS awarded licenses for the provision and distribution of subsidized oil products to Petronas and AKR. In 2012, BPH MIGAS awarded licenses for the provision and distribution of subsidized fuels to Petronas, AKR and Surya Parna Niaga.

# INDONESIAN REGULATORY FRAMEWORK

## Oil and Gas Regulation

### *Overview*

Indonesia's oil and gas resources are deemed to be national assets owned and controlled by the state. Prior to the enactment of the Oil and Gas Law of 2001, oil and gas mining undertakings were controlled by the Government and exclusively carried out by the state petroleum enterprise, *Perusahaan Pertambangan Minyak dan Gas Bumi Negara* (or "PERTAMINA", our Company's legal predecessor), as the sole holder of the "authority to mine" in Indonesian territory. However, PERTAMINA was permitted to cooperate with other parties that were appointed or approved by the Minister of Energy and Mineral Resources to perform its mining undertakings. Investments by any party, foreign or domestic, in oil and gas exploration and production activities in Indonesia were done through a contractual arrangement with PERTAMINA, primarily in the form of production sharing arrangements, which include PSCs, technical assistance contracts ("TACs") and joint operating bodies ("JOBs") (as described in detail below). Under such production sharing arrangements, the oil and gas investor acted as a contractor to PERTAMINA, which held the overall management authority over exploration and production operations.

On November 23, 2001, the Oil and Gas Law of 2001 was enacted, which reformed the oil and gas upstream and downstream sectors in Indonesia by terminating the exclusive rights held by PERTAMINA. Unlike its predecessor law, Law No. 44 of 1960, which did not distinguish between types of oil and gas activities as they were both monopolized by PERTAMINA, the Oil and Gas Law of 2001 categorizes oil and gas activities into upstream and downstream activities. Upstream activities consist of exploration and exploitation of oil and gas resources, while downstream activities encompass processing, transporting, storing and trading of oil and gas.

Pursuant to the Oil and Gas Law of 2001, the oil and gas industry is regulated by the Minister of Energy and Mineral Resources through DGOG. The DGOG is responsible for ensuring that oil and gas related business activities in Indonesia are in compliance with oil and gas regulations. The Oil and Gas Law of 2001 also introduced two new governmental bodies, BPMIGAS and BPH MIGAS, which further regulate various aspects of the oil and gas industry and report to the DGOG. BPMIGAS, a non-profit, Government-owned legal entity, was the exclusive holder of the mine concession right in Indonesia and controlled and supervised upstream activities on behalf of the Government. The functions of BPMIGAS were, among other things, to:

- provide input to the Minister of Energy and Mineral Resources on his policies in preparing and offering areas of operations;
- provide advice on and execute cooperation contracts;
- review and provide input for the Minister of Energy and Mineral Resources to approve the plan of development for a particular field that will be initially produced within a working area;
- approve the plan of development and work program and budgets;
- monitor cooperation contracts and existing production sharing arrangements and report their implementation to the Minister of Energy and Mineral Resources; and
- appoint sellers for the state's share of oil and gas produced from a working area, with the goal of maximizing benefit to the state.

On November 13, 2012, the Indonesian Constitutional Court (or *Mahkamah Konstitusi Republik Indonesia*) rendered Decision No. 36/PUU-X/2012, which dissolved BPMIGAS and, consequently, transferred all its duties and functions to the Minister of Energy and Mineral Resources. In response to the decision, the Government has enacted Presidential Regulation No. 95 of 2012 on the Transfer of Duties and Functions of Upstream Oil and Natural Gas Business Activities, which stipulates, among other things, that:

- performance of duties, functions and organization of BPMIGAS shall be transferred to the Minister of Energy and Mineral Resources until new oil and gas regulations are issued.

- any cooperation contract (*Kontrak Kerja Sama*) signed between BPMIGAS and any business entity or permanent establishment shall remain valid until its expiration.

- the entire processing of upstream oil and natural gas activities managed by BPMIGAS shall be continued by the Minister of Energy and Mineral Resources in accordance with the provisions of laws and regulations.

To implement the above regulation, the Government has issued (i) Presidential Regulation No. 9 of 2013 on the Implementation of Upstream Natural Oil and Gas Business Activity and (ii) Regulation of Minister of Energy and Mineral Resources No. 09 of 2013 concerning the Organization and Work Procedures of SKK MIGAS ("SKK MIGAS Regulations") for the purpose of, among others, the establishment of SKK MIGAS as an interim body supervising the upstream oil and gas business activity pending the issuance of a new oil and gas law. Pursuant to the SKK MIGAS Regulations all duties, functions, existing employees, organizational structure, funding and assets of BPMIGAS are transferred to SKK MIGAS which is directly controlled, monitored and evaluated by a Supervisory Commission led by the Minister of Energy and Mineral Resources.

BPH MIGAS, an independent governmental agency, is tasked with supervisory and regulatory functions over downstream activities in order to ensure the availability and distribution of fuels throughout the Indonesian territory and to promote gas utilization in the domestic market.

Pursuant to the Oil and Gas Law of 2001 and in conjunction with Government Regulation No. 31 of 2003 on the Change of Form of *Perusahaan Pertambangan Minyak dan Gas Bumi Negara (PERTAMINA)* to *Perusahaan Perseroan (Persero)*, PERTAMINA was converted into a profit based, state-owned company (*Persero*) in the form of a limited liability company, named PT Pertamina (*Persero*). Under the terms of the Oil and Gas Law of 2001 and the Upstream Regulation (as defined below), upon the establishment of BPMIGAS, all rights and obligations of PERTAMINA under all production sharing arrangements (but excluding TACs) then existing were transferred to BPMIGAS through novation agreements and BPMIGAS replaced PERTAMINA as the Government party to all such production sharing arrangements. Further, all of the fields that were designated as PERTAMINA's working areas prior to the enactment of the Oil and Gas Law of 2001 were transferred to BPMIGAS by operation of law. BPMIGAS then entered into a cooperation contract with PEP (the upstream subsidiary of our Company) to grant it working interests in all areas formerly designated as PERTAMINA's.

The Oil and Gas Law of 2001 is an umbrella legislation setting forth general principles to be further developed in a series of Government regulations, presidential decrees and ministerial decrees. These include Government Regulation No. 35 of 2004, as amended by Government Regulations No. 34 of 2005 and No. 55 of 2009, on Upstream Oil and Gas Business Activities (the "Upstream Regulation") and Government Regulation No. 36 of 2004, as amended by Government Regulation No. 30 of 2009 concerning Oil and Gas Downstream Business Activities (the "Downstream Regulation"), which implement certain significant aspects of the Oil and Gas Law of 2001.

***Upstream***

After the implementation of the Oil and Gas Law of 2001, cooperation contracts were introduced to govern the working relationship and sharing of production between the Government and private sector contractors in the Indonesian oil and gas industry. Such cooperation contracts are similar to the production sharing arrangements applicable prior to the implementation of the Oil and Gas Law of 2001. The production sharing arrangements in existence prior to the implementation of the Oil and Gas Law of 2001 will remain in effect until they are terminated on their own terms.

*Production Sharing Arrangements*

Production sharing arrangements are based on five main principles:

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

Generally, under production sharing arrangements, the operator is required to commit to spending a specified sum of capital to implement a work program approved by the Government. The negotiation of production sharing arrangement terms with potential contractors was handled primarily by the Ministry of Energy and Mineral Resources. Awards of work areas were based on either a competitive tender process and direct offer or whenever relevant under certain circumstances, tender direct offer, and the Indonesian Parliament had to be notified of the production sharing arrangement. Only one working area could be awarded to any one legal entity.

In order to accelerate the increase of domestic production of oil and gas, the Upstream Regulation also provides that in cases of national emergency, with due observance and the benefit of the state, the President may approve requests for certain exceptions under production sharing arrangements and cooperation contracts, such as (i) the offer of participating interest to regional government-owned companies, (ii) the recovery of investment cost and operational cost, and (iii) our Company's payment obligation to the Government.

In 2012, the President of Indonesia issued Presidential Instruction No. 2 of 2012 on Increase of National Oil and Gas Production ("Presidential Instruction No. 2"). Presidential Instruction No. 2 instructed certain ministries, National Land Office, head of BPMIGAS, governors, mayors, heads of regency to take necessary, coordinated and integrated measures to support the government's plan to increase the national oil and gas production at least 1.01 million barrel per day in 2014. Under Presidential Instruction No. 2, SKK MIGAS, as successor to BPMIGAS, has certain obligations, among others (i) to complete the process approvals for plan of development, work program and budget, authorization for expenditure within a certain period set out under Presidential Instruction No. 2, after submission by a contractor under a PSC; (ii) to complete procurement of goods and services within certain days as set out under Presidential Instruction No. 2; (iii) to increase the efficiency of operational and optimize production facilities; and (iv) to optimize suspended wells.

Set out below are the most common types of contracts in the Indonesian oil and gas sector:

*PSCs*

PSCs were the primary production sharing arrangement used prior to the Oil and Gas Law of 2001 to award contractors the rights to explore for oil and gas reserves prior to commercial production. PSCs were awarded for a term specified by contract, subject to the discovery of commercial quantities of oil and/or gas within a certain period. PSCs created under the prior regulatory framework will remain effective until they are terminated on their own terms. Under a PSC, a contractor is generally required to relinquish specified percentages of the initial contract area by specified dates, except for the areas where oil and gas have been discovered.

SKK MIGAS has replaced PERTAMINA as the Government party to all existing PSCs. SKK MIGAS is responsible for managing all PSC operations; assuming and discharging the contractor from all taxes, other than Indonesian corporate taxes (including the tax on interest, dividends and royalties); obtaining the required approvals and permits; and approving the contractor's work program, budget and plan of development (except the initial plan of development). The responsibilities of a contractor under a PSC generally include advancing necessary funds and capital expenses related to the project, furnishing technical aid and preparing and executing the work program and budget.

Under each PSC, the contractor and SKK MIGAS share the total production in any given period in a ratio agreed between the parties under the terms of that PSC. The contractor generally has the right to recover all funding and development costs, as well as operating costs, against available revenues generated by the PSC after deduction of FTP. Under FTP terms, the parties are entitled to receive a specified portion of total production each year from each production zone or formation, before any deduction for recovery of operating and other costs. The contractor is obligated to pay Indonesian corporate taxes on its specified profit share, including FTP, either at the Indonesian corporate tax rate in effect at the time the PSC is executed or at the prevailing tax rate pursuant to the PSC.

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

All PSCs in Indonesia are subject to DMO, under which the contractor is required to supply the domestic market at a reduced price with 25% of the contractor's share of total crude oil production under the relevant PSC. This reduced price varies among each PSC, but is in each case calculated at the point of export. Under the prior regulatory framework, DMO did not apply to natural gas production. Under the Oil and Gas Law of 2001, DMO now also applies to natural gas production.

On January 27, 2010, the Government implemented Regulation of the Minister of Energy and Mineral Resources No. 03/2010 ("MR No. 03/2010"). MR No. 03/2010 sets out the Government's policy in relation to the allocation and utilization of natural gas supplied under DMO for domestic consumption and establishes allocation priority towards certain industries, taking into account regional requirements. Such industries include the oil and gas industry, the fertilizer industry and the power industry. The enactment of MR No. 03/2010 does not affect the validity of allocation and utilization obligations pursuant to DMO in existing PSCs.

Prior to the enactment of the Oil and Gas Law of 2001, each PSC contained a right for PERTAMINA to demand from contractors a specified percentage (generally 5% to 10%) of their total rights and obligations under that PSC, which is to be offered to either PERTAMINA or a limited liability company designated by PERTAMINA, the shareholders of which must be owned by Indonesian nationals (the "Indonesian Participation Arrangements" or "IPs"). This right lapses if not exercised by PERTAMINA within three months after contractors notify PERTAMINA of their first discovery of petroleum or gas which can be developed commercially within the contract area. Each cooperation contract executed after the date of enactment of the Oil and Gas Law of 2001 similarly contains a right for SKK MIGAS to demand from contractors a specified percentage (generally 10%) of their total rights and obligations under that cooperation contracts, which is to be offered to either a local government-owned company to be designated by the local government within which the contract area is located or an Indonesian national company to be designated by the Ministry of Energy and Mineral Resources.

Upon and in consideration for the exercise of such rights, the party whom the right is exercised in favor of reimburses the relevant contractors for an amount equal to that specified percentage of the sum of the costs incurred up to the date of the transfer under the PSC or the cooperation contract, as the case may be. Such reimbursement includes proportion of the compensation bonus and production bonuses previously paid by the relevant contractors. These amounts are to be paid either directly to the relevant contractors in cash or through production installments, depending on the terms of the relevant PSC or cooperation contract.

On December 20, 2010, the Government issued Government Regulation No. 79 regarding Cost Recovery and Income Tax Treatment in the Upstream Oil and Gas Business ("GR 79/2010"). GR 79/2010 regulates cost recovery under PSCs or cooperation contracts, supplementing the standard provisions relating to cost recovery set out in such contracts. Under GR 79/2010, certain requirements are established for the reimbursement of operational costs. Among other things, the petroleum operation must be in conformity with the work program and budget approved by SKK MIGAS for operational costs to be reimbursable. GR 79/2010 contains transitional provisions permitting provisions in PSCs or cooperation contracts entered into prior to its enactment to remain effective. To the extent that such provisions do not clearly regulate certain matters governed by GR 79/2010, GR 79/2010 will apply to the contract.

The cooperation contracts that have replaced the production sharing arrangements (including PSCs) in existence prior to the Oil and Gas Law of 2001 are also commonly referred to as "production sharing contracts" and share many of the characteristics of PSCs described above. Please see "— Upstream — Cooperation Contracts" for more information on these contracts.

*TACs*

TACs are another form of production sharing arrangement created under the regulatory framework that preceded the Oil and Gas Law of 2001. TACs were awarded for fields having prior or existing production and are valid for a specified term. The oil or gas production is divided into non-shareable and shareable portions. The non-shareable portion represents the production which is expected from the field (based on historic production) at the time the TAC is signed. Under a TAC, the non-shareable portion declines annually. The shareable portion corresponds to the additional production resulting from the operator's investment in the field and is further split in the same way as for a PSC. The Upstream Regulation provided that existing TACs remain with PERTAMINA (now PT Pertamina (Persero)) and are not renewable after the expiry of the initial term.

*JOBs*

JOBs are another form of production sharing arrangement created under the regulatory framework that preceded the Oil and Gas Law of 2001. In a JOB, operations are conducted by a JOB headed by the Issuer and assisted by one or more private sector energy companies through their respective secondees to the JOB. In a JOB, the Issuer is entitled to a specified percentage of the working interest in the project. The balance, after production is applied towards cost recovery and cost bearing as between the

Issuer and the private sector participants, is the shareable portion which is generally split in the same way as for an ordinary PSC. Unlike TACs, the Upstream Regulation transferred the rights to operations under existing JOBs from the Issuer to SKK MIGAS by law. However, the working interest that was held by PERTAMINA under the JOB was transferred to our Company. JOBs are not renewable after the expiry of their initial term.

*Cooperation Contracts*

The Oil and Gas Law of 2001 has replaced production sharing arrangements with cooperation contracts. These cooperation contracts can be similar in form to production sharing arrangements, but may be in a different form. Regardless of the form, certain key principles remain the same as the PSCs. For example, title over resources in the ground remains with the Government (and title to the oil and gas lifted for the contractor's share passes at the point of transfer, usually the point of export), ultimate management control is with SKK MIGAS, and capital requirements and risks are to be assumed by the contractors. These cooperation contracts are to be entered into with SKK MIGAS and thereafter notified in writing to the Parliament. Only one working area will be given to any legal entity. Cooperation contracts can be made for a maximum term of 30 years and can be extended for a maximum of 20 years. Cooperation contracts are divided into exploration and exploitation stage. The exploration stage is for a term of six years, subject to only one extension for a maximum of four years.

The Upstream Regulation reiterates the Indonesian Participation Arrangement obligation in cooperation contracts, although the procedure for, and timing of, offering such an interest has been modified. The Minister of Energy and Mineral Resources has a right to request that a contractor who wishes to sell its participating interest under a production sharing arrangement grant a right of first offer to national enterprises such as regional government-owned companies, central government-owned companies, cooperatives, small scale businesses and Indonesian companies wholly-owned by Indonesians. Under the Upstream Regulation, such an offer must be made on an "arms-length" basis. These modifications are applicable only to the cooperation contracts entered into after the issuance of the Oil and Gas Law of 2001.

***Coal Bed Methane***

The Upstream Regulation introduced regulations on CBM. CBM is defined as natural gas (hydrocarbon) with methane gas as its main component, naturally brought about in the coalification process in a trapped and absorbed condition in coal and/or coal layers. The Upstream Regulation states that the development of CBM shall be regulated by Ministerial Decree.

On November 12, 2008, the Minister of Energy Mineral Resources issued Regulation No. 36 of 2008 regarding exploitation of CBM (the "CBM Regulation"). The CBM Regulation confirms that CBM is a non-renewable strategic natural resource that constitutes a national asset controlled by the Government. Control over CBM assets is exercised by the Government in the form of mining concessions. The management and development of CBM tracks the regulations in the oil and gas business, while oversight and supervision of CBM activities is centralized in the DGOG. The procedures for the award of work areas of CBM track the same regulations applicable to conventional oil and gas business.

According to the CBM Regulation, there are three areas in which CBM may be exploited:

- an open area;
- a working area of oil and/or gas; and/or
- a concession area of coal with a maximum size of 3,000 $km^2$.

If the CBM to be exploited is located in an existing working area of oil and/or gas subject to the PSC, the CBM Regulation grants the existing contractors under the PSC first priority in the right to exploit CBM in the CBM. Such contractors must (i) fulfill its commitment to explore for oil and/or gas in such area for the first three years pursuant to the PSC; (ii) perform a joint evaluation of the CBM reserves with the DGOG; and (iii) submit to the DGOG a proposal to acquire interest in such CBM working area.

***Geothermal Regulation***

The geothermal energy industry in Indonesia was previously regulated under Presidential Decree No. 22 of 1981, as amended by Presidential Decree No. 45 of 1991 (the "Old Geothermal Regulation"). Under the Old Geothermal Regulation, which was based on a "total project" concept, PERTAMINA was authorized to undertake exploration and exploitation of geothermal energy resources, to generate electricity from the geothermal energy, and to sell the geothermal energy and/or electricity produced to PLN and other buyers. Therefore, under the Old Geothermal Regulation, when a contractor under a JOC with Pertamina discovered geothermal energy reserves in a commercial quantity as agreed under the JOC and the electricity sales contract, the contractor was automatically allowed under the JOC to exploit the geothermal energy, generate electricity from such geothermal energy and sell the electricity (or the geothermal energy) to PLN.

The Old Geothermal Regulation was revoked by Presidential Decree No. 76 of 2000 ("PD 76"), and Law No. 27 of 2003 concerning Geothermal Energy ("Law 27"), and as a result, geothermal contractors no longer enjoy the automatic right to exploit discovered geothermal energy reserves and sell the electricity to PLN. Under PD 76, the activities governed by the Old Geothermal Regulation regime was divided into two different business activities: (i) the exploration for and exploitation of geothermal energy; and (ii) the generation of electricity from geothermal energy.

The exploration and exploitation of geothermal energy is regulated by Law 27. In November 2007, GR 59 was enacted to implement Law 27. Each of PD 76, Law 27 and GR 59 states that all cooperation contracts for the exploration and exploitation of geothermal resources executed prior to the effectiveness of each of PD 76, Law 27 or GR 59 shall remain in force until the expiry of such contract. However, if the geothermal working area existed prior to GR 59 and there was no cooperation contract relating to such area or exploitation activity in the working area by December 31, 2014, then the holders of such authority, permit or contract are obliged to return the relevant working area to the Government in accordance with GR 59.

Under Law 27, a legal entity (in the form of a state-owned company, regional state-owned company, cooperative or private legal entity located and conducting its business activities in Indonesia) is required to obtain a Geothermal Utilization License (*Izin Usaha Pertambangan Panas Bumi*, "IUP") in order to utilize geothermal energy. The IUP may be issued by the Minister of Energy and Mineral Resources, governor or mayor/head of regent of a particular area. Geothermal energy utilization is categorized as either direct or indirect utilization. Under direct utilization, geothermal energy is used for a purpose other than generating electricity, such as drying out plantation crops or as a direct energy source for water heaters. Under indirect utilization, geothermal energy is used to generate electricity. Law 27 does not specifically regulate the direct utilization of geothermal energy, which is expected to be the subject of a government regulation to be issued in the future. However, the indirect utilization of geothermal energy in order to produce electricity is specifically governed under Law No. 30 of 2009 on Electricity ("Law 30").

Under Law 30, a company must obtain a business license or an operation license from the Government or applicable regional government in order to supply electricity (which includes the generation, transmission, distribution and sale of electricity). A business license is required for a company that primarily provides electricity to the public, while an operation license is required for a company that sells electricity in excess of its private use to the public. A holder of a business license must (i) provide electric power according to the prevailing quality and reliability standards set forth by the Government, (ii) provide high levels of service to the public and its consumers, (iii) comply with electricity safety regulations, and (iv) prioritize domestic products and labor for use in its business.

Companies wishing to sell their electricity must enter into a power purchase agreement with PLN. In accordance with Law 30, the electricity sales tariff for such sales will be determined by the Government, subject to the approval of the House of Representatives (*Dewan Perwakilan Rakyat*) or determined by guidelines set by the Government, subject to the approval of the Regional House of Representatives (*Dewan Perwakilan Rakyat Daerah*), as applicable for the relevant sales area. In the event that the Regional House of Representatives is unable to determine the electricity sales tariff, then the Government, subject to approval of the House of Representatives, will then determine the electricity sales tariff for the applicable area. Pursuant to Regulation of Minister of Energy and Mineral Resources No. 22 of 2012 on the Assignment to PLN to Execute Purchase of Electricity from Geothermal Power Plant and Ceiling Price for Electricity Purchase by PLN from Geothermal Power Plant, PLN is authorized to purchase electricity from geothermal power generators owned by legal entities that are valid holders of geothermal business licenses, concessions, and contracts, as specified in the decree. The price for PLN to purchase electricity produced from geothermal energy mining is also regulated by the decree and varies depending on the location of the geothermal working areas, ranging from US$10 cent/KWh to US$17 cent/KWh for the purchase of high voltage electricity and US$11.5 cent/KWh to US$18.5 cent/KWh for the purchase of medium voltage electricity.

***Downstream***

Under the Downstream Regulation, downstream oil and gas business activities include processing, transportation, storage and trading:

*Processing*

Under the Downstream Regulation, processing is defined as activities carried out to refine crude oil and natural gas, obtaining parts of oil and gas products and improving the quality and the value of crude oil and natural gas to produce fuel oil, gas fuel, processed products, LPG and/or LNG. Field processing is excluded from this definition by the Downstream Regulation as it is considered an aspect of exploration and exploitation activities. Pursuant to the Downstream Regulation, the processing of natural gas into LNG is considered a downstream business activity if it is intended to obtain gain and/or profit and is not the continuation of upstream business activities.

*Transportation*

Transportation covers the activities of transferring crude oil, fuel oil, gas fuel and processed products whether through land, water and/or air, including the transportation of natural gas through transmission and distribution pipelines, for commercial purposes.

*Storage*

Storage covers the activities of receiving, collecting, stocking up and discharging of crude oil, fuel oil, gas fuel and processed products located above and/or under the land surface and/or water surface for commercial purposes.

*Trading*

Trading covers the purchase, sales, exportation and importation of crude oil, fuel oil, gas fuel and processed products, including trading of natural gas through pipelines.

Pursuant to the Downstream Regulation, trading business activities are divided into two types:

- *General trading (wholesale):* sales, purchase, export and import activities of fuel oil, gas fuel, other fuel and/or processed products on a large scale, by an entity that controls or owns storage facilities and holds a General Trading (Wholesale) Business License, which authorizes the holder to distribute the products to end consumers using a certain trademark used or owned by the holder; and

- *Limited trading (trading):* sales, purchasing, export and import activities of fuel oil, gas fuel, other fuel and/or processed products on a large scale, by an entity that does not control or own storage facilities and holds a Limited Trading Business License, which authorizes the holder only to distribute products to consumers/users that control/own port facilities and/or receiving terminals.

*Licenses*

Pursuant to the Oil and Gas Law of 2001 and the Downstream Regulation, in order to conduct oil and gas downstream business activities, a business entity must first obtain a business license from the Minister of Energy and Mineral Resources. A business license shall only be granted to a business entity that has complied with all applicable administrative and technical requirements.

In line with the four types of downstream business activities, there are four types of business licenses (each, a "Business License"):

- Processing Business License;

- Transportation Business License;

- Storage Business License; and

- Trading Business License, which is either a General Trading (Wholesale) Business License or a Limited Trading (Trading) Business License.

If a business entity conducts processing activities with transportation, storage and/or trading activities as a continuation of such processing activities, it only needs to obtain a Processing Business License. However, if transportation, storage and/or trading activities are conducted by a business entity other than as the continuation of any processing activities, it must obtain the respective Transportation, Storage or Trading Business Licenses separately.

The ultimate authority to grant Business Licenses belongs to the Minister of Energy and Mineral Resources, through the DGOG. However, under the Oil and Gas Law of 2001, if oil and gas downstream business activities relate to regional interests, the Minister of Energy and Mineral Resources may consult with the relevant regional government and issue a Business License upon its recommendation. In addition, as provided in the Downstream Regulation, the Minister of Energy and Mineral Resources may delegate its authority to grant a Business License for certain activities to regional governments, related government institution and/or the Investment Coordinating Board of the Republic of Indonesia (*Badan Koordinasi Penanaman Modal*) ("BKPM"). The delegation of authority is undertaken for efficiency and cost reduction purposes. In ascertaining whether to delegate authority, the Minister assesses the capabilities of the relevant business entity as well as factors such as foreign ownership and whether investment facilities are utilized. To date, there has been only one delegation of authority by the Minister of Energy and Mineral Resources to BKPM to, among other things, permit the alteration of certain fiscal facilities (such as duties and tax rates) and certain corporate changes (such as a changes in shareholding and board structure).

*PSO*

Under the Oil and Gas Law of 2001, the Government is responsible for the distribution of oil and gas products within Indonesia. This obligation is commonly known as the public service obligation.

Prior to the enactment of the Oil and Gas Law of 2001, PERTAMINA was the sole entity allowed to conduct activities pursuant to the PSO. However, after the enactment of the Oil and Gas Law of 2001 and the passage of Presidential Regulation No. 71 of 2005, as amended by the Presidential Regulation No. 45 of 2009 on the Supply and Distribution of Certain Type of Oil, a business entity can be appointed by the Government to conduct activities pursuant to the PSO by a direct appointment or through a tender process. In conducting the PSO, the relevant business entity is prohibited from exporting certain types of oil products that are required to be supplied and distributed for PSO purposes as long as domestic demand has not been met. However, such business entity may import, subject to the approval from the Minister of Trade, such oil products if the domestic production is not sufficient to fulfill the demand in Indonesia.

The appointment of the legal entity to supply certain types of oil to fulfill the domestic demand is regulated under Decree of BPH MIGAS No. 09/P/BPH MIGAS/XII/2005, as amended with Decree of BPH MIGAS No.18/P/BPH MIGAS/V/2009 on the Appointment of the Legal Entity to Supply and Distribute Certain Type of Oil. Under this decree, the appointment of the business entity can be conducted either directly or through a tender process. The appointed business entity must meet the following criteria:

- it must have a General Trading (Wholesale) Business License of Certain Types of Oil Fuels (*Ijin Usaha Niaga Umum Jenis BBM Tertentu*) for each of the specific types of refined oil products it will sell as well as a Business Registration Number (*Nomor Registrasi Usaha*);

- it must have an agreement with a distributor for the PSO products who has obtained a Distributor Registration Number (*Nomor Registrasi Penyalur*);

- it must own and/or control the storage, transportation and sales facilities required to supply the specified quantity for the designated area;

- it is fully operational and conducts provision and distribution activities in at least two commercial distribution areas (*Wilayah Distribusi Niaga*);

- it has operational reserves in the storage tanks located in Indonesia and is able to maintain fuel supplies through storage, transportation and selling facilities owned by it within its designated area;

- it has and/or owns a distribution network within its designated area;

- it has financial and commercial ability to carry out its obligations under the PSO;

- it has financial statements audited by an independent public accountant; and

- it has complied with the terms and conditions stipulated by BPH MIGAS.

The appointment of the PSO distributor will be set forth in a decree by BPH MIGAS, which will specify the following information: the rights and obligations of the appointed business entity; the term of appointment; the volume and type of refined oil products to be distributed; the price threshold, being the monthly calculated price based on the average MOPS for the previous month plus a fixed margin as determined by the Minister of Energy and Mineral Resources; the regulated retail price, being the price for the relevant products at the point of delivery as determined by the Minister of Energy and Mineral Resources; payment procedures; the area designated; assignment of rights and obligations; and force majeure conditions.

Based on Presidential Regulation No. 15 of 2012 on the Retail and Consumer User of Certain Type of Oil Fuels Prices ("Presidential Regulation No. 15"), the retail price of fuel (kerosene, gasoline (RON 88) and gas oil) is determined by the government by taking into consideration the national policies on energy and state budget, which may be increased or decreased as the case may be. Pursuant to Presidential Regulation No. 15, the regulated retail price for certain consumers has been fixed as Rp. 4,500 per liter for gasoline (RON 88) and gas oil and Rp. 2,500 per liter for kerosene.

**Indonesian Regulation of Offshore Borrowings**

Pursuant to Presidential Decree No. 39/1991, we are required to obtain prior approval from the PKLN Team to receive offshore borrowings and must submit periodic reports to the PKLN Team. However, the decree does not stipulate either the time frame or the format and the content of the periodic report that must be submitted. Under Presidential Decree No. 59/1972, dated October 12, 1972 ("PD 59/1972"), we are required to obtain approval from the Minister of Finance of Indonesia and report the particulars of our offshore commercial borrowings to the Minister of Finance of Indonesia and Bank Indonesia, on the acceptance, implementation, and repayment of principal and interest. In practice, this approval from the Minister of Finance under PD 59/1972 is considered to have been obtained when approval from the PKLN Team is received because the Minister of Finance is a member of the PKLN Team. Ministry of Finance Decree No. KEP-261/MK/IV/5/1973 dated May 3, 1973, as amended by the Ministry of Finance Decree No. 417/KMK.013/1989 dated May 1, 1989 and the Ministry of Finance Decree No. 279/KMK.01/1991 dated March 18, 1991, as the implementing regulation of this PD 59/1972, further sets forth the requirement to submit periodic reports to the Minister of Finance of Indonesia and Bank Indonesia on the effective date of the contract and each subsequent three-month period.

On December 21, 2012, Bank Indonesia enacted Bank Indonesia Regulation No. 14/21/PBI/2012 regarding the Reporting of Foreign Exchange Activities ("PBI No. 14/21"). PBI No. 14/21 which stipulates reporting obligations to Bank Indonesia in relation to foreign exchange activities and proposed obtaining and/or realization of offshore borrowing. PBI No. 14/21 replaces Bank Indonesia Regulation No. 12/24/PBI/2010 dated December 29, 2010 and Bank Indonesia Regulation No. 12/1/PBI/2010 dated January 28, 2010 effective as of August 1, 2013.

PBI No. 14/21 also replaces Bank Indonesia Regulation No. 13/15/PBI/2011 dated June 23, 2011 regarding the Monitoring of Foreign Exchange Activities of Non-Bank Institution, as implemented by the Circular Letter of Bank Indonesia No. 13/21/DSM regarding the Reporting of Foreign Exchange Activities of Non-Bank Institution from January 1, 2013. According to PBI No. 14/21, any non-financial institution (including state-owned enterprises, such as the Issuer) which carries out foreign exchange activities must submit an online (or in any other way offline if there is a technical problem) report to Bank Indonesia in a timely and accurate manner as follows:

(a) as implemented by Bank Indonesia Circular Letters No. 15/16/DINT TAHUN 2013 dated April 29, 2013, for obtaining offshore commercial borrowings or issue debt securities. These reports consist of the main data report which must be submitted to Bank Indonesia no later than the fifteenth day of the month following the signing of the loan agreement or the issuance of the debt securities and a monthly realization data report which must be submitted to Bank Indonesia no later than the fifteenth day of each month.

(b) as implemented by Bank Indonesia Circular Letter No. 15/17/DINT TAHUN 2013 dated April 29, 2013, in the event the debtor intends to obtain a long term offshore borrowing in foreign currency and/or Rupiah, it will be required to submit a report on its plan to Bank Indonesia (not later than March 10 of each year) which consists of its (i) financial ratios, (ii) financial statement, (iii) a rating assessment (in the event that the debtor has a rating assessment), (iv) an offshore commercial borrowing plan for one year and (v) the result of risk management analyses made by the debtor, and a report on the financial information must be submitted to Bank Indonesia for any offshore borrowings in every six months at the latest June 15 and December 15. Any failure by the debtor to submit the required report will subject the debtor to certain administrative sanctions in the form of fines, warning letters and/or being reported to the relevant authorities.

(c) as implemented by Bank Indonesia Circular Letter No. No. 15/5/DSM TAHUN 2013 dated March 7, 2013, for the following transactions: (i) trade transactions of goods and services and other transactions between residents and non-residents, (ii) positions held and changes in offshore financial assets covering position and increment or decrease of all assets which are of the claim against non-resident as stated in the financial statement and bookkeeping, (iii) positions held and changes in equities of non-resident and other related liabilities, (iv) positions held and changes in offshore derivative liabilities, (v) offshore commitment and contingency positions report, and (vi) custodian customer's commercial paper positions report. This report must be submitted to Bank Indonesia on a monthly basis, no later than the fifteenth day of the following month.

Failure to submit such reports will result in certain administrative sanctions in the form of warning letters and/or notifications to the relevant authority.

In 2012, Bank Indonesia issued Bank Indonesia Regulation No. 14/25/PBI/2012 regarding the Receipt of Foreign Exchange from Export Proceeds and Withdrawal of Offshore Borrowing Foreign Exchange ("PBI No. 14/25"). Under PBI No. 14/25 and Bank Indonesia Regulation No. 13/22/PBI/2011 regarding the Reporting Obligation of Withdrawal of Offshore Borrowing ("PBI No. 13/22"), any offshore borrowing in the form of cash originated from (i) a non-revolving loan agreement that is not for refinancing purposes, (ii) any difference between the refinancing facility amount and the original facility amount and (iii) offshore debt securities in the form of bonds, medium term notes, floating rate notes, promissory notes and commercial paper, must be withdrawn by the debtor through a bank appointed by Bank Indonesia to conduct foreign exchange banking activities (each an "Onshore Account").

The aggregate amount of offshore borrowing withdrawn should be equal to the total commitment granted by the creditor or lender under the relevant offshore borrowing agreement. In the event that the aggregate amount withdrawn through an Onshore Account is less than the total committed amount under the commitment, the debtor must submit a written explanation to the Bank Indonesia prior to the maturity date on such shortfall. If the debtor fails to do so, it will be deemed not to have withdrawn that amount through an Onshore Account.

Any withdrawal of the above-mentioned offshore borrowings will have to be reported to Bank Indonesia on the first to tenth day of the following month accompanied with any supporting documents evidencing that the withdrawal has been made through an Onshore Account. If the amount of the offshore borrowing is equal to the amount of loan(s) that will be refinanced, the debtor will be exempted from the reporting obligations under PBI No. 14/25 and PBI No. 13/22. If there is any discrepancy between the proceeds of the offshore borrowing and the facilities to be refinanced, the debtor will not be exempted from such reporting obligations.

The withdrawal of an offshore borrowing arising out of an offshore borrowing agreement executed before January 2, 2012 does not have to be made through an Onshore Account. The requirement to withdraw an offshore borrowing through an Onshore Account will however also apply to any amendments of principal offshore borrowing amounts dated after January 2, 2012 which relates to offshore borrowing agreements executed prior to January 2, 2012.

The following administrative sanctions apply to failures to comply with the requirement under PBI No. 14/25 and PBI No. 13/22:

(a) if the debtor does not withdraw the offshore borrowing through an Onshore Account, the debtor shall be subject to administrative sanctions in the form of penalties amounting to Rp. 10 million for each non-compliant withdrawal of the offshore borrowing; and/or

(b) if the debtor is late in submitting the report of the offshore borrowing withdrawal as well as the supporting documents on the tenth day of the month following the offshore borrowing withdrawal, the debtor is subject to administrative sanctions in the form of penalties amounting to Rp. 100,000 for each day of delay, up to a maximum penalty of Rp. 10 million. The debtor will be deemed to have failed to submit the report if it is submitted more than six months after the deadline and shall be subject to administrative sanctions in the form of penalties of Rp. 10 million.

**Environmental Regulation**

Environmental protection in Indonesia is governed by various laws, regulations and decrees. In 2009, the New Environmental Law was issued, replacing the previous regulatory framework. However, the previous regulations, Regulation of the State Minister of Environmental Affairs No. 05 of 2012 on businesses and/or action plans which must be completed with AMDAL ("Regulation 05") and Decree of the MEMR No. 1457 K /28/MEM/2000 on "Technical Guidelines for Environmental Management in the Field of Mining and Energy" ("Decree 1457") are still applicable as long as they do not conflict with the New Environmental Law. There are some implementing regulations in respect of the New Environmental Law that have been issued, particularly with respect to AMDAL, i.e. (i) Minister of Environment Regulation No. 13 of 2010, which was enacted on May 7, 2010 ("Regulation 13"), which regulates activities that do not require an AMDAL and (ii) Government Regulation No. 27 of 2012 on Environmental Permit (*Izin Lingkungan*) ("Regulation No. 27"). Regulation No. 27 was enacted on, and has been into force as of February 23, 2012 and revokes the previous Government Regulation No. 27 of 1999 on AMDAL.

Regulation 05 and Decree 1457 stipulate, among other matters, that companies whose operations have an environmental or social impact must obtain and maintain an AMDAL document if it meets certain environmental thresholds. The AMDAL document consists of the terms of reference on environmental impact analysis (*Kerangka Acuan Analisis Dampak Lingkungan*), an environmental impact analysis (*Analisis Dampak Lingkungan*), an environmental management plan (*Rencana Pengelolaan Lingkungan*) and an environmental monitoring plan (*Rencana Pemantauan Lingkungan*). If a company has an environmental or social impact but does not reach the threshold where an AMDAL document is required, under Decree 1457 and Regulation 13, a UKL and a UPL must be prepared by the company. However, if the activity does not need an AMDAL, a UKL or a UPL, then the company must execute a letter to commit to the management and supervision of the environment (*Surat Pernyataan Kesanggupan Pengelolaan dan Pemantauan Lingkungan Hidup*), as required under the

New Environmental Law and Regulation 13. Pursuant to the New Environmental Law, any company which obtains an AMDAL, a UKL or a UPL must also submit an application to obtain an environmental permit (*Izin Lingkungan*), which is issued by the State Ministry of Environmental Affairs, Governor, or mayor/head of regency (in accordance with their respective authorities). The granting of this permit is based on either (i) an environmental feasibility study carried out by an independent third party, which is approved by the AMDAL Assessment Commission (*Komisi Penilai Amdal*), the State Minister of Environmental Affairs, the Governor or mayor/head of regency, as appropriate or (ii) a recommendation in a UKL and UPL issued by the appropriate government or regional government institution responsible for the environmental management and control of the applicable area.

The New Environmental Law stipulates that within two years after its enactment date on October 3, 2009, all businesses that have business licenses, but do not have an AMDAL document or a UKL and a UPL, are obligated to either carry out and complete an environmental audit, if they need an AMDAL, or to prepare an environment management document, if they need a UKL and a UPL. Furthermore, the New Environmental Law obliges businesses to integrate their current environmental management permits (for example, the Toxic and Hazardous Management Permit (*Izin Pengelolaan Limbah B3*), Waste Water Disposal to Sea Permit (*Izin Pembuangan Air Limbah Ke Laut*) and Waste Water Disposal to Water Resources Permit (*Izin Pembuangan Air Limbah Ke Sumber Air*)) issued by either the minister, governor or mayor, into an environmental permit within a year of the enactment of the New Environmental Law. The environmental permit is required for a business license to be obtained.

Based on the New Environmental Law, remedial and preventative measures and sanctions (such as the obligation to rehabilitate the working areas, the imposition of substantial criminal penalties and fines and the cancellation of approvals) may also be imposed to remedy or prevent pollution caused by the operations of a company. The sanctions range from one to 15 years of imprisonment for company management and/or fines ranging from Rp. 500 million to Rp. 15 billion. A monetary penalty may be imposed in lieu of performance of an obligation to rehabilitate damaged areas.

The New Environmental Law also requires licensing of all waste disposal, storage and handling activities. Waste disposal may only be conducted in specified locations determined by the State Minister of Environment. Waste water disposal is further regulated by Government Regulation No. 82 of 2001 on Water Quality Management and Water Pollution Control. This regulation requires responsible parties to submit reports regarding their disposal of waste water detailing their compliance with the relevant regulations. Such reports are to be submitted to the relevant mayor or regent, with a copy provided to the State Minister of Environment, on a quarterly basis.

Regulation No. 27 provides that activities that are subject to AMDAL or UKL and UPL will require an environmental permit. Regulation No. 27 also requires an application for an updated environmental permit to be submitted if there is any, among other things, (a) change of usage of the production machines that affect the environment, (b) increase in production capacity, (c) change in the facilities of the business and/or activity and (d) change in the operational period of the business and/or activity. Regulation No. 27 further provides that all existing environmental documents/licenses issued prior to Regulation No. 27 remain valid and will be treated as the environmental permit.

The activities of storing and collecting used lubricant oil is further regulated by the Decree of the Head of the Regional Environmental Impact Controlling Agency (*Badan Pengendalian Dampak Lingkungan Daerah*) No. 255 of 1996 on the Procedure on the Storing and Collecting of Used Lubricant Oil, which provides, among other things, that an entity which collects used oil for further use or processing must comply with certain requirements, including obtaining a license; meeting certain specifications with regard to the buildings where used oil is to be stored; setting up a standard procedure for the collection and distribution of used oil; and submitting quarterly periodic reports with regard to these activities.

Other regulations, including Government Regulation No. 18 of 1999, as amended by Government Regulation No. 85 of 1999 on the Management of Hazardous and Toxic Waste Materials and Government Regulation No. 74 of 2001 on the Management of Hazardous or Toxic Materials relating to the management of certain materials and waste must be also observed. Flammable, poisonous or infectious waste are subject to these regulations unless the company can prove scientifically that it falls outside the categories set forth in such regulation. These regulations require a company that uses such materials or produces waste to obtain a license from the State Minister of Environment or other environmental governmental institutions in order to store, collect, utilize, process and/or stockpile such waste. If a company violates the regulations relating to such waste, this license may be revoked and the company may be required to cease operations.

# BUSINESS

## Overview

We are a fully integrated national oil, gas and geothermal company, wholly-owned by the Government and headquartered in Jakarta, Indonesia. We have an operating history of more than 56 years. We were established on December 10, 1957 and became an Indonesian limited liability company in 2003.

We are engaged in a broad spectrum of upstream and downstream oil, gas, geothermal, petrochemical and other energy operations. Our lines of business are organized into upstream and downstream sectors in accordance with Indonesian oil, gas and geothermal regulations. In the upstream sector, we engage in the exploration (the search for oil, gas and geothermal energy), development (the drilling and bringing into production of wells in addition to the discovery wells in a field) and production and supply of crude oil, natural gas and geothermal energy in Indonesia and internationally. In the downstream sector, we carry out refining, marketing, distribution and trading of crude oil, natural gas, refined fuel products and petrochemical and other non-fuel products such as green coke, including products for retail, industrial and aviation uses. We are also mandated by the Government to distribute subsidized fuel, LPG and CNG in Indonesia and to assist in its efforts to encourage the use of LPG as a substitute for kerosene in Indonesian households under the kerosene conversion program and to encourage the use of CNG as an alternative fuel.

As of December 31, 2013, our total net proved oil and gas reserves were an estimated 3,547.2 mmboe and our total net proved plus probable oil and gas reserves were an estimated 4,643.9 mmboe. We have one of the largest oil and gas reserve bases in Indonesia and have the largest number of exploration and production blocks and the most own-operated work area acreage across Indonesia among all oil and gas companies, with a total net acreage of 113,629.8 km$^2$ as of December 31, 2013.

In 2013, we were one of the largest oil and gas producers in Indonesia, with a total daily oil and gas production of 465.9 mboe/d. We also have significant geothermal resources and an extensive distribution network of gas pipelines. We have a portfolio of six refineries with total refining capacity of 1,031 mbbls/d and significant downstream assets and infrastructure, including fuel stations, fuel terminals, LPG filling plants, aviation fuel depots, lube oil blending plants, tankers and CNG refueling stations.

Prior to September 2003, we also regulated all aspects of the oil, gas and geothermal industry on behalf of the Government. Under the Oil and Gas Law of 2001, BPMIGAS and BPH MIGAS were established to regulate the upstream and downstream sectors of the Indonesian oil and gas industries, respectively, and we transferred our regulatory responsibilities to BPMIGAS and BPH MIGAS when we became an Indonesian limited liability company in October 2003. BPMIGAS was dissolved by a decision of the Indonesian Constitutional Court on November 13, 2012 and the President of Indonesia established SKK MIGAS, an interim body which has assumed the functions and responsibilities of BPMIGAS. See "Indonesian Regulatory Framework" for more details on the establishment of SKK MIGAS. Following the enactment of the Oil and Gas Law of 2001, we have restructured our business into upstream and downstream sectors operated through separate subsidiaries. See "Corporate Structure" and "Relationship with the Government — History" for details of our history and corporate structure.

For the fiscal years ended December 31, 2011, 2012 and 2013, we had consolidated sales and other operating revenue of US$67,297.4 million, US$70,924.4 million and US$71.102.1 million, respectively. For the fiscal years ended December 31, 2011, 2012 and 2013 we had income for the year of US$2,405.3 million, US$2,765.7 million and US$3,067.1 million, respectively.

## Business Strengths

### *The Only Fully Integrated Indonesian Oil and Gas Company*

We are the only fully integrated Indonesian oil and gas company, and we have a leading market position in both the Indonesian upstream and downstream markets, providing for full integration across the oil and gas value chain.

*Leading upstream oil and gas player in Indonesia.* We have one of the largest oil and gas reserve bases in Indonesia, with estimated total net proved oil and gas reserves of 3,547.2 mmboe and estimated total net proved plus probable oil and gas reserves of 4,643.9 mmboe, as of December 31, 2013. Based on our 2013 daily production, we were among the largest oil and gas producers in Indonesia, with a total daily oil and gas production of 465.9 mboe/d. We have the largest number of exploration and production blocks and the most own-operated acreage in Indonesia, with a total net acreage of 113,629.8 $km^2$ as of December 31, 2013.

*Dominant oil refining, marketing and trading company in Indonesia*. Our comprehensive downstream portfolio significantly complements our upstream strengths. We are the dominant refining company in Indonesia, and we own and operate six refineries with a combined processing capacity of 1,031 mbbls/d. We also currently enjoy a near-total market share in the domestic fuel storage, transportation, marketing and distribution markets and have a near-total market share of Indonesia's retail filling station network, through direct ownership and long-term franchise arrangements.

### *Strategically Positioned in a Fast Growing Domestic Energy Market*

In a report dated April 3, 2013, Wood Mackenzie projected energy demand in Indonesia to grow from 207 million mtoe to 306 million mtoe by 2025, largely because it is one of the lowest consumers of energy per capita within Southeast Asia. Indonesia is currently a net importer of crude oil and refined products, and to meet the escalating demand, based on current domestic output capacity, oil imports are expected to grow significantly. At the same time, the Government has stated its intention to decrease oil imports. We see this as a significant opportunity for growth, which we intend to meet by increasing our oil and gas production capabilities through upstream expansions and acquisitions.

In particular, gas demand in Java is expected to substantially exceed supply. This shortfall can be remedied by pipeline gas and LNG from Sumatra and Kalimantan, areas where we own large acreage and reserves, and where our sizable gas fields in South Sumatra (Pagar Dewa), West Java (Cirebon) and East Java (Cepu) are located.

Wood Mackenzie expects Indonesia's GDP to double from US$310 billion (in real terms) in 2011 to US$556 billion by 2025. Wood Mackenzie expects this to be supported by an increase of 27 million in population size from the current population of 245 million. According to Wood Mackenzie, domestic demand for oil and gas is projected to increase by 37% by 2025, and the sector is expected to remain a significant driver of Indonesia's economic growth. Currently, a large proportion of Indonesia's population resides in rural areas and remain unconnected to the power grid. With increasing wealth in Indonesia, the population is likely to switch from other solid fuels to commercial sources of energy such as LPG and electricity, further sustaining total energy consumption.

Based on our presence across Indonesia and our reserves base, we are strategically positioned to meet growth in demand.

### *Sustained Growth from Significant Reserves, Extensive Infrastructure Network and Proven Management Track Record*

We have one of the largest oil and gas reserve bases in Indonesia, with estimated total net proved oil and gas reserves of 3,547.2 mmboe and estimated total net proved plus probable oil and gas reserves of 4,643.9 mmboe, as of December 31, 2013. We expect our portfolio to not only provide for production longevity but also to serve as a solid foundation for production growth. We expect that our production growth potential will be primarily driven by oil development projects in Pondok Tengah and Cepu, gas development projects in Matindok, South Sumatra and Java, strategic domestic and international acquisitions and enhanced oil recovery projects at existing mature oil fields. In addition, we have an estimated 1,400 MW of proved plus probable geothermal reserves, which we expect to drive significant increases in our geothermal production.

We have maintained our leading position and market share in the oil refining, marketing and trading sectors in Indonesia, notwithstanding recent Government initiatives to liberalize the downstream sector, due to our extensive distribution network and supporting infrastructure. We believe that this gives us a substantial advantage over both our domestic and international competitors. For example, we are currently among the largest refiners in Southeast Asia and the dominant refiner in Indonesia, and in 2013, our refineries supplied approximately 59.6% of domestic fuel demand. We intend to expand our refining capacity to 1,598 mbbls/d by the end of 2020, a growth of approximately 55.0% from 2013, and to increase the number of fuel stations owned and operated by us.

We have over 56 years of operational history, and our management team and staff have a proven track record and extensive expertise in operational, engineering, technological, commercial, and financial matters. Our long operating history in the region has given us a level of institutional knowledge of and experience in the Indonesian market that is difficult for our competitors, international or domestic, to match. Our management has also gained significant expertise and knowledge through our 42-year history of strategic alliances and partnerships with major international oil and gas companies such as ExxonMobil, Shell and BP.

### *Robust Financial Profile*

We have robust cash generating abilities, which have supported our operating margins and allowed us to achieve strong financial ratios. We have consistently generated EBITDA levels of over US$5.0 billion (with EBITDA of US$6.6 billion in 2013) and maintained stable EBITDA margins in the past three years, despite recent volatility in oil and gas prices. Our stable and strong cash flows are based on long-term contracts for the sale of oil, gas and refined products as well as steam and electricity to a diverse group of domestic and multinational customers, including PGN, Mitsui Oil and Mitsubishi. For future offtake contracts, we expect to benefit from a strong and growing customer base for production from our substantial Java and Sumatra assets.

### *Strong Government Support*

As a company wholly-owned by the Government, we enjoy strong support from the Government, given the importance of our contribution to domestic revenues and our strategic position in the Indonesian oil and gas sector. For example, our oil and gas PSCs with the Government in general have more favorable terms than PSCs signed by foreign or private domestic oil and gas companies. Under PEP's PSCs, our share of profits before tax is 67.2%, compared to 12% to 33% for oil and 28% to 37% for gas under a typical PSC. In addition, PHE may be nominated by the Government to receive a 10% working interest in PSCs after the first plan of development is approved by the Ministry of Energy and Mineral Resources as PHE is the subsidiary of a state-owned enterprise. The Government's policy of providing us with a right to request to take over any oil and gas block in Indonesia for which the cooperation contract has expired also allows us to significantly expand our portfolio of domestic upstream assets and to take on attractive new opportunities.

**Business Strategy**

Our goal is to become one of Asia's leading integrated energy companies that is globally competitive with major international energy companies, oil companies and national oil companies. To achieve these goals, our development strategy is based on four parameters.

***Size and Scope — We intend to become one of Asia's leading integrated energy companies.***

We aim to maintain a leading position in our existing core businesses and seek to be a leading national oil company in Asia with a total daily oil and gas production of 2.2 mmboe/d with a dominant position in Indonesia and a growing international footprint. To achieve this goal, we plan to continue to pursue strategic acquisitions, joint ventures and investments, in particular with respect to assets that are in production or advanced stages of development, that will expand our oil, gas and geothermal business, in Indonesia and internationally and develop our gas infrastructure in Sumatra and Java. See "Business — Pertamina Upstream Business — Upstream Strategy" and "Business — Pertamina Gas Business". We also aim to maintain our existing leadership in our downstream businesses by growing and optimizing our refining capabilities, expanding our retail fuel station network and solidifying our market leadership in fuel, gas and petrochemical products distribution in Indonesia. See "Business — Pertamina Downstream Business — Downstream Strategy".

In the long term, we aim to supplement our existing core businesses and become one of Asia's leading integrated energy companies by becoming the largest petrochemical distributor in Indonesia, one of the largest power producers in Indonesia, and a producer of biofuels and LNG in addition to our current role as an operator of LNG plants on behalf of the Government.

***Efficiency — We aim to increase our efficiency and optimize our business operations and technological capabilities.***

We aim for operational excellence in all of our business activities and intend to consistently achieve above-average efficiency metrics across our operational platform. To achieve this objective, we are focusing on our core businesses and restructuring non-core businesses, streamlining our business processes relating to sales of natural gas and LNG to ensure we obtain optimal pricing, optimizing our upstream assets portfolio and oil recovery activities (see "Business — Pertamina Upstream Business — Upstream Strategy") and improving the efficiency of our refineries (see "Business — Pertamina Downstream Business — Downstream Strategy"). We have also set up a project and technology center with the aim of becoming a leader in the exploration and production of coal-bed methane and geothermal energy, and developing technology relating to deep-water drilling and enhanced oil recovery methods.

***Corporate Governance and Culture — We place a high priority on having a strong corporate governance system and a results-driven culture.***

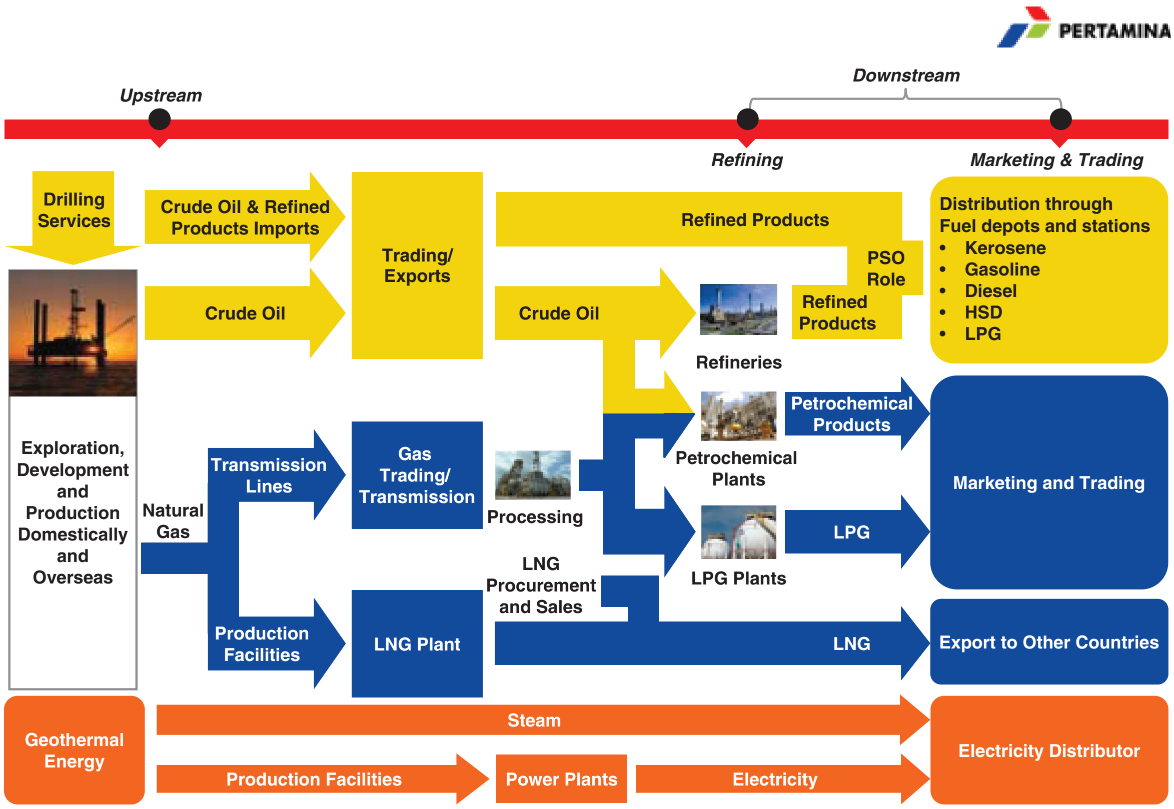
We place a high priority on corporate governance, professionalism, and transparency, and have developed codes of conduct and corporate policies and procedures that are in line with those of our international and public counterparts. We also aim to develop a strong, results-driven corporate culture that demands the highest performance by our management and employees alike. One of our key strategies for achieving this end is through our wide range of training and education programs for our employees. To further our efforts, we are also recruiting and developing high quality managerial and technical teams, with an emphasis on the development of leadership skills.

*Positioning — We intend to become a model and a benchmark for other regional companies.*

We aim to become the preferred company of our customers, partners and potential employees. We also aim to remain one of the most highly regarded companies in Indonesia, setting a solid benchmark for Indonesian companies and other energy companies and oil and gas companies in Asia. By implementing international best practices, we believe that we can serve as a standard in terms of capabilities, technology, managerial processes, health, safety and environmental standards and good corporate governance.

## Business Flow

The diagrams below illustrate the integration and flow between our upstream, downstream and LNG operations.




We explore for, develop and produce crude oil, natural gas and geothermal energy from our upstream operations. The majority of the crude oil we produce is sent to our refineries to produce various refined products, including kerosene, gasoline, diesel and other products, some of which are sold as subsidized fuel under our PSO mandate. These products are sold through our marketing and trading division to industrial and retail customers. We trade or sell our crude oil that is of unsuitable standards for our refineries and import crude oil to meet any shortfall in the quantity or quality of crude oil required by our refineries. Our crude oil and refined products are transported by our shipping division.

Most of the natural gas we produce is sold directly to our customers using a gas transmission network that we operate and own a significant interest in. We also process some of our natural gas to create petrochemical products and LPG, which are sold through our marketing and trading division to retail or industrial customers. In addition to our natural gas production, we also operate facilities that refine LNG, which we export to customers in other countries.

The geothermal energy we produce in the form of steam is either sold directly to PLN or private third parties or used to generate electricity through our power plants, which is then sold to PLN.

Our integrated supply chain division coordinates the supply of feedstock from our production of crude oil and natural gas to our refineries or, in respect of crude oil of unsuitable quality, for export through our trading operations. Our trading operations also coordinate the supply of imported oil and gas to the extent our own production is insufficient to meet demand from our refineries. In addition, our integrated supply chain division coordinates the distribution of our refined products to our marketing and trading division, as well as the import of additional refined products to meet domestic demand. Our integrated supply chain division also gathers and analyzes oil and gas market information on an ongoing basis to support the prudent management of our inventories.

**Pertamina Upstream Business**

***Overview***

Our upstream business manages the exploration, development and production of crude oil and natural gas, the transmission of our natural gas and our geothermal operations. The various subsidiaries and joint ventures that compose our upstream business are overseen by our Upstream Directorate, which is a business unit of our Company.

PEP, our wholly-owned subsidiary, manages the exploration, development and production of crude oil and natural gas from our wholly-owned oil and gas fields, which is comprised of one block containing 78 production fields in an aggregate working area of 113,629.8 $km^2$ across Sumatra, Java and Eastern Indonesia. Our block operated by PT Pertamina EP comprises 20 own-operated fields, 7 unitization fields, 23 TACs and 28 JOCs.

PHE, our wholly-owned subsidiary, manages the exploration, development and production of crude oil and natural gas in certain of our partially-owned assets in Indonesia and internationally, which includes 48 exploration and production blocks (consisting of 44 blocks across three regions of Indonesia and four blocks across two other countries). PHE has also entered into cooperation contracts with various partners for the exploration and development of coal bed methane. The remainder of PHE's blocks consist of eight JOBs and 40 IPs.

Outside of Indonesia, we own interests in nine upstream oil and gas blocks in Algeria, Australia, Iraq, Malaysia, and Vietnam , which are in various stages of exploration, development and production. See "— Description of International Properties" for more details on our oil and gas assets outside of Indonesia.

Additionally, our wholly-owned subsidiary, PT Pertamina EP Cepu, manages our oil and gas operations in the Cepu block. We have also recently incorporated a new subsidiary, PT Pertamina EP Cepu ADK, to manage the Alas Dara and Kemuning fields in the Cepu block, subject to the issuance of a PSC by SKK MIGAS.

PT Pertamina Geothermal Energy, our wholly-owned subsidiary, manages our geothermal operations. As of December 31, 2013, we owned 14 geothermal concessions in Indonesia, covering an area of 21,794.7 $km^2$. In our 14 geothermal concessions, we have four own-operated areas in the production stage, five own-operated areas in the exploration and development stage and five geothermal areas that are jointly operated through JOCs. We have 1,400 MW of estimated proved and probable reserves in our geothermal concessions. For the year ended December 31, 2013, our geothermal projects produced 21,726 mt of steam (or 2,962 GWh in electricity equivalent). See "— Geothermal" for more information on our geothermal operations.

Our upstream business also includes support businesses, including our wholly-owned subsidiary, PT Pertamina Drilling Services Indonesia ("PDSI"), which provides drilling services to support our oil and gas and geothermal development activities. See "Corporate Structure" for more information on our material upstream subsidiaries.

As of December 31, 2013, our estimated total net proved oil and gas reserves were 3,547.2 mmboe, consisting of 1,686.6 mmbbls of oil and 10,779.8 bcf of gas, and our total net proved plus probable oil and gas reserves were 4,643.9 mmboe, consisting of 2,322.4 mmbbls of oil and 13,449.9 bcf of gas. For 2013, we had total average daily net oil and gas production of 465.9 mboe/d, consisting of 201.5 mbbls/d of oil and 1,532.1 mmcf/d of gas. See "— Reserves" and "— Production" for more information on our oil and gas reserves and production, respectively.

***Upstream Strategy***

In our upstream business, our strategy is to continue to pursue strategic acquisitions, joint ventures and investments that will expand our oil, gas and geothermal businesses. In particular, we intend to shift our focus from the acquisition of exploration-stage assets to the acquisition and development of production-stage assets. We plan to selectively pursue international opportunities in locations such as Australia, Africa, Central Asia and the Middle East. In 2013, we acquired the following assets:

- an effective 11.5% participating interest in the Natuna Sea Block A in a 50-50 joint venture with PTT Exploration and Production, which increased our oil and gas proved plus probable reserves by approximately 209.0 mmboe and our net daily production for 2013 by approximately 2.2 mboe/d, and is expected to increase our net daily production for 2014 by approximately 4.4 mboe/d. The purchase consideration was US$328.1 million. The acquisition was completed on December 6, 2013;

- a 10% participating interest in the West Qurna I Block in Iraq, which increased our oil and gas proved plus probable reserves by approximately 105.9 mmboe and our net daily production for 2013 by approximately 2.2 mboe/d, and is expected to increase our net daily production for 2014 by approximately 10.6 mboe/d. The acquisition was completed on November 29, 2013;

- three oil fields in Block 405a in Algeria, which increased our oil and gas proved plus probable reserves by approximately 110.8 mmboe and our net daily production for 2013 by approximately 20.2 mboe/d, and is expected to increase our net daily production for 2014 by approximately 25.0 mboe/d. The purchase consideration for the acquisition was US$1,669.9 million. The acquisition was completed on November 27, 2013;

- Talisman Resources (Northwest Java) Limited's 5.0295% participating interest in the Offshore Northwest Java PSC, which increased our interest in the Offshore Northwest Java PSC to 58.2795%. The acquisition has increased our oil and gas proved plus probable reserves by approximately 6.8 mmboe and our net daily production for 2013 by approximately 3.2 mboe/d, and is expected to increase our net daily production for 2014 by 3.8 mboe/d. The purchase consideration for the acquisition was US$39.0 million. The acquisition was completed on May 2, 2013; and

- a 33.75% interest in each of the Ambalat block and the Bukat block and a 35% interest in the Nunukan block, all of which are exploration blocks in Kalimantan that are expected to enter into commercial development within a period of approximately two to three years. The purchase consideration for the acquisition was US$55.2 million. The acquisition was completed on February 15, 2013.

We have also submitted a request to the Government to grant us a participating interest in the Offshore Mahakam PSC upon the expiry and renewal of the PSC in December 2017. The Government's decision is pending.

We also plan to opportunistically pursue strategic alliances and joint ventures, because we believe that by developing oil and gas assets through strategic alliances with experienced international oil and gas companies, we can supplement and strengthen our technical and management capabilities.

In addition, we expect to increase our capital expenditures in respect of our existing oil and gas exploration activities, in order to achieve a higher reserve replacement ratio and accelerate project development. Specifically, we are focused on employing enhanced oil recovery activities to increase efficiency and production from existing fields and reactivating idle fields. Finally, we aim to optimize our current producing assets and improve profitability by increasing production volumes and reducing lifting and production costs.

In our geothermal operations, we intend to continue to explore for and develop geothermal resources to meet Indonesia's electricity needs, acquire strategic geothermal JOCs, and construct integrated geothermal power plants. We are in the process of developing our geothermal resources with the aim to develop 640 MW of additional production capacity. In 2011, we resumed development of the long-delayed Karaha Bodas, a 30 MW geothermal plant in West Java, which we expect to start generating electricity in 2016.

***Oil and Gas***

Our upstream oil and gas operations are conducted through our own operations as well as through joint operating arrangements. We have an interest in 55 blocks world-wide, of which one is own-operated and 54 are operated through partners or third parties via joint operating arrangements.

Our own-operated upstream oil and gas operations are conducted in three regions: Sumatra, centered in Prabumulih; Java, centered in Cirebon and Kawasan Timur Indonesia (including Kalimantan and Papua), centered in Jakarta.

***Reserves***

As of December 31, 2013, our total estimated net proved oil and gas reserves were 3,547.2 mmboe, consisting of 1,686.6 mmbbls of oil and 10,779.8 bcf of gas, and our estimated total net proved plus probable oil and gas reserves were 4,643.9 mmboe, consisting of 2,322.4 mmbbls of oil and 13,449.9 bcf of gas. The information on our historical oil and gas reserves in this Offering Memorandum is based on our estimated "net reserves" and, as such, represents our aggregate share of the estimated crude oil and/or natural gas reserves in all blocks or fields or specified areas, attributable to our working interest in such areas, before deducting the share payable to the Government as owner of the reserves pursuant to the terms of the relevant production sharing arrangement, the cost recovery portion and any applicable taxes. "Proved reserves" represent those quantities of crude oil and/or natural gas which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and Government regulations. "Proved developed reserves" are those crude oil and/or natural gas reserves that are expected to be recovered through existing wells with existing equipment and operating methods. "Proved undeveloped reserves" are those reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. "Proved plus probable reserves" are proved reserves plus those reserves that are unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable.

From 2012, the oil and gas reserves at our blocks and fields have been estimated by us on the basis of our oil and gas resource management system, which contains procedures for classifying and estimating reserves which are consistent with PRMS 2007, with respect to our reserves, other than our reserves managed by PEP, or which are consistent with the SPE 2001 guidelines, with respect to our reserves managed by PEP. Prior to 2012, we used the SPE 2001 guidelines to determine the procedures for our oil and gas resource management system and the classification of reserves with respect all our reserves save with respect to the Cepu block where the reserves are determined in accordance with PRMS 2007. We expect to continue using PRMS 2007 to classify and estimate new oil and gas reserves that we acquire (other than new reserves which are to be managed by PEP). We expect to continue using the SPE 2001 guidelines for new reserves which are to be managed by PEP, unless directed otherwise by SKK MIGAS.

Investors should note that different reserves reporting systems employ different assumptions, and that our methodologies for classifying and estimating reserves vary in certain respects from the methodologies and classifications used by oil and gas companies subject to the reporting obligations of the SEC. Investors should also note that although the SPE 2001 guidelines have been replaced by PRMS 2007, which is generally considered the oil and gas industry standard for reserve reporting, we have continued to estimate our reserves managed by PEP using our oil and gas resource management system which is consistent with SPE 2001 guidelines. As a result, because of the impact of such assumptions, identical raw data can produce varying classifications and estimates of reserves. In 2012, the change in the procedures for our oil and gas resource management system and the classification of reserves from the SPE 2001 guidelines to PRMS 2007 with respect to our reserves, other than our reserves managed by PEP, resulted in downward revisions or reclassifications to certain of our reserves estimates. No assurance can be given that the reserve estimates presented in this Offering Memorandum will be recovered at the levels presented. The estimation and evaluation of reserves naturally involves multiple uncertainties. The accuracy of any reserve evaluation depends on the quality of available information and engineering and geological interpretation. Based on the results of drilling, testing and production after the date of this Offering Memorandum, reserves may be significantly restated upwards or downwards. Changes in the price of crude oil and natural gas also affect our reserve estimates because those reserves are evaluated based on prices and costs as of the date of the evaluation. For a description of certain of the risks and uncertainties with respect to our reserve data, see "Risk Factors — Risks Relating to Our Upstream Operations — Our crude oil, natural gas and geothermal reserve estimates are uncertain and may prove to be incorrect over time or may not accurately reflect actual reserve levels, or even if accurate, technical limitations may prevent it from retrieving these reserves".

For instance, the definitions of "proved reserves" and "probable reserves" under our management system vary in certain respects from the definition of "proved oil and gas reserves" used by the SEC, which could cause our reported reserves numbers to be different than if measured based upon the SEC definition.

Rule 4-10(a)(22) of Regulation S-X under the Securities Act defines "proved oil and gas reserves" as follows:

*Proved oil and gas reserves.* Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible — from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations — prior to the time at which contracts providing the rights to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:

(a) the area identified by drilling and limited by fluid contacts, if any; and

(b) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observations from well penetrations has defined a highest known oil elevation and the potential exists from an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (included, but not limited to, fluid injection) are included in the proved classification when:

(a) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and

(b) the project has been approved for development by all necessary parties and entities, including governmental entities.

(c) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Rule 4-10(a)(18) of Regulation S-X under the Securities Act defines "probable reserves" as follows:

*Probable reserves*. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

(i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

(ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

(iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

We are not a reporting company in the United States and so we are not required to report our reserves in accordance with SEC definitions. If we were to become a reporting company in the United States, then our proved and proved plus probable reserves would need to be adjusted to comply with the SEC's reporting standards and the adjustments could be material.

By comparison, the SPE 2001 guidelines define "proved reserves" as those quantities of petroleum (including gas and gas liquids), which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations and "probable reserves" as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves.

PRMS 2007 defines "proved reserves" as those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. "Probable reserves" are defined as those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than "proved reserves" but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the sum of the estimated proved plus probable reserves.

We determine the oil and gas reserves for each block and field at the end of each year by taking the previous year's proved plus probable reserve determination (or initial estimate, as the case may be) and adding or subtracting any revisions of previous estimates, subtracting production for the year, then adding extensions and discoveries, acquisitions and divestments and any improved recovery for the year. To determine our total net proved plus probable consolidated oil and gas reserves at the end of each year, we total the oil and gas reserve values for each block as of the end of the year and add any additional reserves attributable to discovery and development and subtract total production for the year. To determine our total net proved consolidated oil and gas reserves at the end of each year, we subtract total probable reserves from the total proved plus probable reserves for the year. The following table sets forth our estimated aggregate net proved and probable reserves as at the dates indicated and the factors which, over the periods indicated, reduced or increased our estimated aggregate net proved and probable reserves.

| | Crude Oil (mmbbls) | Natural Gas (bcf) | Combined (mmboe) |
|---|---|---|---|
| **2013** | | | |
| Total net proved plus probable reserves (as of December 31, 2012) | 1,837.7 | 12,084.2 | 3,923.4 |
| Revisions of previous estimates[(1)] | 247.8 | 1,507.3 | 508.0 |
| Extensions and discoveries[(2)] | 93.8 | 417.6 | 165.9 |
| Acquisitions and divestments | 216.6 | — | 216.6 |
| Production | (73.6) | (559.2) | (170.1) |
| **Total net proved plus probable reserves (as of December 31, 2013)** | 2,322.4 | 13,449.9 | 4,643.9 |
| Probable reserves | 635.8 | 2,670.1 | 1,096.6 |
| **Total net proved reserves (as of December 31, 2013)** | 1,686.6 | 10,779.8 | 3,547.2 |

| | Crude Oil (mmbbls) | Natural Gas (bcf) | Combined (mmboe) |
|---|---|---|---|
| **2012** | | | |
| Total net proved plus probable reserves (as of December 31, 2011) | 1,802.9 | 14,791.5 | 4,355.9 |
| Revisions of previous estimates(1) | (22.0) | (2,367.1) | (430.6) |
| Extensions and discoveries(2) | 128.6 | 222.9 | 167.1 |
| Acquisitions and divestments | — | — | — |
| Production | (71.8) | (563.2) | (169.0) |
| **Total net proved plus probable reserves (as of December 31, 2012)** | **1,837.7** | **12,084.2** | **3,923.4** |
| Probable reserves | 480.6 | 3,170.1 | 1,027.7 |
| **Total net proved reserves (as of December 31, 2012)** | **1,357.1** | **8,914.1** | **2,895.7** |
| **2011** | | | |
| Total net proved plus probable reserves (as of December 31, 2010) | 1,966.5 | 15,888.7 | 4,708.9 |
| Revisions of previous estimates(1) | (101.9) | (684.9) | (220.1) |
| Extensions and discoveries(2) | 2.4 | 81.3 | 16.4 |
| Acquisitions and divestments | 6.6 | 65.7 | 17.9 |
| Production | (70.6) | (559.3) | (167.2) |
| **Total net proved plus probable reserves (as of December 31, 2011)** | **1,802.9** | **14,791.5** | **4,355.9** |
| Probable reserves | 485.1 | 3,885.5 | 1,155.7 |
| **Total net proved reserves (as of December 31, 2011)** | **1,317.9** | **10,906.0** | **3,200.3** |

Notes:

(1) Revisions of previous estimates represent changes over the course of the periods indicated in previous estimates of reserves, either up or down, resulting from new information normally obtained from development drilling and production activities. Revisions in 2012 were also partially due to the change in the procedures for our oil and gas resource management system and the classification of reserves from the SPE 2001 guidelines to PRMS 2007 with respect to our reserves, other than our reserves managed by PEP.

(2) Extensions and discoveries represent additions to proved plus probable reserves that result from (i) extensions of previously discovered fields demonstrated to exist subsequent to the original discovery, and (ii) the discovery of reserves in new fields or new reservoirs in old fields, in each case over the course of the periods indicated.

The following table sets forth our estimated net proved and probable reserves by region as of December 31, 2013.

| | Crude Oil (mmbbls) | Natural Gas (bcf) | Combined (mmboe) |
|---|---|---|---|
| Sumatra | 858.8 | 6,249.7 | 1,937.4 |
| Java | 1,036.0 | 5,099.0 | 1,916.0 |
| East Indonesia | 210.6 | 2,097.5 | 572.6 |
| Overseas | 217.2 | 3.7 | 217.8 |
| **Total** | **2,322.4** | **13,449.9** | **4,643.9** |

As of December 31, 2013, our net proved plus probable reserves have an estimated average life of 27.3 years and our net proved reserves have an estimated average life of 20.9 years.

***Exploration and Development***

We are involved in the exploration for and development of oil and gas assets. Our exploration operations include aerial surveys, geological and geophysical studies (such as seismic surveys), drilling of exploration wells, core testing and well logging. Seismic surveys involve recording and measuring the rate of transmission of shock waves through the earth with a seismograph. Upon striking rock formations, the waves are reflected back to the seismograph. The time lapse is a measure of the depth of the rock formation. The rate at which waves are transmitted varies with the media through which they pass. Seismic surveys can provide either three-dimensional ("3D") or two-dimensional ("2D") results, with 3D surveys generally giving a more detailed picture and 2D surveys being able to cover a wider area. The majority of our seismic surveys are 2D surveys, which we use for exploration and development of our onshore fields. We tend to use 3D surveys for our offshore fields or onshore producing fields.

We analyze the seismic data produced from our exploration activities to understand the underground strata in a given field and to form a view as to whether further exploration activity in that field is warranted. The actual existence of any oil or gas must be confirmed, usually by drilling an exploration well. If the exploration well confirms that oil or gas is present (i.e., is "successful"), we may then drill delineation wells to obtain more detailed data on the reservoir formation. Once the presence of oil or gas in commercially recoverable quantities is proved, or the delineation wells are "successful," development wells may be drilled to prepare for production. A field is considered to be developed when it has a well which is capable of producing oil or gas in paying quantities. We may also restore or increase production in producing wells and abandoned wells (wells which are no longer in use).

In 2011, 2012 and 2013, our success rates for our exploration well drilling were 62.0%, 73.0% and 78.6%, respectively.

The following table sets forth the number of exploratory and development wells completed by us on our properties as at the dates indicated.

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| Gross exploratory wells drilled[(1)] | 34 | 49 | 42 |
| Crude oil | 6 | 4 | 9 |
| Natural gas | 9 | 4 | 15 |
| Crude oil and natural gas | 6 | 28 | 9 |
| Dry[(2)] | 13 | 13 | 9 |
| Gross development wells drilled[(1)] | 187 | 233 | 203 |
| Crude oil | 98 | 167 | 105 |
| Natural gas | 21 | 20 | 14 |
| Crude oil and natural gas | 58 | 44 | 65 |
| Dry[(2)] | 10 | 2 | 19 |

Notes:

(1) "Gross" wells refer to all exploratory or development wells, as the case may be, without deducting interests of others.

(2) "Dry" wells are exploratory or development wells, as the case may be, incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

*Exploration and development plans*. Currently, we have plans to continue exploration efforts in all of our existing blocks using 2D and 3D seismic surveys and drilling exploration wells and delineation wells in our existing blocks.

We have set a target to drill approximately 239 development wells by the end of 2014. Our basic strategy of field development is to monetize all oil and gas discoveries for early production. We have a similar approach to our construction of facilities by maximizing the usage of readily available materials, equipment and personnel and using simple designs for our production operations.

We have entered into PSCs for the exploration and development of coal bed methane. If we are successful, we intend to commence production of coal bed methane by the end of 2014 which will be distributed domestically in Indonesia. We have also commissioned studies on the exploration and production of shale gas. Following such studies, we entered into a PSC with SKK MIGAS on May 15, 2013, in which we were granted a 100% participating interest in the Non-Conventional Oil and Gas Block North Sumatera for the exploration and production of shale gas over a period of 30 years.

*Drilling operations*. Our oil and gas and geothermal exploration and development activities require extensive drilling expertise and support. Our wholly-owned subsidiary, PDSI, provides land drilling services, integrated drilling project management and drilling tools to support our onshore drilling activities exclusively at present. Our aim is to expand our drilling operations to support third party and offshore operations in the future. We have a fleet of 39 onshore drilling rigs located across Indonesia. We are currently in the process of investing in direct current electric drills, which are more efficient and environmentally friendly than mechanical drills.

Through PDSI, we are able to provide most of the drilling services needed for our onshore exploration and development activities. The remainder are provided by third-party contractors.

*Oil recovery activities*. We conduct secondary recovery activities to enhance our existing oil reserves. Our principal method is water flooding, in which water is injected into a reservoir formation to displace residual oil. The water from injection wells physically sweeps the displaced oil to adjacent production wells. We use our own technology and operators to conduct the water flooding. We also reactivate idle fields, if feasible, to further enhance our existing oil reserves.

We are currently exploring the use of carbon dioxide and chemical injections as alternative methods of secondary recovery to further enhance our existing oil reserves.

*Description of material Indonesian properties*. Our oil and gas activities in Indonesia are primarily carried out through various production sharing arrangements and cooperation contracts covering 46 blocks, including PSCs, TACs, JOBs, JOCs, IPs and cooperation contracts with various partners for coal bed methane. Of our blocks in Indonesia, we have 4,390 wells currently in commercial production. See “Indonesian Regulatory Framework” for a discussion of certain of the terms and conditions of the production sharing arrangements and cooperation contracts under Indonesian law.

Other than PEP, the top five producing blocks are Offshore Northwest Java, West Madura Offshore, Corridor, Jambi Merang and Cepu. The top three fields with the largest oil reserves are the Banyu Urip field in the Cepu block and the Jati Barang and Prabumulih fields in the PEP block. The three fields with the largest gas reserves are the Pendopo, Prabumulih and Subang fields in the PEP block. The following tables set forth certain information regarding our material blocks as of December 31, 2013.

*PEP*

| | | | Estimated Net Proved and Probable Reserves | | Average Net Annual Production | |
|---|---|---|---|---|---|---|
| **Region** | **Working Interest (%)** | **Contract Term** | **Oil (mmbbls)** | **Gas (bcf)** | **Oil (bbls/d)** | **Gas (mmcf/d)** |
| Sumatra | 100.0 | September 2005 to September 2035 | 819.2 | 5,748.8 | 53,427.6 | 549.4 |
| Java | 100.0 | September 2005 to September 2035 | 449.9 | 2,028.3 | 42,478.0 | 431.9 |
| Eastern Indonesia | 100.0 | September 2005 to September 2035 | 193.7 | 2,059.3 | 25,606.4 | 49.6 |

*PHE*

| Block | Working Interest (%) | Contract Term | Partners | Estimated Net Proved and Probable Reserves | | Average Net Annual Production | |
|---|---|---|---|---|---|---|---|
| | | | | Oil (mmbbls) | Gas (bcf) | Oil (bbls/d) | Gas (mmcf/d) |
| Corridor | 10.0 | December 20,1983 to December 20, 2023 | Conoco Philips (Grissik) LTD (54%) (operator), Talisman (36%) | 4.5 | 333.1 | 931.1 | 105.9 |
| CPP | 50.0 | August 9, 2002 to August 9, 2022 | PT Bumi Siak Pusako (50%) (operator BOB Pertamina Bumi Siak Pusako) | 12.6 | — | 7,843.1 | — |
| Jabung | 14.3 | February 27,1993 to February 27, 2023 | Petrochina (Jabung) LTD (42.86%) (operator), Petronas (42.86%) | 6.6 | 63.0 | 2,225.1 | 37.9 |
| Jambi Merang | 50.0 | February 10, 1989 to February 10, 2019 | Talisman (25%), Pacific Oil & Gas (25%) | 5.6 | 117.9 | 2,976.9 | 60.6 |
| Offshore Northwest Java | 58.28 | January 1, 1997 to January 18, 2017 | Energi Mega Persada ONWJ Ltd. (36.7205%), Risco Energy ONWJ B.V. (5 %) (operator PHE Offshore Northwest Java) | 51.4 | 233.7 | 21,670.7 | 117.6 |
| Offshore South East Sumatera | 13.1 | September 6, 1998 to September 5, 2018 | CNOOC SES Ltd. (65.540900%), KNOC (8.908588%), Talisman (7.483068%), Orchard Group (Salamander 5%) | 4.4 | 34.3 | 4,563.0 | 15.0 |
| Ogan Komering | 50.0 | February 29, 1988 to February 28, 2018 | Talisman (OK) LTD (50%) | 2.6 | 16.8 | 1,700.6 | 6.0 |
| Senoro Toili | 50.0 | December 4, 1997 to December 4, 2027 | PT Medco E&P Tomori Sulawesi (30%), Tomori E&P Ltd. (20%) | 18.6 | 958.1 | 546.3 | 4.0 |
| Tuban | 50.0 | February 29, 1988 to February 29, 2018 | Petrochina International Java LTD (25%), PHE Tuban (25%) | 11.7 | 12.3 | 5,875.8 | 6.1 |
| West Madura Offshore | 80.0 | May 7, 2011 to May 7, 2031 | Kodeco Energy Co LTD (20%) | 28.5 | 170.4 | 14,469.9 | 91.1 |

*PT Pertamina EP Cepu*

| Block | Working Interest (%) | Contract Term | Partners | Estimated Net Proved and Probable Reserves | | Average Net Annual Production | |
|---|---|---|---|---|---|---|---|
| | | | | Oil (mmbbls) | Gas (bcf) | Oil (bbls/d) | Gas (mmcf/d) |
| Cepu | 45.0 | September 17, 2005 to September 16, 2035 | Ampolex (Cepu) Pte Ltd. (24.5%), Mobil Cepu Ltd (20.5%) (operator), PT Sarana Patra Hulu Cepu (1.1%), PT Petrogas Jatim Utama Cendana (2.2%), PT Asri Dharma Sejahtera (4.5%), PT Blora Patragas Hulu (2.2%) | 190.1 | 696.5 | 11,815.8 | 4.19 |

### *Description of International Properties*

Our oil and gas activities outside of Indonesia are primarily operated by our joint venture partners. Of our nine international blocks, three blocks are currently in commercial production. Until the end of 2010, we also had interests in two exploration blocks in Libya. Our interests in the Libyan blocks have expired. We are exploring options to renew our interests in these blocks but have not yet entered into any arrangements to do so.

| | | | | Estimated Net Proved and Probable Reserves | | Average Net Annual Production | |
|---|---|---|---|---|---|---|---|
| **Block/Field** | **Working Interest (%)** | **Contract Term** | **Partners** | **Oil (mmbbls)** | **Gas (bcf)** | **Oil (bbls/d)** | **Gas (mmcf/d)** |
| **Algeria** | | | | | | | |
| **Block 405a** | | From December 17, 2000 to June 2, 2032 | | 110.8 | — | 20,233 | — |
| MLN Field | 65.0 | | Talisman (Algeria) B.V (35%) | | | | |
| El Merk (EMK) Field | 16.9 | | Talisman (Algeria) B.V (9.10%), Sonatrach (37.74%), Anadarko Algeria Company LLC (18.13%), Eni Oil Algeria Ltd. (9.065%), Maersk Olie Algeriet AS (9.065%) | | | | |
| Ourhoud Field | 3.73 | | Talisman (Algeria) B.V (2.01%), Sonatrach (36.15%), Anadarko Algeria Company LLC (9.18%), Eni Oil Algeria Ltd. (4.59%), Maersk Olie Algeriet AS (4.59%), Compania Española Petroleos SA (39.75%) | | | | |
| **Australia** | | | | | | | |
| Blocks VIC/ L 26, 27 and 28 | 10.0 | From October 7, 2004 (operations may be terminated at the discretion of the parties) | Anzon Australia Pty. (30%), Beach Petroleum Ltd. (30%), Cico Exploration & Production Ltd. (20%), Sojitz Energy Ltd. (10%) | Undergoing exploration activities | | Not in production | |
| **Iraq** | | | | | | | |
| Block 3, Western Desert | 100.0 | October 20, 2002 to October 19, 2022 | — | Undergoing exploration activities | | Not in production | |
| West Qurna I Block | 10.0 | January 25, 2010 to January 25, 2030 | ExxonMobil Iraq Limited (25.0%), Shell Iraq B.V. (15%), PetroChina International Iraq FZE (25%), PT Pertamina Irak Eksplorasi dan Produksi (10%), Oil Exploration Company of the Iraqi Ministry of Oil (25%) | 105.1 | — | 2,212 | — |
| **Malaysia** | | | | | | | |
| Block SK 305, Sarawak | 30.0 | June 16, 2003 to June 15, 2032 | Petronas (40%), PetroVietnam (30%) | 1.2 | 3.5 | 586 | 5.4 |
| **Vietnam** | | | | | | | |
| Blocks 10 and 11.1 | 10.0 | January 8, 2008 to January 7, 2032 | Petronas Carigali Sdn. Bhd (40%), PVEP (50%) | Undergoing exploration activities | | Not in production | |

***Production***

We are currently one of the largest oil and gas companies by production in Indonesia. In 2013, we achieved total daily oil and gas production of 465.9 mboe/d.

The information on our oil and gas production presented and referred to as "production" in this Offering Memorandum is our "net production" and represents our share of the oil and/or gas production from a block or field, attributable to our working interest before deducting the share payable to the Government pursuant to the terms of the relevant production sharing arrangement or cooperation contract and the cost recovery and any applicable taxes. Our lifting costs include our costs of acquisition of our partners' share of crude oil or gas under the relevant production sharing arrangements or cooperation contract which is based on the global price of crude oil and has risen over the past three years. The following table sets forth our average oil and gas production on a daily basis, our average realized sales prices per barrel of crude oil, average realized sales prices per thousand cubic feet of natural gas, lifting costs per barrel of crude oil and lifting costs per thousand cubic feet of natural gas produced for the period, indicated.

*Net Production (Average Daily)*

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Sumatra** | | | |
| Crude oil (mbbls/d) | 66.9 | 72.2 | 74.4 |
| Natural gas (mmcf/d) | 760.6 | 794.4 | 802.0 |
| **Total (mboe/d)** | **198.2** | **209.3** | **212.9** |
| **Java** | | | |
| Crude oil (mbbls/d) | 98.9 | 93.5 | 98.4 |
| Natural gas (mmcf/d) | 718.4 | 687.9 | 650.9 |
| **Total (mboe/d)** | **222.8** | **212.2** | **210.8** |
| **East Indonesia** | | | |
| Crude oil (mbbls/d) | 27.4 | 29.8 | 28.3 |
| Natural gas (mmcf/d) | 48.4 | 51.1 | 74.3 |
| **Total (mboe/d)** | **35.8** | **38.6** | **41.2** |
| **International** | | | |
| Crude oil (mbbls/d) | 0.4 | 0.6 | 0.3 |
| Natural gas (mmcf/d) | 3.0 | 5.4 | 4.8 |
| **Total (mboe/d)** | **0.9** | **1.5** | **1.1** |
| **Total** | | | |
| Crude oil (mbbls/d) | 193.5 | 196.1 | 201.5 |
| Natural gas (mmcf/d) | 1,530.4 | 1,538.8 | 1,532.1 |
| **Total (mboe/d)** | **457.6** | **461.6** | **465.9** |
| Average realized sales price of oil (US$ per bbl) | 110.76 | 112.46 | 104.37 |
| Average realized sales price of gas (US$ per mcf) | 4.51 | 6.05 | 6.62 |
| Lifting costs of oil (US$ per bbl) | 17.76 | 21.25 | 20.06 |
| Lifting costs of gas (US$ per mcf) | 1.43 | 1.40 | 1.18 |
| Lifting costs of oil and gas (US$ per boe) | 14.74 | 16.25 | 12.2 |

***Sales and Distribution***

*Crude Oil*

Our policy is to maximize usage of our crude oil production as feedstock in our refineries. In 2013, 95.8% of the crude oil we produced was used as feedstock in our refineries. A small percentage of the crude oil which we produce is not of suitable quality for our refineries and we trade such crude oil in exchange for crude oil of suitable quality or sell it on the spot market or through a term contract. For each of the years ended December 31, 2011, 2012 and 2013, 5.5%, 4.6% and 4.2%, respectively, of our crude oil production was either traded or sold to third parties.

*Gas*

We sell the natural gas we produce under contractual arrangements which may be for periods of five to ten years or more than ten years. These arrangements typically take the form of binding memorandums of understanding or gas sales agreements that are entered into directly with the customers. The binding memorandums of understanding set forth the general terms of understanding pending definitive gas sales agreements to be agreed to between the parties. Our current customers for gas include PLN, PT Pupuk Sriwijaya Palembang, a subsidiary of PT Pupuk Indonesia and PGN, which comprised 31.7%, 13.5% and 10.7% of our gas sales, respectively, for the year ended December 31, 2013. We also occasionally enter into non-binding memorandums of understanding with potential customers prior to negotiating and entering into gas sales.

The following table sets forth our material gas sales agreements.

| Block | Counterparty | Term | Pricing (US$/mmbtu) | Total Quantity (bbtu) | Daily Quantity (bbtu/d) | Take-or-Pay % |
|---|---|---|---|---|---|---|
| **Sumatra** | | | | | | |
| Jambi Merang | PLN | 12 years from 2007 | 2.57[1] | 323,560 | 80.0 | 90.0 |
| | PLN | 9 years from 2011 | 5.4[1] | 182,585 | 65.0 | 80.0 |
| Corridor | PGN | 15 years from 2004 | 2.57 | 65,800 | 12.0 | 85.0 |
| | PGN | 15 years from 2004 | 2.60 | 225,000 | 50.0 | 90.0 |
| PEP | Asrigita Prasarana | 20 years from 2004 | 5.00 | 188,940 | 28.9 | 70.0 |
| | PGN | 20 years from 2006 | 4.42-5.33[2] | 1,006,050 | 250.0 | 80.0 |
| **Java** | | | | | | |
| Offshore Northwest Java | PLN | 14 years from 2004 | 2.65 | 679,400 | 100.0 | 100.0 |
| PEP | PT Cikarang Listrindo | 20 years from 1995 | 4.12 | 394,113 | 62.0 | 75.0 |
| West Madura Offshore | PLN | 8 years from 2006 | 2.51-6.05 | 482,560 | 123.1 | 90.0 |

Notes:

(1) For the first 12 months and further escalated by 3% for every 12 months thereafter.

(2) For the period of 2011 to 2017 and thereafter as agreed between the parties.

Under our gas sales agreements, we are obligated to supply gas for the contracted quantity while offtakers are required to accept an agreed portion of the gas on a "take or pay" basis. This arrangement reduces our production risk exposure, by ensuring that a certain fixed portion of our production is sold under the gas sales agreement. The portion of gas subject to the "take or pay" arrangement is agreed on a case-by-case basis, but is generally around 80% of the contracted quantity of gas to be supplied. Given the increasing demand for energy in Indonesia, we do not anticipate any difficulty in disposing of any excess gas that is not subject to "take or pay" arrangements.

The price for gas under our gas sales agreements varies, but generally depends on the price of certain reference commodities such as high sulfur fuel oil and the price of methanol, as well as development costs and taxes. See "— Production" for details of our average realized sales price of gas for the fiscal years ended December 31, 2011, 2012 and 2013.

We deliver approximately 49.8% of the gas we sell annually to our customers through our gas transmission network. See "Business — Pertamina Gas Business — Natural Gas Transportation" for more information. The remaining 50.2% of the gas we sell to our customers is distributed through third-party providers, such as PGN. Fees for the transmission of gas are generally included in the gas sales price.

***Geothermal***

Our geothermal operations primarily focus on the development of geothermal resources in our concessions. Our geothermal operations involve two types of contractual arrangements. Under our steam sales agreements, we develop and operate the steam fields whereas the power plant is developed and operated by other parties, such as PLN. Under our electricity sales agreements, we develop and operate both the steam field and the power plant and sell the electricity produced to PLN.

We manage our geothermal business through our own operations as well as jointly with other partners such as Chevron Geothermal Salak Limited, Chevron Geothermal Indonesia Limited and Star Energy. As of December 31, 2013, we owned 14 geothermal concessions in Indonesia, covering an area of 21,794.7 $km^2$. In our 14 geothermal concessions, we have four own-operated areas in the production stage, five own-operated areas in the exploration and development stage and five geothermal areas that are jointly operated through JOCs.

In November 2013, we also won the bid to jointly develop the Selawah Agam geothermal working area in Aceh with the Regional Development Company of Aceh.

We have a total current installed capacity for power generation of 402 MW in four geothermal working areas. In line with the projected acceleration in growth of the geothermal industry in Indonesia, we intend to increase our installed capacity for power generation significantly by 2016.

Under GR 59, we may be required to return to the Government any geothermal concessions granted to us prior to the enactment of GR 59 that have not been developed as of December 31, 2014. We have requested for an extension of the deadline to December 31, 2024, but this is subject to the Government's approval. Although almost all of our geothermal concessions are in development, there can be no assurance that we will be able to develop all our geothermal concessions prior to December 31, 2014. If we are not able to do so or if our deadline is not extended, we may have to return the undeveloped geothermal concessions to the Government. See "Risk Factors — Risks Relating to Our Upstream Operations — We may be required to return certain of our geothermal working areas to the Government".

*Reserves, Capacity and Other Operating Data*

As of December 31, 2013, our geothermal resources are located in three main geothermal regions in Indonesia. Our estimated proved plus probable geothermal reserves were 1,130 MW, 1,271 MW and 1,400 MW as of December 31, 2011, 2012 and 2013, respectively. Our estimates of our geothermal reserves are only based on our own-operated geothermal projects and do not include our jointly operated geothermal projects.

The following table sets forth certain key information relating to our own-operated geothermal areas as of December 31, 2013. We have a 100% working interest in each of the following projects.

| | Estimated Proved and Probable Reserves (MW) | Current Installed Capacity (MW) | Capacity under Development (MW) |
|---|---|---|---|
| **Sumatra** | | | |
| Sibayak | 40 | 12 | — |
| Ulubelu | 255 | 110 | 110 |
| Lumut Balai | 250 | — | 220 |
| Sungai Penuh | 60 | — | 55 |
| Hulu Lais | 190 | — | 110 |
| **Java** | | | |
| Kamojang | 235 | 200 | 35 |
| Karaha Bodas | 150 | — | 30 |
| Iyang Argopuro | *None currently* | — | — |
| **East Indonesia** | | | |
| Lahendong | 220 | 80 | 40 |
| Kotamobagu | *None currently* | — | 40 |
| **Total** | **1,400** | **402** | **640** |

The table below sets forth certain key information relating to our geothermal areas that are operated under JOCs or joint ventures that are operational as of December 31, 2013.

| Jointly Operated Areas | Ownership (%) | Contractor(s) | Current Production Capacity (MW) | Share in Capacity (MW)/Net Operating Income (%) |
|---|---|---|---|---|
| Gn. Salak | 100 | Chevron Geothermal Salak Ltd. | 377 | 4.0% |
| Darajat | 100 | Chevron Geothermal Indonesia Ltd. | 270 | 2.7% |
| Wayang Windu | 100 | Star Energy Geothermal (Wayang Windu) Ltd. | 227 | 4.0% |
| Sarulla | 100 | PLN | — | 4.0% |
| Bedugul | 100 | Bali Energy Ltd. | — | 4.0% |

*Production*

The following table sets forth our aggregate geothermal production for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| **Total annual production(1)** | | | |
| Steam (mt) | 15,295 | 15,694 | 21,726 |
| (expressed in electricity equivalent) (GWh) | 2,015 | 2,217 | 2,962 |
| **Average daily production(1)** | | | |
| Steam (mt) | 41.9 | 42.9 | 59.6 |
| (expressed in electricity equivalent) (GWh) | 5.5 | 6.1 | 8.1 |

Note:

(1) Total annual production excludes JOCs for 2011, 2012 and 2013.

*Exploration and Development*

We expect to see substantial growth in the geothermal business given the projected demand of power supply in Indonesia. In line with our strategy, we are planning future geothermal development projects.

To begin exploration and development in a concession, we carry out several tests and surveys followed by exploratory drilling, first to validate and then to quantify the size of the potential geothermal resource. Resource validation and exploratory drilling is a long process that requires substantial capital investment, as it may necessitate the drilling of shallow temperature-gradient wells, "slim holes," exploration wells, and production-sized exploration wells. We do not expect to succeed in developing every resource that undergoes exploration activity and will cease exploration activities on potential geothermal resources that will not support commercial operations.

*Sales and Distribution*

We sell all of the electricity generated by our geothermal operations to PLN via electricity sales contracts. PLN in turn sells the energy to third-party customers in Indonesia. Each electricity sales contract has a term of 30 years and is on a 90% take-or-pay basis. The base price for electricity from our Lumut Balai and Ulubelu plants is about US$0.0753 per KWh. The base price for electricity from our Lahendong, Karaha Bodas and Kamojang Unit 5 plants is about US$0.0825 per KWh. We base our price increases over the life of the contract on the United States Producer Price Index. We also sell electricity to PLN from our Kamojang Unit 4 plant for about US$0.097 per KWh under an interim electricity and steam sales agreement with a term of one year.

Steam generated by our geothermal operations is sold through steam sales contracts to PLN or other private third parties (who use the steam to generate electricity which is in turn sold to PLN) and ultimately to third-party customers in Indonesia. Each steam sales contract has a term of 30 years. The base price for steam from our Ulubelu plant is about US$0.0420 per KWh. The base price for steam from our Lahendong and Kamojang Unit 1, 2 and 3 plants is about US$0.0620 per KWh. The base price for steam from our Kotamobagu, Hulu Lais and Sungai Penuh plants is about US$0.0430 per KWh. The base price for steam from our Sibayak plant is about US$0.0160 per KWh. Under each of our steam sales contracts with PLN, we are able to escalate our prices for steam on a 2% per annum basis.

**Pertamina Downstream Business**

***Overview***

Our downstream business includes several business lines: oil and gas refining, marketing, trading and shipping of crude oil, refined oil and gas products, distributing subsidized fuel products and operating certain LNG assets on the Government's behalf. We categorize our refined oil and gas products as retail oil-based fuel, such as motor gasoline and diesel, special fuel products, such as aviation gasoline, non-fuel and petrochemical products, such as green coke and lube-base oil, and gas-based fuel, such as LPG. We are the dominant refining company in Indonesia and among the largest oil and gas refiners in the Southeast Asia region in terms of production capacity, with six refineries that have a total production capacity of approximately 1,031 mbbls/d and an average NCI of 5.4, as of December 31, 2013. In 2013, our refineries, on average, produced approximately 813.1 mboe/d of refined oil and gas products.

Annual fuel production, comprised of retail oil-based fuel, special fuel products and gas-based fuel, reached 239.6 mmbbls for the year ended December 31, 2013. Non-fuel and petrochemical production reached 22.5 mmboe for the year ended December 31, 2013. See "— Refining" for more information on our refining business.

We hold significant interests in the downstream infrastructure and distribution networks in Indonesia, which are comprised of pipelines, fuel stations and depots, and shipping vessels. As of December 31, 2013, we owned 112 fuel terminals, 24 LPG terminals and depots, 666 LPG filling plants, 60 aviation fuel depots and three lube oil blending plants and operated 185 tankers.

We believe that because of our extensive distribution infrastructure and assets in Indonesia, we have been granted the PSO mandate by the Government to produce, supply and distribute the majority of subsidized fuel in Indonesia. This PSO mandate requires us to distribute fuel at subsidized rates fixed by the Government. We are subsequently reimbursed by the Government for our costs in accordance with a prescribed formula. See "— PSO" for more information on our PSO mandate.

To optimize the margins from our refined products, we also further refine low sulfur waxy residual fuel oil and naphtha, which are intermediate products from the refining process.

***Downstream Strategy***

In our refinery operations, we aim to ensure that all of our refineries are competitive and operate efficiently and profitably. We intend to improve our operating efficiency and effectiveness by restructuring and enhancing our existing downstream operations, including our refineries. We plan on revitalizing our existing refineries, improving our refinery complexity index and developing new refineries. In each of the years ended December 31, 2011, 2012 and 2013, our actual capital expenditures for our downstream segment were US$792.6 million, US$646.4 million and US$1,161.0 million, respectively.

Our current development strategy includes plans to increase refinery capacity, to increase our crude oil throughput and achieve product quality levels that comply with EURO III/IV specifications. In 2013, we launched the Refinery Development Master Plan with the objective of meeting growing fuel demand in Indonesia with increased domestic production. Under the Refinery Development Master Plan, we aim to comprehensively upgrade our refineries to significantly increase their production capacity and complexity, as well as improve their production capabilities for fuel products that comply with EURO III/IV specifications. We also intend to continue to expand and increase our refinery portfolio. We intend to construct two new refineries, in Balongan and in East Java, each with a primary processing capacity of 200 to 300 mbbls/d. See "— Refining Facilities" for our expansion plans for our existing refineries and "— Planned Development of New Refineries" for a description of our planned new refineries.

We plan to maintain our leading position in marketing and trading oil and gas in Indonesia and under our PSO mandate. We plan to strengthen our dominant distribution operations and infrastructure and capture a substantial retail market share going forward by expanding our company-owned and company-operated fuel stations. We intend to further augment our position by exiting from non-strategic retail locations. We plan to capitalize on our long established brand name.

In order to focus on further developing and exploring potential business prospects in the lubricants industry, we have recently incorporated a subsidiary, PT Pertamina Lubricants, which will carry out the operations of our downstream business relating to the marketing and trading of lubricants.

We intend to improve our LPG business by accelerating the conversion of kerosene to LPG and developing quality LPG service infrastructure. We intend to further streamline our distribution by obtaining more ships and building new LPG terminals (including refrigerated and pressurized terminals).

***Refining***

*Process*

Our refineries process crude oil to produce refined oil and gas products. Crude oil is generally sent through three separate process units. The first separates the crude oil through the application of heat and energy into chemical components a process called fractionation (such components are "fractions"). The second process unit processes the lower value fraction grades in order to create higher value refined products and the third process unit, treats and blends the higher value fraction grades with lower value fraction grades to ensures that the end product meets the quality standards of our customers. The higher value fraction grades produced from the first process unit are aviation turbine fuel and gas oil. See "— Description of Existing Refineries" for a description of the secondary products that each of our refineries can produce through the secondary process.

***Production***

The crude oil we use as feedstock from our refineries is sourced from our own production or imported under term contracts or under spot contracts. See "— Integrated Supply Chain". The natural gas we process in our refineries is sourced mostly from our own production.

The following table presents our total refinery capacity, intake and production for 2011 to 2013.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| **Capacity** | | | |
| Refining capacity (mbbls/d) | 1,031 | 1,031 | 1,031 |
| Average NCI | 5.4 | 5.4 | 5.4 |
| Average utilization rate (%) | 79.9 | 79.5 | 80.7 |
| **Annual intake** | | | |
| Produced crude oil (mmbbls) | 203.3 | 200.6 | 303.7 |
| Imported crude oil (mmbbls) | 97.4 | 98.2 | 114.1 |
| High octane motor gas import (mmbbls) | 1.0 | 3.7 | 6.2 |
| Natural gas (mmboe) | 5.9 | 4.6 | 3.8 |
| **Annual production** | | | |
| Fuel (mmbbls) | 236.5 | 239.0 | 239.6 |
| Non-fuel and petrochemicals (mmboe) | 25.2 | 23.6 | 22.5 |
| **Average daily production** | | | |
| Fuel (mbbls/d) | 648.0 | 654.8 | 656.3 |
| Non-fuel and petrochemicals (mboe/d) | 68.9 | 64.7 | 61.6 |

See "— Downstream Products" for more information on the products produced from our refineries.

***Refining Facilities***

We own and operate six refineries with total refining capacity of 1,031 mbbls/d and an average NCI of 5.4. Some of our refineries are operationally integrated with petrochemical refineries that produce non-fuel and petrochemical products, which gives us a leading role in the production of petrochemical products in Indonesia. Our petrochemical refineries produce aromatic products and olefin products that are used as raw materials for textile, rubber, synthetics, plastics and other industries. In addition, we have an LPG plant with an installed capacity of 80 Mton per year and a methanol plant with an installed capacity of 330 Mton per year.

Our largest refinery is RU IV Cilacap, which is located in Central Java, which has a refining capacity of 348 mbbls/d. Our second largest refinery is RU V Balikpapan, which has a refining capacity of 260 mbbls/d. Both refineries process crude oil.

In recent years, we have made significant capital investments in facility expansions and upgrades to improve product quality and increase production capacity and efficiency of our plants to meet evolving market demand and environmental requirements in Indonesia. These capital expenditures were incurred primarily in connection with routine maintenance and facility expansions and upgrades of our refineries. In addition, we have focused on enhancing our processing technologies and methods. These efforts have enabled us to improve the quality of refined products at our refineries, particularly gasoline and diesel. We have reduced gasoline lead and sulfur content and diesel sulfur content. We have also maintained the efficiency and utilization rate of our refineries. In each of the three years ended December 31, 2011, 2012 and 2013, the average utilization rate of the primary processing capacity of our refineries was 79.9%, 79.5% and 80.7%, respectively. We also intend to continue to make capital investments in facility expansions and upgrades as described below.

The table below sets forth our refinery portfolio and planned key expansion and upgrading activities as of December 31, 2013.

*Fuel*

| Refinery | Capacity (mbbls/d) | NCI | Key Expansion and upgrade Details and Target Completion Dates |
|---|---|---|---|
| RU II Dumai/Sei Pakning | 170 | 7.5 | Build open access crude oil importing facilities and a calciner by 2016. |
| RU III Plaju | 118 | 3.1 | Build open access crude oil importing facilities and a calciner by 2018. |
| RU IV Cilacap | 348 | 4.0 | Build new RCC (as defined below) by 2015 and revamp the platformer unit and add an isomer condensation unit by 2016. |
| RU V Balikpapan | 260 | 3.3 | Bottom upgrading project; to increase refinery capacity and build an RCC by 2020. |
| RU VI Balongan | 125 | 11.9 | Build new polypropylene plant by the end of 2016. |
| RU VII Kasim/Sorong | 10 | 2.4 | |
| **Total** | **1,031** | **5.4** | |

*Non-fuel Petrochemicals*

| Refinery | Non-fuel petrochemicals produced | Capacity (Mtons/year) |
|---|---|---|
| RU IV Cilacap | Paraxylene | 270 |
| RU III Plaju | Polypropylene | 45 |
| RU II Dumai/Sei Pakning | Green coke | 330 |
| **Total** | | **645** |

*LPG*

| Refinery | Capacity (Mtons/year) |
|---|---|
| Mundu | 10 |
| Pangkalan Brandan[(1)] | 70 |
| **Total** | **80** |

Note:

(1) LPG Pangkalan suspended operations in October 2012 due to a shortage of feed gas.

***Description of Existing Refineries***

*RU II Dumai/Sei Pakning*

RU II Dumai/Sei Pakning is located in Sumatra and consists of refinery units at Dumai and Sei Pakning. Each of the units at RU II Dumai/Sei Pakning commenced operations in 1972 and have undergone periodic revamps and modifications. RU II Dumai/Sei Pakning is able to produce motor gasoline, kerosene, aviation turbine fuel, gas oil, naphtha, LPG, green coke, feedstock for lube base oil plants and low sulfur waxy residual fuel oil ("LSWR") via its primary and secondary process units. RU II Dumai/Sei Pakning is comprised of a crude distillation unit ("CDU"), high vacuum unit ("HVU"), hydro-cracker units ("HCU"), delay coke units and platformer units.

As of December 31, 2013, RU II Dumai/Sei Pakning had an NCI of 7.5, its primary process units had a processing capacity of 170 mbbls/d through its CDU and its secondary process units had a processing capacity of 60 mbbls/d through its hydro-cracker unit, 15 mbbls/d through its platformer unit and 35.3 mbbls/d through its delay coker unit.

RU II Dumai/Sei Pakning uses domestic crude oil as its raw material. The crude oil processed at RU II Dumai/Sei Pakning comes from our own production and from other oil and gas producers, such as Chevron, and is transported by pipelines and tankers. For the year ended December 31, 2013, the average total output of RU II Dumai/Sei Pakning was 131.9 mbbls/d, and the total amount of green coke produced was 343,369 mt. In 2013, the primary processing capacity utilization rate at RU II Dumai/Sei Pakning was 77.5%.

We intend to build open-access crude oil importing facilities comprising of oil tanks and a jetty to increase our capability in processing crude oil. We also intend to build a calciner by 2016 to produce calcine with a production capacity of 200,000 mtpa.

*RU III Plaju*

RU III Plaju is located in Musi, Sumatra. It commenced operations in 1935 and underwent revamps and modifications in 1982 and 1994. RU III Plaju is able to produce motor gasoline, kerosene, aviation turbine fuel, aviation gas, gas oil, industrial fuel oil, naphtha, LPG, polypropylene, solvent and hydrocarbon refrigerants via its primary and secondary process units.

As of December 31, 2013, RU III Plaju had an NCI of 3.1, its primary process units had a processing capacity of 118 mbbls/d and its secondary process units had a processing capacity of 20.5 mbbls/d through its fluidized catalytic cracking unit ("FCCU") and 45 Mton per year through its polypropylene unit. RU III Plaju is comprised of CDU, HVU, FCCU and polypropylene units.

RU III Plaju uses domestic crude oil as its raw material. Substantially all of the crude oil processed at RU III Plaju comes from our own production and from other oil and gas producers and is transported by pipelines and small tankers. For the year ended December 31, 2013, the average total output of RU III Plaju was 94.1 mbbls/d and polypropylene production was 44,620 mt. In 2013, the primary processing capacity utilization rate at RU III Plaju was 71.9%.

We also process LSWR, an intermediate product produced by our RU IV Cilacap refinery, at RU III Plaju. In 2013, we processed 880.0 mbbls of LSWR at RU III Plaju.

We are currently conducting feasibility studies in relation to the prospective construction of open-access crude oil importing facilities at RU III Plaju by 2018.

*RU IV Cilacap*

RU IV Cilacap consists of two refinery units located in Cilacap, Java. The refinery units at RU IV Cilacap commenced operations in 1976 and 1983 and both were revamped and modified in 1999. RU IV Cilacap is able to produce motor gasoline, kerosene, aviation turbine fuel, gas oil, industrial fuel, LSWR, naphtha, LPG, paraxylene, benzene, lube based oil mineral, solvent and asphalt via its primary and secondary process units. RU IV Cilacap is comprised of two fuel oil complex units, three lube oil plants, an asphalt unit and a paraxylene unit.

As of December 31, 2013, RU IV Cilacap had an NCI of 4.0, its primary process units had a processing capacity of 348 mbbls/d and its secondary process units had a processing capacity of 270 Mton of paraxylene per year and 396 Mton of lube base oil per year.

RU IV Cilacap uses imported light sweet and sour crude and domestic light sweet crude as its raw materials. In 2013, approximately 33% of the crude oil processed at RU IV Cilacap came from our own production and from other domestic oil and gas producers, and the balance was imported from Asia, West Africa and the Middle East by tankers. For the year ended December 31, 2013, the average total output of RU IV Cilacap was 266 mbbls/d, paraxylene production was 2,027 mbbls, asphalt production was 1,623 mbbls, and lube base oil production was 2,815 mbbls. In 2013, the primary processing capacity utilization rate at RU IV Cilacap was 80.0%.

We intend to build a new residue catalytic cracker ("RCC") with a capacity of 62 mbbls/d by 2015. We also intend to revamp the platformer unit of RU IV Cilacap and add an isomer condensation unit to increase capacity by 19 mbbls/d by 2016.

*RU V Balikpapan*

RU V Balikpapan consists of two refinery units located in Balikpapan, Kalimantan. The refinery units at RU V Balikpapan commenced operations in 1922 and 1983 and the first unit was revamped/modified in 1997. RU V Balikpapan is able to produce motor gasoline, kerosene, aviation turbine fuel, gas oil and LSWR via its primary process unit and naphtha, LPG, oil base mud and wax via its primary and secondary process units.

As of December 31, 2013, RU V Balikpapan had an NCI of 3.3, its primary process unit had a processing capacity of 260 mbbls/d and its secondary process units had a processing capacity of 55 mbbls/d for its HCU and 20 mbbls/d for its platformer unit. RU V Balikpapan is comprised of a CDU, HVU, HCU, platformer and wax plant units.

RU V Balikpapan uses domestic and imported light sweet crude as its raw material. In 2013, more than half of the crude oil processed at RU V Balikpapan came from our own production and from other domestic oil and gas producers and was transported by pipelines and via tankers, while the balance was imported from Asia and West Africa and was transported by tankers. For the year ended December 31, 2013, the average total output of RU V Balikpapan was 242.9 mbbls/d, the primary processing capacity utilization rate at RU V Balikpapan was 89.8%.

We intend to perform a bottom upgrade of RU V Balikpapan to increase our refinery capacity by 2020, as well as build a new RCC. We also intend to shift the feedstock at this refinery from sweet crude to sour crude. As a result, we expect RU V Balikpapan to have an NCI of 5.1.

*RU VI Balongan*

RU VI Balongan is located in Balongan, Java. RU VI Balongan commenced operations in 1994 and was revamped or modified in 2005. RU VI Balongan is able to produce motor gasoline, kerosene, gas oil, high octane motor gasoline and propylene via its primary and secondary process units.

As of December 31, 2013, RU VI Balongan had an NCI of 11.9, its primary process unit had a processing capacity of 125 mbbls/d and its secondary process units had a processing capacity of 83 mbbls/d of RCC and 52 mbbls/d of bottom product. RU VI Balongan comprises a CDU, an atmospheric residual hydro-demetalizer, RCC, propylene recovery unit, propylene receiving units, a residue catalytic cracking off-gas propylene project and a LPG plant.

RU VI Balongan uses domestic crude and imported light sweet crude as its raw materials. In 2013, all of the crude oil processed at RU VI Balongan came from our own production and from other domestic oil and gas producers and 95% was transported by tankers and pipelines. For the year ended December 31, 2013, the average output of RU VI Balongan was 147.3 mbbls/d, the primary processing capacity utilization rate at RU VI Balongan was 77.4%.

We also process LSWR, an intermediate product from our RU IV Cilacap refinery, and naphtha, an intermediate product from our RU II Dumai, RU III Plaju, RU IV Cilacap and RU V Balikpapan refineries, at RU VI Balongan. In 2013, we processed 3,987 mbbls of LSWR and 15,125.2 mbbls of naphtha at RU VI Balongan.

We have also constructed a residue catalytic cracking off-gas propylene project in RU VI Balongan with a production capacity of 180,000 mtpa, which is currently operational.

We also plan to build a polypropylene unit to produce polypropylene and process additional propylene products.

*RU VII Kasim/Sorong*

RU VII Kasim/Sorong is located in Sorong, Papua. RU VII Kasim/Sorong commenced operations in 1995. RU VII Kasim/Sorong is able to produce motor gasoline, kerosene, and gas oil via its primary and secondary process units. RU VII Kasim/Sorong uses domestic crude oil as its raw material. All of the crude oil processed at RU VII Kasim/Sorong is comprised of the Government's crude entitlement from other oil and gas producers and is transported by pipelines to our refinery.

As of December 31, 2013, RU VII Kasim/Sorong had an NCI of 2.4, its primary process unit had a processing capacity of 10.0 mbbls/d its secondary process units had a processing capacity of 2.0 mbbls/d for its platformer unit. RU VII Kasim/Sorong resumed operations in August 2012 after its shutdown for repairs. RU VII Kasim/Sorong is comprised of a CDU, a naphtha hydro treating unit and platformer unit.

*LPG Mundu*

LPG Mundu, an LPG plant, is located in Mundu, West Java. LPG Mundu commenced operations in 1977. As of December 31, 2013, LPG Mundu had an output capacity for LPG of 10 Mton per year. All of the natural gas processed at LPG Mundu comes from our own production at our Mundu field and is transported by pipelines. For the year ended December 31, 2013, the average output of LPG Mundu was 12.4 mt per day.

*LPG Pangkalan Brandan*

LPG Pangkalan Brandan, an LPG plant, is located in Pangkalan Brandan, North Sumatra. LPG Pangkalan Brandan commenced operations in 1995 but ceased operations in 2006 due to a decline in gas output. Following a new gas discovery at the Glagah Kambuna field, the LPG plant resumed operations from 2010 until October 2012, when it suspended operations due to a shortage of feed gas. As of December 31, 2012, LPG Pangkalan Brandan had an output capacity for LPG of 70 Mton per year. All of the natural gas processed at LPG Pangkalan Brandan comes from the Glagah Kambuna field and is transported by pipelines. For the year ended December 31, 2012, the average output of LPG Pangkalan Brandan was 21.4 mt per day. There was no output from LPG Pangkalan Brandan in the year ended December 31, 2013 due to its continued suspension of operations.

***Planned Development of New Refineries***

*Balongan II Refinery*

We intend to construct a new refinery at Balongan with a primary processing capacity of 200-300 mbbls/d with fully integrated petrochemical plants, through a joint venture with Kuwait Petroleum International and SK Energy, by 2020. The Government of Indonesia has not approved the project proposal on its current terms and we are currently considering alternative arrangements with our partners.

*East Java Refinery*

We intend to construct a new refinery at East Java with a primary processing capacity of 300 mbbls/d with fully integrated petrochemical plants, through a joint venture with Saudi Aramco Asia Company Limited, by 2020. We are currently in the planning stage.

***Downstream Products***

Our downstream refined products are:

- Motor gasoline, which comprises transportation fuel marketed under our brands “Premium” (RON 88), “Pertamax” (RON 92), and “Pertamax Plus” (RON 95);
- Kerosene;
- Automotive diesel;
- Industrial diesel;
- Industrial fuel;
- Aviation turbine fuel and aviation gasoline;

- Gas-based products, which comprise LPG and refrigerants, such as aerosol. Our LPG products are marketed under the name "Elpiji" in 3kg, 12kg, and 50kg packaging and skid tanks;

- Petrochemicals, which comprise green cokes, asphalt, waxes, raffinate, heavy aromatics and solvents (such as Pertasol, Minasol, Minarex B&H and SBPX/LAWS/SGO), polypropylene, rubber processing oil (paraffinic oil), methanol, agrochemicals, paraxylene, propylene, benzene and sulfur; and

- Lube base oil.

The table below sets forth production volume for our refined products for the periods presented.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (in thousands of bbls) | | |
| Motor gasoline | 67,642 | 67,684 | 67,892 |
| Kerosene | 14,378 | 10,808 | 9,212 |
| Automotive diesel | 116,419 | 122,099 | 124,587 |
| Industrial diesel | 1,352 | 1,135 | 900 |
| Industrial fuel | 19,633 | 14,416 | 12,520 |
| Aviation turbine fuel | 17,061 | 19,050 | 19,224 |
| Aviation gasoline | 0 | 0 | 0 |
| LPG | 8,896 | 7,892 | 7,206 |
| Refrigerants | 5 | 4 | 4 |
| Petrochemicals | 5,269 | 4,596 | 5,353 |
| Lube base oil | 3,065 | 2,988 | 2,815 |
| **Total** | **253,720** | **250,672** | **249,713** |

We also import refined products for distribution. In 2013, we imported 241.0 mmbbls of refined products under term supply contracts and spot contracts. Our major providers of refined products are PetroChina and Ente Nazionale Idrocarburi (ENI) S.p.A.

### Pertamina Gas Business

#### *Overview and Strategy*

Our gas business principally involves the operation of an extensive gas transmission network and the Arun and Bontang LNG plants in Arun and Badak, respectively, and the export and transport of LNG, in each case on behalf of the Government. We also trade gas in conjunction with our gas transportation business. We have recently begun to distribute and sell CNG pursuant to a mandate from the Government which aims to promote the use of CNG by public and private transportation vehicles, with the goal of reducing domestic dependence on subsidized motor gasoline and automotive diesel (the "CNG mandate"). Our CNG mandate expired in 2013 and we are in the process of renewing our CNG mandate for 2014.

We intend to extend our LNG business beyond its present operations to integrate gas upstream supply sources, LNG processing and distribution as well as the operation of LNG receiving terminals. We plan on expanding our gas transmission network and LNG infrastructure to meet growing domestic demand and to better service our customers. We also intend to expand our network of CNG refueling stations with a target of having 116 refueling stations by 2017 and distribute and sell CNG to industrial users and expand our network of distribution pipelines to provide gas to all CNG refueling stations . We also have plans to invest in power generation from gas, biofuels and other renewable energy sources in the long term. As we compete with other state companies such as PGN and PLN for the allocation of gas from domestic production, we are also seeking to reduce dependence on domestic sources of gas. For example, we have signed an LNG sale and purchase agreement with Corpus Christi Liquefaction, LLC, a subsidiary of Cheniere Energy, Inc ("Cheniere"), an energy company based in Houston, Texas, in December 2013 to supply LNG to us for a term of 20 years. See "— LNG" below.

To achieve these aims, we have organized our gas business under our Gas Directorate, which is a business unit of our Company formed in 2012.

***LNG***

Our LNG business principally involves the operation of the Arun and Bontang LNG plants in Arun and Badak, respectively, and the export and transport of LNG, in each case on behalf of the Government. Although we have operated the Arun and Bontang LNG plants since 1977, ownership of the assets was not transferred to Pertamina following the coming into force of the Oil and Gas Law of 2001 and its implementing regulations, unlike certain other of our oil and gas assets. Instead, we continue to operate these LNG plants on behalf of the Government under the Minister of Energy and Mineral Resources Decree No. 1869K/10/MEM/2007 on Implementation of Liquefied Natural Gas (LNG) Arun and Liquefied Natural Gas (LNG) Badak Business Activities and the Minister of Finance Decree No. 092/2008, in exchange for an operational fee that is set annually by the Government. Under the Minister of Finance Decree No. 092/2008, our role as operational asset manager of these LNG plants will continue until the Minister of Finance determines that a new operational asset manager is to be appointed. In the event that a new operational asset manager is appointed, we may remain responsible for the management of these LNG plants if we are granted a power of attorney to act on behalf of the new operational asset manager. The Government has also granted us the right to enter into new contracts or extend existing LNG production contracts with respect to LNG produced at the Bontang plant. In addition to the operational fees we continue to earn for existing Bontang LNG production contracts that have not expired, we are permitted to charge and retain profit margins under new contracts or extensions of existing contracts that we negotiate and enter into. We do not however have management control of the Arun and the Bontang LNG plants. We are also the Government's designated seller for the export and transport of LNG produced at the Arun and the Bontang LNG plants, and for the export of the Government's entitlement of LNG from the Tangguh LNG plant, in each case, in exchange for a marketing fee.

The Arun plant has access to 331 bcf remaining gas reserves and has an installed capacity of 12.5 million mtpa and a current production capacity of 1.1 million mtpa. The Government plans to cease production of the Arun plant in 2014 due to the depletion of the natural gas reserves. The Bontang plant has access to 13,280 bcf remaining gas reserves and has an installed capacity of 22.5 million mtpa and a current production capacity of 17.0 million mtpa.

As of December 31, 2013, the LNG from the Arun, Bontang and Tangguh LNG plants was exported to Japan, Korea and Taiwan under thirteen LNG sales contracts for an aggregate volume of 11.4 million mt. The majority of these contracts are set to expire between 2013 to 2024. We have signed LNG sales contracts with Chubu Electric, Kansai Electric, Kyushu Electric, Nippon Steel, Osaka Gas and Toho Gas for sale volumes of 3.0 million mtpa for 2011 to 2015 and 2.0 million mtpa for 2016 to 2020.

We also operate a LNG FSRU in West Java with a total capacity of 3.0 million mtpa as part of a joint venture with PGN, in which we own a 60% equity interest. The West Java LNG FSRU commenced production in May 2012 and we are in the process of developing a transportation pipeline as the next phase of this project. We have also been appointed by the Government to sell LNG from the Bontang LNG plant to the West Java LNG FSRU for an aggregate sale volume of 11.75 million mt over the 2012 to 2022 period.

We are engaged in the following key projects to expand our LNG business:

- We are developing a 2.0 million mtpa LNG plant at Donggi Senoro, where we will process and export LNG through a joint venture company which we, Medco LNG Indonesia and Sulawesi LNG Development hold a 29%, 11% and 59.9% interest in respectively. We received shareholder's approval on January 21, 2011. We have entered into a contract for a term of 11 years for the sale of LNG with a Korean purchaser for a volume of 0.3 million mtpa. We have also signed heads of agreement for the sale of LNG from the Donggi Senoro plant with two Japanese purchasers for volumes of 1.0 million mtpa and 0.7 million mtpa respectively. We will have access to gas resources of 3,700 bcf from the Senoro and Matindok fields for the Donggi Senoro plant. The LNG plant at Donggi Senoro is expected to be operational in December 2014.

- We have an arrangement with the Government under which we are permitted to develop the Arun plant at our own cost and operate it commercially and earn fees from such new developments. We intend to revamp and transform the Arun plant into a receiving and regasification terminal with a capacity of 3.0 million mtpa, upon the depletion of the natural gas reserves to which the Arun plant has access. We also intend to build a gas pipeline between the Arun plant and the industrial area in Belawan, Medan as an integrated project, in order to sell gas from regasification of LNG to industrial customers in the Arun area and the Belawan industrial area. Our plan is to purchase LNG for regasification and to sell the gas to industrial customers in the Arun area and the Belawan industrial area. We have commenced construction and of the receiving and regasification terminal and the Arun-Belawan pipeline and expect to complete the project in the fourth quarter of 2014.

- We have been awarded a project to build a LNG FSRU in Central Java. The project will have a production capacity of 3.0 million mtpa and we expect to commence production in 2016. This project includes the construction of a 2.5 km onshore pipeline and a 15 km offshore pipeline and is part of the Trans-Java Gas Pipeline project intended to connect gas markets across Java.

- We have entered into a joint venture with PLN through our joint venture, PT Perta Daya Gas, to construct LNG receiving and regasification terminals in Eastern Indonesia. We hold a 65% majority interest in this joint venture while PLN holds the remaining 35% interest.

We are also exploring other ways to further expand our LNG business, including conducting trials in relation to the use of LNG as fuel in heavy duty trucks and commissioning studies on the use of gas as fuel in our refinery units.

We will also focus on building relationships with new LNG buyers and suppliers in international markets, including Asia, Australia, Papua New Guinea, Africa and the United States. In December 2013, we signed an LNG sale and purchase agreement with Cheniere to supply 0.8 million mtpa of LNG to us for a term of 20 years commencing from 2018 from its LNG plant in Corpus Christi, Texas.

***Natural Gas Transportation***

We own and operate an extensive gas transmission network of approximately 1,624.3 km that covers South Sumatra, West Java, East Java and East Kalimantan, which represents approximately 43% of the gas transmission network in Indonesia. Our network has 56 compressor stations to ensure that natural gas reaches its offload points. Approximately 369.7 km of our transmission network is offshore and approximately 1,254.6 km is onshore. Our existing natural gas pipeline forms a national gas supply network in Indonesia and currently has a capacity of approximately 8,110 mmcf/d. We use the gas transmission network to transport gas that we produce to our customers, such as PLN, PGN and Kujang Fertilizer. We also enter into agreements with other gas producers such as Kangean Energy Indonesia Ltd and PT Medco E&P Indonesia to allow them to transport the gas that they produce through our gas transmission network. Our gas transport agreements are generally on a "ship-or-pay" basis, under which gas producers agree to pay for 75% to 80% of the contracted quantity of gas to be transported even if the actual amount of gas shipped is below that threshold.

We plan on expanding our gas transmission network to meet our growing demand and to better service our customers:

- *Gresik — Semarang pipeline*. The Gresik — Semarang pipeline will connect Gresik to Semarang. The pipeline is expected to be approximately 270 km long, with a capacity of 500 mmcf/d. Approval for the pipeline was received from BPH MIGAS in 2006 and this pipeline is expected to be operational in the third quarter of 2015. The Gresik — Semarang pipeline extension is intended to be part of our plan to construct an integrated pipeline network across Java, which remains subject to our obtaining of the necessary approvals.

- *Arun — Belawan pipeline*. The Arun — Belawan pipeline will connect the Arun plant to Belawan, in conjunction with our conversion of the Arun plant to a receiving and regasification terminal. The pipeline is expected to be approximately 340 km long, with a capacity of 200 mmcf/d. The construction is expected to commence in the second quarter of 2013 and is expected to be completed in the fourth quarter of 2014.

***CNG***

Our newly-established CNG business operations involves the distribution and sale of price-controlled CNG to users of public and private transportation vehicles in Indonesia through CNG refueling stations that we own and operate pursuant to our CNG mandate, as well as the production, distribution and sale of CNG to industrial customers.

*Distribution and Sale of CNG under the CNG Mandate*

Under our CNG mandate, we construct and operate CNG refueling stations, through which we distribute and sell CNG to users of public and private transportation vehicles under the product names "BBG" and "Envogas". A CNG distribution network comprises mother stations, filling stations that receive CNG from producers, daughter stations, filling stations that decant and distribute CNG received from mother stations, and online-gas refueling stations and mobile refueling stations, where CNG is stored and distributed to end-users. The CNG that we distribute is supplied by our upstream business, as well as from third-party domestic suppliers such as PGN, PT Medco Energi Internasional Tbk ("Medco Energi") and Santos. Our first CNG refueling station was completed in December 2012 and our CNG distribution network is comprised of two mother stations, six daughter stations and eleven online-gas refueling stations. The Government constructs and owns the CNG refueling stations and infrastructure, which we operate on behalf of the Government. Under the CNG mandate, the Government will eventually transfer ownership of the CNG infrastructure assets to us. Our CNG mandate expired in 2013 and we are in the process of renewing our CNG mandate for 2014.

The price at which CNG is purchased and sold is fixed by the Government and we earn a margin from our distribution of CNG. Starting from the year 2013, the price set by the Government for CNG sold to us by our suppliers is US$4.72/mmbtu, and the Government levies an additional toll fee of Rp. 338 per gasoline — equivalent liter to account for distribution and transportation costs. The price set by the Government for CNG sold by us to end-users through our CNG refueling stations is

Rp. 3,100 per gasoline — equivalent liter. As the price set by the Government for CNG sold to us is denominated in U.S. dollars while the price set by the Government for CNG sold by us is denominated in Rupiah, fluctuations in the exchange rate between the U.S. dollar and the Rupiah affect our profit margin from our CNG sales. For the year of 2013, we made a net profit from our CNG sales, but there is no assurance that we will continue to make a profit from our CNG sales if the Rupiah continues to depreciate against the U.S. dollar.

We are currently the only company that has been granted the CNG mandate by the Government.

We plan to construct at least 14 additional stations and a 135 km distribution pipeline throughout Java by the end of 2014, in line with the Government's plans to expand the CNG distribution network in Indonesia.

*Production and Distribution and Sale of CNG to Industrial Customers*

We have commenced the production of CNG for distribution and sale to industrial customers in Bitung, West Java, Indonesia. We are using gas produced from the Pondok Tengah field in the PEP block as a source of CNG for distribution and sale to industrial customers. We have also signed a supply agreement for the purchase of CNG at US$6.69/mmbtu from PT Bina Bangun Wibawa Mukti.

We have signed CNG sale agreements with three industrial customers in Bitung and expect to commence production, distribution and sale of CNG at US$13.4/mmbtu to these customers in the course of 2014. We are in the process of negotiating other CNG sale agreements.

**Marketing and Trading**

Our marketing and trading activities involve the distribution of fuel, non-fuel and petrochemical products (including LPG and other gas fuels) to both domestic and export markets. Since 2007, we have been appointed by the Government to assist in its efforts to encourage the use of LPG as a substitute for kerosene under the kerosene conversion program. See "— Distribution — Domestic Gas".

Our domestic distribution network is operated by eight regional marketing and trading units, which are supported by both storage tanks and shipping facilities. Our storage facility network comprises 112 fuel terminals, 24 LPG terminals and depots, 666 LPG filling plants, 60 aviation fuel depots, three lube oil blending plants and 185 tankers. Each marketing unit covers one or more provinces as their marketing areas.

We are actively seeking to expand our marketing and trading business. Our key marketing and trading investment projects include:

- the relocation of an LPG depot in Tanjung Priok, Jakarta. The completion of the project is estimated to be in 2014;

- the construction of an aviation turbine fuel pipeline at Tanjong Perak Juanda. The completion of the project is estimated to be in 2015;

- the modernization of a fuel depot in Sambu Island, Riau Islands. The completion of the project is estimated to be in 2016;

- the construction of a refrigerated LPG terminal in Tanjung Sekong, Banten. The completion of the project is estimated to be in 2016; and

- the construction of a 84,000 cubic meters LPG very large gas carrier ("VLGC"). The completion of the project is estimated to be in 2014.

In December 2013, we also entered into a marketing and trading joint venture agreement with PTT Global Chemical Public Company, Thailand's state-owned petrochemical company, to start up a joint venture to expand our sale and distribution of polymers in Indonesia. The incorporation of the joint venture company remains subject to regulatory approvals.

***Distribution***

The table below sets forth sales volume for our refined products for the periods presented.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | (in million KL) | | |
| Motor gasoline(1) | 25.76 | 28.46 | 29.42 |
| Kerosene(1) | 1.99 | 1.38 | 1.23 |
| Automotive diesel(1) | 28.90 | 27.96 | 27.74 |
| Industrial diesel | 0.35 | 0.09 | 0.06 |
| Industrial fuel | 3.54 | 2.40 | 1.83 |
| Aviation turbine fuel | 3.56 | 3.90 | 4.16 |
| Aviation gasoline | 0.002 | 0.003 | 0.003 |
| LPG(1) | 5.30 | 6.01 | 6.53 |
| Refrigerants | 0.004 | 0.01 | 0.011 |
| Petrochemicals | 6.77 | 6.58 | 9.54 |
| Lube base oil | 0.61 | 0.63 | 0.46 |
| **Total** | **76.8** | **77.4** | **80.9** |

Note:

(1) All sales of motor gasoline, kerosene, automotive diesel and LPG in 3kg cylinders are pursuant to our PSO mandate. Our LPG in 3kg cylinders sales were 3.3 million mt, 3.9 million mt and 4.4 million mt for the years ended December 31, 2011, 2012 and 2013, respectively. We also sell LPG in 12kg and 50kg cylinders.

The categories for the refined products we distribute are as follows.

*Retail Fuel*

Our retail fuel business consists of retail fuel sales to end-customers, most commonly through retail fuel filling stations. Our retail fuel sales consist of fuel sold under our PSO mandate (sold under the brand names "Premium" and "Solar fuel") and non-PSO fuel (sold under the brand names "Pertamax", "Pertamax Plus" and "Pertamina Dex"). See "— PSO" for more information on our PSO mandate.

As of December 31, 2013, there were 5,091 Pertamina-branded retail fuel filling stations in Indonesia. 93 of these retail fuel filling stations are owned and operated by us. The remaining 4,998 retail fuel filling stations are franchise operations, owned and operated by third parties and held for average periods of 10 to 20 years. These service stations are located across Indonesia and exclusively sell gasoline and diesel. All of our retail fuel filling stations share the same branding and are uniform to consumers. The third party dealer pays an initial fee and additional fees on renewal to use our intellectual property rights, including our fuel station design and standard technical specifications, logo and standard operating procedure software management, for the duration of the arrangement.

We are actively increasing the number of retail fuel filling stations owned and operated by us to secure our retail distribution network. We currently have 93 of these stations and expect to build approximately six more stations owned and operated by us and 30 more stations owned by us and operated by third party dealers by the end of 2014. We also intend to expand our retail fuel business overseas in the future and have established a representative office in East Timor.

We estimate our market share in relation to subsidized fuel products to be 99.8% and in relation to non-subsidized fuel products to be 76.3% for the year ended December 31, 2013. Our main competitors in the retail fuel sector are Shell, AKR and Total.

*Industry and Marine Fuel*

Our industry and marine fuel business consists of sales of products such as motor gasoline, kerosene, high speed diesel, marine diesel fuel, industrial diesel oil and marine fuel oil to commercial customers, whom we supply directly from our depots. Some of our main customers for industry and marine fuel products are PLN, PT Pamapersada Nusantara and Newmont Nusa Tenggara.

We estimate our market share in relation to industry and marine fuel to be 68.7% as of December 31, 2013. Our main competitors in the industry and marine fuel sector are Shell, Petronas, AKR and Petro Andalan.

*Aviation Fuel*

Our aviation fuel business consists of sales of products such as aviation gasoline and aviation turbine fuel to commercial customers. We have supplied products to more than 247 customers, some of whom are commercial airlines, which represent the majority of our sales volume for aviation fuel in 2013. We distribute aviation fuel through our 60 airport depots in Indonesia and we also supply airline customers through our partners in the Asia-Pacific, the Middle East and Europe.

We are the sole provider of aviation fuel in Indonesia.

*Non-fuel and Petrochemical Products*

Our non-fuel and petrochemical products include asphalt and bitumen, non-fuel special chemical and biofuel products (such as solvents, green coke, lube base oil, minarex and rubber processing oil) and petrochemical products (such as paraxylene, benzene, propylene and polypropylene (polytam) and sulfur). We market our non-fuel and petrochemical products directly or indirectly through a network of sales personnel and agents dedicated to handling our non-fuel and petrochemical operations for industrial use.

We estimate our market share in relation to non-fuel and petrochemical products to be 25.0% as of December 31, 2013. Our main competitors in the non-fuel and petrochemicals sector are Chandra Asri, Petronas, Shell, Chevron and Esso.

*Lubricants*

Our lubricant products include automotive engine oils (such as for passenger cars and heavy duty diesel), automotive gear oil, industrial and marine diesel engine oils, circulating oils, hydraulic oils, turbine oils, compressor oils and grease and are marketed under the names Fastron, Prima XP, Enduro, Mesran, Meditran, Turalik and Zipex. We market lubricants directly or indirectly through a network of sales personnel and agents dedicated to our lubricant operations that span 24 countries. Our main customers for our industrial lubricant products are mining, power generating, oil and gas, manufacturing and cement companies.

We estimate our market share in relation to lubricants to be 60.0% as of December 31, 2013. Our main competitors in the lubricants sector are Shell, Castrol, Yamalube, Idemitsu and Repsol, internationally, and in Indonesia we also compete with Federal Oil, Top 1 and Evalube.

In 2012, we started offering toll blending services in Singapore and Thailand. Toll blending is a specialty service through which we assist companies that require complex lubricant formulations, by mixing and processing the base ingredients for a fee and selling them the final product.

*Domestic Gas*

Our domestic gas based fuel marketing activities cover products such as LPG, natural gas fuels, refrigerants and aerosol. We sell LPG through agents in 3kg cylinders domestically to households pursuant to our PSO mandate, LPG in 12kg cylinders domestically to households and LPG in 50kg cylinders domestically to hotels and restaurants. We also sell LPG in bulk to end users in the industrial sector. See "— PSO" for more information on our PSO mandate. We sell our gas products under the brand names Elpiji, ViGas, Bright Gas, BBG, HAP and Musicool.

In 2007, we were appointed by the Government to assist in its efforts to encourage the use of LPG as a substitute for kerosene in Indonesian households. See "— PSO". Since the start of the kerosene conversion program in 2007, we have distributed 65.2 million LPG conversion packages, comprising a stove and a LPG regulator and cylinder. We have distributed a decreasing amount of kerosene in each successive year as a result of the introduction of the kerosene conversion program, as an increasing number of households convert to the use of LPG. We receive compensation from the Government under our PSO mandate for the distribution of subsidized LPG. See "— PSO" for more information. We are the sole distributor of LPG in Indonesia.

***PSO***

One of our key roles is to distribute subsidized fuel in Indonesia under our PSO mandate. Prior to the passage of the Oil and Gas Law of 2001, we were the sole distributor of subsidized fuel in Indonesia. After the passage of the Oil and Gas Law of 2001, our monopoly in the downstream sector was originally scheduled to end in November 2005, when private investors (including foreign companies) would be allowed to participate in processing, transporting, storing, distributing and selling refined fuel products. However, on November 15, 2005, the Government announced that our right to sell subsidized fuel had been extended to December 31, 2007 as private competitors, such as AKR and Petronas, did not have the required infrastructure to sell subsidized fuel outside of Java at that time.

Since 2008, the market for subsidized fuel has been opened to competition. Since October 1, 2005, domestic sales of refined products to industrial consumers have no longer been subsidized by the Government and are subject to competitive forces, while only sales of motor gasoline, automotive diesel oil and kerosene for household continue to be subsidized. BPH MIGAS runs an annual tender process and grants licenses for the right to sell subsidized fuel to oil companies, including us. We believe we are positioned favorably to continue to win the PSO mandate given our high market share and fully integrated operations in the downstream sector, particularly because any new company that wishes to distribute fuel is also required to develop retail stations in the underdeveloped areas outside of Java. In 2011, we, AKR and Petronas were granted PSO mandates. In 2012, we, AKR, Petronas and Surya Parna Niaga were granted the PSO mandate. In 2013 and 2014, we, AKR and Surya Parna Niaga were granted the PSO mandate. Based on the amount of subsidized fuel distributed in Indonesia in 2013, we continue to retain 99.8% of the PSO market. We believe this is due to our extensive distribution network. We are also mandated by the Government to assist in its efforts to encourage the use of LPG as a substitute for kerosene in Indonesian households under the kerosene conversion program. We are the sole distributor of LPG in Indonesia.

Under the current PSO system, we first pay for the fuel at market rates, which are typically higher than subsidized rates, which we then distribute at lower regulated prices set by the Government for subsidized fuel products. Subsequently, we receive compensation from the Government through the Ministry of Finance in accordance with regulations set by the Ministry of Finance and approved by Parliament. The Government sets these compensation formulas annually in conjunction with the setting of the State Budget. Compensation for the distribution of oil products is equal to MOPS plus margin less the regulated retail price for the subsidized fuel and compensation for the distribution of LPG is equal to CP Aramco plus margin less the regulated retail price. The margin is intended to cover transportation and distribution costs. In setting the compensation formulas, the Government makes certain assumptions with respect to the price of crude oil and if the price of crude oil exceeds the price assumed or our transportation, distribution or other costs increase, we may not be able to recover the full costs of distributing subsidized oil products and LPG under the compensation formula and may incur losses as a result. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operations — PSO Mandate" for more information with respect to the assumptions underlying the compensation formula. Since 2012, the margin for the distribution of oil products was changed from a fixed amount for each PSO product to a percentage of MOPS in addition to a fixed amount for each PSO product. The table below sets forth the compensation formulas used for the periods specified.

| | Compensation for Distribution of Oil Products | Compensation for Distribution of LPG |
|---|---|---|
| 2011 | MOPS + Rp. 607.97 per liter less the regulated retail price for motor gasoline | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| | MOPS + Rp. 607.45 per liter less the regulated retail price for automotive diesel | |
| | MOPS + Rp. 402.35 per liter less the regulated retail price for kerosene | |
| 2012 | MOPS + 3.32% of MOPS + Rp. 454.00 per liter less the regulated retail price for motor gasoline | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| | MOPS + 2.17% of MOPS + Rp. 491.00 per liter less the regulated retail price for automotive diesel | |
| | MOPS + 2.49% of MOPS + Rp. 263.00 per liter less the regulated retail price for kerosene | |

| | Compensation for Distribution of Oil Products | Compensation for Distribution of LPG |
|---|---|---|
| 2013 (from January 1) . . . . . . . . . . . . . . . . | MOPS + 3.32% of MOPS + Rp. 454.00 per liter less the regulated retail price for motor gasoline<br><br>MOPS + 2.17% of MOPS + Rp. 491.00 per liter less the regulated retail price for automotive diesel<br><br>MOPS + 2.49% of MOPS + Rp. 263.00 per liter less the regulated retail price for kerosene | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |
| 2013 (from June 22) . . . . . . . . . . . . . . . . . . | MOPS + 3.32% of MOPS + Rp. 484.00 per liter * less the regulated retail price for motor gasoline<br><br>MOPS + 2.17% of MOPS + Rp. 521.00 per liter* less the regulated retail price for automotive diesel<br><br>MOPS + 2.49% of MOPS + Rp. 263.00 per liter less the regulated retail price for kerosene<br><br>**An additional margin of Rp. 20 per liter is levied for subsidized fuel produced domestically from our refineries.* | CP Aramco + US$68.64 /mt + 1.88% CP Aramco + Rp. 1,750/kg less the regulated retail price |

Since 2010, the regulated price of subsidized fuel was fixed at Rp. 4,500 per liter for motor gasoline and automotive diesel and Rp. 2,500 per liter for kerosene. From June 2013, the Government increased the regulated price of subsidized fuel to Rp. 6,500 per liter for motor gasoline, Rp. 5,500 for automotive diesel and Rp. 2,500 per liter for kerosene.

We and the Government have a framework for cost reimbursements. The Government is required to pay us most of the cost reimbursements each month based on a submission by us made no later than 10 days after the end of the month. 95% of the costs reimbursement submission would typically be made by the Government in the next month from the date of submission of cost reimbursements. The remaining 5% of the cost reimbursement submission is accumulated and settled quarterly following an audit by the Government. In addition, in determining the compensation payable to us in any given month for the distribution of oil products, the Government's policy is to use MOPS from the month immediately prior to the month which the compensation claim relates to. See Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operation — PSO Mandate". Also see "Risk Factors — Risks Relating to Our Downstream Operations — We may not be able to pass on increases in costs of our raw materials for products distributed under our PSO or other mandates from the Government or where the prices of such products are fixed at the request of the Government."

In 2011 and 2012, the subsidy reimbursement we received under the PSO mandate on an aggregate basis was sufficient to cover our costs of distribution of subsidized fuel. Although crude oil prices had continued to rise and the compensation under the PSO mandate continued to be insufficient with respect to our costs of distribution for certain oil products in 2011 and 2012, the compensation for the distribution of LPG in 3kg cylinders under the compensation formula for 2011 and the compensation for the distribution of motor gasoline and LPG under the revised compensation formula for motor gasoline and the compensation formula for LPG in 3kg cylinders in 2012 were sufficient to cover our related costs of distribution and losses incurred for the distribution of other oil products under the PSO mandate in those respective years. In 2013, the compensation formula under the PSO mandate was sufficient to cover our related costs of distribution for LPG in 3kg cylinders and motor gasoline and offset the losses incurred for distribution of other oil products under the PSO mandate.

The margin components of the compensation formulas for oil products under our PSO mandate were increased from June 22, 2013, as set out in the table above. The revised compensation formulas also provide for additional compensation of Rp. 20.00 per liter for motor gasoline or automotive diesel that is produced domestically from our refineries. However, if crude oil prices exceed the ceiling price assumed by the Government or our transportation, distribution or other costs increase, we may not be able to recover the full costs of distributing subsidized fuel and LPG under the compensation formula and may incur losses as a result.

The Ministry of Finance is expected to continue to meet its commitment on subsidy payments due to the national importance of our role in supplying and distributing fuel to Indonesia. In addition, the Government has budgeted Rp. 230,736.0 billion (US$21,974.9 million) for fuel subsidies as reported in the State Budget for 2014.

***Trading***

Our trading activities include the importing of crude oil and oil products for feedstock at our refineries and for use as domestic fuel and the exporting of (i) the Government's share of crude oil produced; (ii) our crude oil and natural gas that are not used by our refineries; (iii) refined products produced by our refineries, such as LPG, LNG and lubricants and (iii) petrochemicals, such as asphalt and bitumen, paraffin wax, propylene, polypropylene and polyethylene. The types of crude oil that are exchanged include SLC, Minas, Ardjuna, Duri, Cinta, Widuri, BRC, Arun Condensate, and Badak among others. Meanwhile, exported non-fuel and petrochemicals include propylene, green coke, decant oil and others.

See "— Integrated Supply Chain" for more information on our import and export activities.

**Shipping**

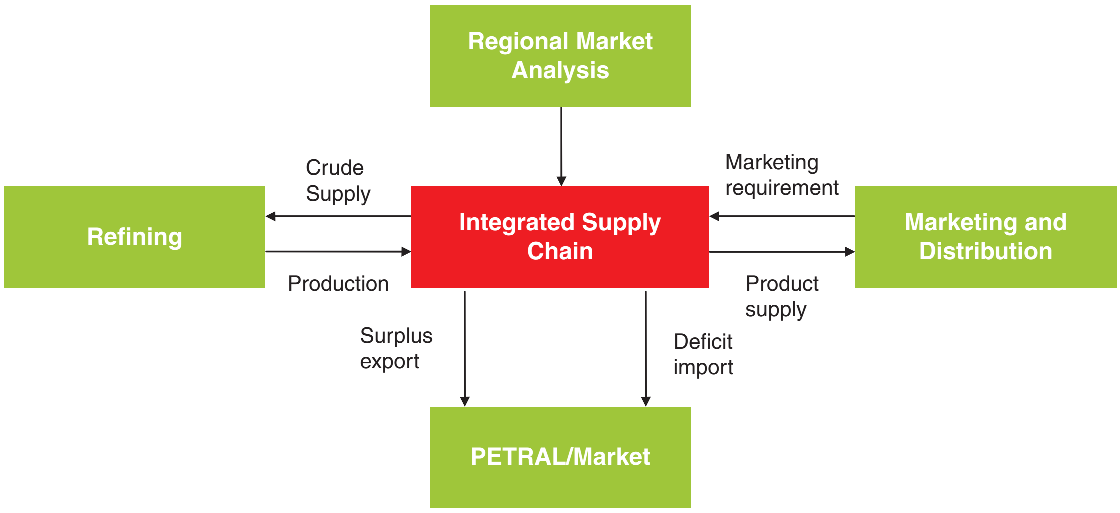
As Indonesia is an archipelago, tankers are required to distribute oil products throughout the country. We have a fleet of vessels to transport oil and gas, and to distribute fuel, non-fuel and petrochemical products to domestic and international markets. 79% of crude oil used in our refineries are transported by tankers and 78% of our crude oil sales and distribution are transported by tankers. The vessels operate across six refinery units and 94 depots. The other activities performed by the shipping business include brokerage, ship agency and crewing.

We operate 185 oil tankers (ranging in size from 1,000 dead weight ton bulk lighters to 308,000 dead weight ton very large crude carriers) of which 59 are owned by us and the remaining are chartered. We also charter several LPG tankers. In 2013, we purchased and took delivery of a VLGC, which is among the world's largest LPG carriers. From time to time, we also rely on the spot market to charter vessels to carry specific loads for single trips. The tanker fleet effective carrying capacity, which reflects the maximum amount of cargo that can be carried, is approximately 3.4 million mt. The total cargo size of our fleet, which reflects the amount of cargo which can be shipped, is approximately 91.8 million KL per year and our average effective load factor is approximately 81.3%. We look at average effective load factor as a measure of the effective carrying capacity of the tanker fleet relative to its total cargo size.

We intend to increase the percentage of the tankers we own from 34% to approximately 39% of our fleet, or 47% to 56% of dead weight ton capacity, by purchasing 16 vessels by the end of 2016. In 2014, we aim to purchase six out of these 16 vessels. We also target optimizing our utilization of tanker tonnage and capacity and plan to develop and diversify our shipping business beyond owning and chartering oil and LPG tankers to support our supply chain. We also intend to develop and diversify our shipping business beyond owning and chartering oil and LPG tankers to support our supply chain to owning and operating floating storage and offloading vessel, floating production storage and offloading vessels, floating storage and regasification units and LNG tankers.

**Integrated Supply Chain**

The diagrams below illustrate the integration and flow between our upstream, downstream and LNG operations and the role which our integrated supply chain division plays in coordinating our upstream and downstream supply and distribution of feedstock and refined products.




We have an integrated supply chain division to optimize the use of our resources by coordinating our overall refining, marketing and trading activities which is consistent practice among other major integrated oil and gas companies.

Our integrated supply chain division ensures that our refineries have a reliable and consistent source of feedstock by, among other things, buying raw materials to meet their demands and selling any surplus materials they do not need. Our integrated supply chain division works with our marketing and trading division to ensure that our refineries are producing the products that are in demand and to coordinate our import and export requirements. Our integrated supply chain division also gathers and analyzes oil and gas trading market information to ensure that we are able to make informed decisions in our downstream operations.

In 2013, our integrated supply chain coordinated the supply of 190.5 mmbbls of domestic crude oil and 122.7 mmbbls of imported crude oil to our refineries and 294.5 mmbbls of our products and

228.8 mmbbls of imported products to our marketing division. The value of the imported crude oil and products was US$13.8 billion and US$23.6 billion respectively and the value of the products we exported (which comprises excess refinery products for which there is no domestic demand such as low sulfur waxy residue, naphtha and green coke) was US$3.1 billion. Pricing for domestic crude oil is based on ICP and pricing for imported crude oil and the products which we produced is based on market pricing.

Imports and exports of crude oil and products are conducted by our subsidiary, Pertamina Energy Services Pte. Ltd ("PES"). PES sources imports from major oil companies, national oil companies and refineries.

***Import of Crude Oil***

Although our local crude oil production is significant, crude oil is imported for blending purposes due to different specifications of crude oil required by our refineries.

In 2011, 2012 and 2013, we imported 97.6 mmbbls or 32.3%, 102.3 mmbbls or 31.8% and 122.7 mmbbls or 39.1% respectively, of the crude feedstock to support our refineries and used domestic sources to provide the balance.

The amount of crude oil we import is dependent on the Government's crude entitlement, which is the amount of crude oil the Government is entitled to receive under production sharing arrangements and cooperation contracts with other oil and gas companies; and which we process on its behalf. We expect to import a higher percentage of crude oil in 2012 as our allocation of crude oil from the Government has decreased. Our allocation of crude oil from the Government has decreased in line with an anticipated decline in Indonesia's production of crude oil due to current production being mature and the expectation that no new major discoveries will be made in the current decade.

In 2013, approximately 68% of the crude oil we imported was through our subsidiary, PES. Our other provider of imported crude oil in 2013 was Saudi Aramco, through which we imported 39.4 mmbbls, or approximately 32% of our total imported crude oil, for our RU IV Cilacap refinery. The crude oil which we import through PES was sourced from various countries including Azerbaijan, Brunei, Iraq, Nigeria and Saudi Arabia. We sourced approximately 62% of our total imported crude oil under the term supply contract with Saudi Aramco or term supply contracts to which PES is a party and the balance under spot contracts.

***Import of Fuel Products***

Our integrated supply chain division coordinates the supply of refined fuel products from our refineries and through imports to our marketing and trading division. The products supplied from our own refineries include gasoline, kerosene, diesel, aviation fuels, LPG, lubes and petrochemicals. The products we import include gasoline, automotive diesel, high sulfur diesel, aviation fuel and LPG. We also import non-fuel products such as LPG and paraxylene as well as other specialty products.

As Indonesia's domestic fuel consumption exceeds domestic fuel production, fuel product imports are needed to meet local demand. In 2013, our integrated supply chain coordinated the import of 6.5 mmbbls of refined fuel products (such as automatic diesel oil and high octane motor gasoline components).

## Other Businesses

We have subsidiaries and joint ventures through which we hold non-key, non-oil and gas assets and participate in non-core businesses such as domestic non-tanker shipping, a charter airline, insurance and hospital and property management services. Revenues generated from these and other businesses accounted for 0.6% of our total revenue in 2013.

## Related Party Transactions

The Government is our sole shareholder and all our transactions with parties related to or owned by the Government constitute related party transactions. We sell fuel and other refined products to our related parties, including companies in which we hold a 20% to 50% interest who are our associates and certain entities with whom we share key management. Our related parties purchase fuel and other refined products from us on arm's-length terms based on market pricing for such fuel and refined products. As of December 31, 2013, trade and other receivables (including subsidy reimbursements due from the Government) owed by our related parties and trade and other payables owed by us to our related parties, including to the Government, comprised approximately 14.3% and 8.3% of our total assets and total liabilities, respectively. In addition, we share common key management with certain of our related parties.

See Note 39 to our consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 included elsewhere in this Offering Memorandum for more information on our related party transactions.

## Competition

We face competition from other oil and gas companies in all areas of our upstream, downstream and gas operations, including the acquisition of production sharing arrangements and cooperation contracts and for sales of oil and gas and refined petroleum products.

### *Upstream*

Major competitors in our upstream oil and gas business in Indonesia and Southeast Asia include international oil and gas companies such as ExxonMobil, Conoco Philips and Chevron, many of which are large, well-established companies with greater capital resources and larger teams of operating staff than we have and some of which have been engaged in the oil and gas business for a longer period than us. Such companies may be able to offer more attractive terms when bidding for concessions for exploratory prospects and secondary operations, to pay more for productive natural gas and oil properties and exploratory prospects, and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial, technical or personnel resources permit.

Since the passage of the Oil and Gas Law of 2001, we have had to compete with other Indonesian and international oil and gas companies in tendering for new production sharing arrangements and cooperation contracts. Our ability to acquire production sharing arrangements and cooperation contracts and to acquire, discover, develop and produce reserves in the future will depend upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. However, given the importance of the oil and gas industry to the Indonesian economy, participation by Indonesian companies has been actively encouraged by the Government. For example, the Government has granted partial interests in production areas to regional entities. Being one of the few Indonesian companies involved in the oil and gas exploration and production industry and the only one that is wholly-state owned, we believe that we have certain advantages when seeking to expand our business in this sector, given the depth of our knowledge and experience of the exploration and production environment in Indonesia and our long-standing relationship with the Government.

We are the main player in the geothermal industry in Indonesia. We transferred our ownership interests in PT Geo Dipa Energy to the Government in 2011 and expect to compete against it with respect to the allocation of geothermal concessions and projects in the future. Other oil and gas companies involved in the geothermal industry include Chevron, Star Energy and Medco Energi, among others.

***Downstream***

As of December 31, 2013, we were among the largest refiners in the Asia-Pacific region in terms of total controlled refining capacity. There are currently six major refineries in Indonesia, all of which are wholly-owned by us. Our refining operations compete with other domestic and international suppliers for sales of refined petroleum products both inside of Indonesia and abroad.

Our retail fuel business primarily competes with Shell, AKR and Total, as well as independent operators in the commercial and retail markets, for the sale of refined petroleum products. Market participants compete primarily on the basis of price, proximity to customers, brand name, quality, services offered and efficiency. Because margins on the sale of gasoline and diesel are very low, competition has developed for higher margin products that can be sold at service stations, including high margin oil products such as lube and gasoline additives and non-oil goods and services. We cannot assure you that we will be able to maintain our leading market position in Indonesia or that our service stations will remain competitive in the retail petroleum industry.

Further, our role as the sole provider of fuel under the PSO mandate is now open to competition. Since 2008, BPH MIGAS has run a tender process for the PSO mandate and grants licenses to oil companies to sell subsidized fuel. In 2011, AKR and Petronas were also granted PSO mandates and in 2012, AKR, Petronas and Surya Parna Niaga were also granted PSO mandates. In 2013 and 2014, AKR and Surya Parna Niaga were also granted the PSO mandate. As a result, we no longer have a monopoly over the PSO mandate. We further expect BP and Total to enter the PSO market by 2015 as it generally takes around five years to establish the necessary infrastructure, particularly in less developed areas outside of Java, to distribute subsidized fuel. However, based on the amount of subsidized fuel distributed in Indonesia in 2013, we continue to retain 99.8% of the PSO market. We believe this is due to our widespread distribution network, but we expect competition to intensify as our competitors build the necessary infrastructure. See "— PSO" for more information on our PSO mandate.

Our main competitors in the industry and marine fuel sector are Shell, Petronas, AKR and Petro Andalan, who are actively and aggressively building infrastructure across Indonesia for greater delivery capacity.

We are the market leader of the aviation fuel sector in Indonesia and we do not currently have competitors in this sector.

We are the market leader of the CNG sector in Indonesia and we do not currently have competitors in this sector.

In our petrochemicals segment, we compete domestically with Chandra Asri, Petronas, Shell, Chevron and Esso.

As we are distributing lubricants both domestically and in over 24 countries and multiple regions around the globe, including Asia, Australia and the Middle East, we are facing competition in this sector from both local competitors such as Federal Oil, Top 1 and Evalube and international competitors such as Shell, Castrol, Yamalube, Idemitsu and Repsol.

## Properties

Our major properties include natural gas pipelines, land and buildings, machinery and equipment including tankers, oil terminals, gas service stations, gas separation plants and other fixed assets used for exploration and production of petroleum. As of December 31, 2013, properties accounted for 42.0% of our book value.

Our headquarters are located at Jl. Medan Merdeka Timur No. 1A, Jakarta.

Nearly half of our land assets by area are not owned free and/or clear. "Free" means that we have all legal documents required to prove our title to a land asset. "Clear" means that we have physical control over a land asset, *i.e.* there are no third parties either occupying the land or disputing our ownership of the land asset. Our non-free and non-clear assets are valued at US$151.6 million without taking into account any provision for impairment. See "Risk Factors — Risks Relating to Our Company — We do not have free and clear title to a significant portion of our land assets" for more information on this issue.

## Research and Development

### *Upstream*

We have a research and development institute which focuses on our exploration and production business. Our upstream research and development institute comprise of eight research and development departments: geology, geophysics, reservoir and production, new energy and green technology, enhanced oil recovery, technology, drilling process and facilities and data and geomatics. In 2013, we had 82 personnel in research and development functions, of whom 77 were engineering and technical personnel.

Our actual expenditures for upstream research and development were approximately US$23.5 million for 2013. Approximately US$39.8 million is budgeted for our upstream research and development activities in 2014.

### *Downstream*

We have a research and development institute which focuses on our refining and chemical business. In 2013, we had 42 personnel in research and development functions, of whom 24 were engineering personnel and 18 were technical personnel.

Our actual expenditures for downstream research and development were approximately US$6.6 million for 2013. Approximately US$7.8 million is budgeted for our downstream research and development activities in 2014.

### Trademarks and Service Marks

We have trademarked certain of our product names to protect our various brands in both the domestic and international market. In relation to our retail fuel business, we have trademarks for our wholly-owned and run retail fuel products; "Pertamax," "Pertamax Plus," and "Pertamina Dex" for our various value-added, non-PSO retail fuels, "Fastron," "Prima XP," "Enduro," "Mesran," "Meditran," and "Turalik" for our lubricant products and "Musicool", "Bright Gas" and "HAP" for our gas products. The trademarks "HAP" and "Bright Gas" have been registered with the Trademark Registration Office of Indonesia, but has not been issued the Certificate of Trademark. We have not had any significant disputes with respect to any of our trademarks or service marks. We currently hold several patents for our products or processes.

### Insurance

We have comprehensive insurance policies that cover our business, our properties and litigation brought by third parties. We employ a risk management policy for purposes of analyzing the risks faced by our businesses in determining the appropriate insurance coverage. Our coverage includes onshore & offshore property insurance, marine hull & machinery insurance, land rigs insurance, cost of well control insurance, pipelines insurance, third party liability insurance, project insurance, directors & officers liability insurance, marine cargo insurance, refueling liability insurance and protection & indemnity insurance. We consider our insurance coverage to be in accordance with industry standards.

In respect of our exploration and production, refining, petrochemical production, and marketing and sales operations, we currently maintain insurance policies with a domestic Indonesian insurer, Tugu Group, in which we hold an interest through our subsidiaries, PT Tugu Pratama Indonesia ("TPI"). Approximately 50% of our property insurance coverage is reinsured through Lloyd's of London, while the remainder is retained by Tugu Group.

See "Risk Factors — Risks Relating to Our Upstream Operations — Oil, gas and geothermal operations are subject to significant operating risks hazards, for which we may not be fully insured" for risks relating to our insurance.

### Health and Safety

We are subject to various health and safety laws. We have extensive safety procedures designed to ensure the health and safety of our workers and assets, the public and the environment. A safety manual of detailed operating procedures is available at the operations level, with another, more specific, manual maintained by each of our operating subsidiaries, which together govern these safety procedures. Certain procedures must be approved by a safety officer in advance before they can be undertaken, and in the event of any accidents or fatalities, we have procedures in place to investigate such incidents and determine if compensation would be necessary.

Our Health, Safety and Environment ("HSE") board committee is responsible for drafting our HSE policies and procedures. Our Vice President of HSE Corporate is responsible for the overall implementation of the HSE policy and the coordination of all HSE activities throughout our Company. The Vice President of HSE Corporate in turn reports to the General Affairs Director, who serves as secretary of the HSE board committee. Further, we have in-house HSE teams present in each of our business units, subsidiaries and locations where we operate, to ensure that our HSE policies are followed in each respective location. The HSE teams in each location report either to the operational head of each location or to the head of the directorate, as applicable, who in turn report to the Vice President of HSE Corporate.

It is our policy that in the event of any conflict between the progress of work and health or safety concerns, the health and safety of employees, equipment and third parties are paramount. We provide our employees with comprehensive training in safety related matters. Government officials make both scheduled and random checks at our operating facilities to ensure that safety procedures are being followed. We have also implemented a contractor safety management system to ensure accountability of our contractors and reduce the worksite incident and injury rates.

**Employees**

As of December 31, 2013, we had approximately 14,257 employees, of whom 1,518 were engaged in upstream activities, 9,970 were engaged in downstream activities, 237 were engaged in gas activities, 81 were engaged in the integrated supply chain, 1,627 were engaged in administration and 824 were engaged in finance, treasury and accounting. As of December 31, 2013, 14,226 of our employees are employed in Indonesia and 31 of our employees are employed outside of Indonesia. Our subsidiaries additionally employed 9,085 employees. The following table sets forth details of our employees.

| | Year Ended December 31, | | |
|---|---|---|---|
| **Unit** | **2011** | **2012** | **2013** |
| Upstream | 1,815 | 1,575 | 1,518 |
| Downstream | 9,778 | 9,941 | 9,970 |
| Gas | 58 | 200 | 237 |
| Integrated supply chain | 67 | 78 | 81 |
| Administration (including top management, corporate secretary and human resources) | 1,439 | 1,636 | 1,627 |
| Finance, treasury and accounting | 760 | 823 | 824 |
| **Company total** | **13,917** | **14,253** | **14,257** |
| **Subsidiaries total** | **10,264** | **9,837** | **9,085** |
| **Total (Company and subsidiaries)** | **24,181** | **24,090** | **23,342** |

In addition to our full-time employees, we also rely on outsourced labor. We hire outsourced labor through a labor service agreement with labor supply companies. Wages and benefits, terms of employment and dispute settlement mechanisms for outsourced employees are determined by agreement between the employees and the labor supply company, subject to labor regulations.

All full-time employees involved in oil and gas exploration and production are our employees or employees of our operating subsidiaries. Our upstream human resource management policies are subject to broad but loose oversight by SKK MIGAS. SKK MIGAS scrutinizes our upstream personnel plans to ensure that they remain in accordance with development plans for PSC, but otherwise permits operators significant flexibility in meeting their manpower requirements.

A substantial number of our employees are unionized. 16 of our labor unions form a federation (*Federasi Serikat Pekerja Pertamina Bersatu*) that covers 9,494 employees registered as members. We consider our relationship with the federation to be good. The rights and responsibilities under our relationship with the unions are formulated in a collective labor agreement (*Perjanjian Kerja Bersama*) between the unions and our Company which is registered with the Ministry of Manpower of Indonesia. Our latest collective agreement with the unions was signed on August 2012 and is valid for two years. To date, we have not had material issues in procuring or renewing collective labor agreements.

We have not been subject to any material strikes or other labor disturbances that have interrupted our operations. We believe our relationship with our employees is good. However, see "Risk Factors — Risks Relating to Indonesia — Labor activism and unrest may materially and adversely affect us".

Certain of our employees, including all of our management, are not members of any labor union, and have not entered into collective bargaining agreements. We believe our relationship with these employees is good.

The total take-home pay of our employees includes base salary, allowances based on the location where the employee works, allowances for an employee's position and/or sales and income tax allowances. We further provide certain of our employees other cash allowances and incentives (including holiday allowances, annual leave allowances and our annual incentive plan), health benefits, leave benefits, retirement benefits (including severance bonuses, pension plans, saving plans, life assurance and mandatory government insurance) and facilities (including housing, club memberships and car and phone services).

In accordance with applicable Indonesian regulations, we currently participate in pension contribution plans organized by municipal and provincial governments, under which we contribute at an average rate of 4.5% of our employees' salaries, bonuses and certain allowances. The contributions vary from region to region. Other than the contributions, we have no other material obligation for the payment of pension benefits associated with these plans. We also provide retirement benefits based on the retirement base income and the respective employment period. Retirement benefits are provided from the fund on a monthly basis to the former employee on the basis of a contributory program. Contributions are made by us and the employee to the program during the employment period based on the rules of the retirement fund.

Other retirement benefits that an employee receives and that are funded by us include a post-employment benefit amount and health care benefits. Each employee also participates in a retirement training program shortly before retirement.

We also provide certain health care benefits to our employees and their families. Health care benefits include in-patient and out-patient treatment and periodic medical check-ups.

We have a number of training and education programs for our employees. We classify our training and education programs into three categories: generic training, technical training and overseas training. Generic training is available to all employees and ranges from leadership and managerial topics such as courses on good corporate governance and our executive development program to corporate culture. Technical training is specific to each department and includes courses for specialists within each department. Examples of technical courses which we run include courses on "Advanced Process Design" and "Logistics" in our refinery business unit and out general and human resources business unit respectively. Overseas training is available to all employees and is conducted on an ad hoc basis.

**Environmental Matters**

Our oil and gas exploration and production operations, petroleum and petrochemical products and other activities are subject to Indonesian laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws include the New Environmental Law and other regulations relating to hazardous wastes, emissions and effluent waste water management. These laws and regulations may require the acquisition of a permit before drilling or refining commences, which may restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, require remedial measures to prevent pollution resulting from former operations, such as plugging abandoned wells, and impose substantial liabilities for pollution resulting from our oil, natural gas and petrochemical operations. We may also be required in certain situations to complete environmental impact analyses and to enter into various environmental management undertakings prior to carrying out exploration and development operations, production and refining activities. These environmental management activities are regulated by the Ministry of Energy and Mineral Resources and State Ministry of Environmental Affairs.

The New Environmental Law introduced an environmental permit (*Izin Lingkungan*) and requires that all licenses regarding environmental management issued by the Government must be integrated with the environmental permit requirements within a year of the enactment of the law. On February 12, 2012, the Government enacted Regulation No. 27 which requires companies which are required to obtain an AMDAL approval or prepare a UKL and UPL to also be obliged to obtain the environmental permit in order to obtain a business license but all permits and licenses existing before implementation of Regulation No. 27 would be accepted as valid environmental permits. We are currently taking steps to improve our management of sludge and drilling waste in order to comply with the standards set by the New Environmental Law. See "Risk Factors — Risks Relating to Our Company — Our compliance with or breach of environmental regulations in Indonesia and in the countries in which we operate could materially or adversely affect our business, financial condition, results of operations and prospects".

Under Indonesian environmental regulations, remedial and preventative measures, as well as sanctions (such as the imposition of substantial criminal penalties, fines and the cancellation of concessions) may be imposed in order to remedy or prevent pollution caused by operations. Such sanctions range from one to 15 years of imprisonment for any person who has caused environmental pollution or environmental damage, and fines ranging from between Rp. 500 million to Rp. 15 billion, subject to an additional penalty of one-third of the fine amount if the person directs a corporate entity to commit a breach of the New Environmental Law. The State Ministry of Environmental Affairs also reserves the right to impose a monetary penalty in lieu of any rehabilitation obligations of a liable person.

The environmental management systems that apply to us are EMS ISO 14001 and Environmental Compliance Performance Evaluation Program (*Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan lingkungan*, or "PROPER") administered by the State Ministry of Environmental Affairs.

EMS ISO 14001 is a voluntary standard that requires organizations to put in place and implement a series of practices and procedures that, when taken together, result in an environmental management system. Approximately 65% of our fields, refineries, geothermal areas and marketing and trading centers meet EMS ISO 14001 standards and certifications.

The State Ministry of Environmental Affairs in Indonesia rates companies in accordance with PROPER, which consists of a series of five ratings ranging from "gold" (the highest possible rating) to "black" (the lowest possible rating). This rating program is conducted for every business and/or activity with potential to create pollution and/or environmental damage. Companies in Indonesia that are rated on the PROPER program are required to publicly disclose their level of compliance. As of December 2013, three of our unit operations have gold PROPER ratings (indicating excellent compliance levels), 52 of our unit operations have green PROPER ratings (indicating that they are beyond compliance levels), 85 unit operations have blue PROPER ratings (indicating they are fully compliant), and two have a red PROPER rating (indicating it is partially in compliance). None of our unit operations have a black rating (indicating they are not in compliance). We have established action plans to improve the PROPER ratings for our two units with red PROPER ratings.

Various environmental laws, rules and regulations may act to limit the rate of oil and natural gas production to levels below the rate that would otherwise exist. These laws and regulations may also restrict air emissions and discharges to surface and subsurface water resulting from the operation of natural gas processing plants, chemical plants, refineries, pipeline systems and other facilities that we own. In addition, our operations may be subject to laws and regulations relating to the generation, handling, storage, transportation, disposal and treatment of waste materials. The regulatory burden on the oil and gas industry increases the cost of doing business and consequently affects its profitability. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly waste handling, disposal and clean-up requirements could have a significant impact on our operating costs, as well as the oil and gas industry in general.

The Government has imposed environmental regulations on oil and gas companies operating in Indonesia and in Indonesian waters. Operators are prohibited from allowing oil into the environment and must ensure that the area surrounding any onshore well is restored to its original state insofar as this is possible after the operator has ceased to operate on the site. An environmental impact study and a Government permit are required before any exploration work can commence. Under the Oil and Gas Law of 2001, SKK MIGAS has direct control over upstream operators to ensure that they meet Government regulations. We are required to provide a report containing an environmental impact analysis to the Indonesian environmental agency at least two times a year. For certain areas, we are currently in the process of installing additional equipment in our producing fields to comply with the New Environmental Law. For details of the risks that we face if this deadline is not extended, see "Risk Factors — Risks Relating to the Oil, Gas and Geothermal Industry — Our compliance with or breach of environmental regulations in Indonesia and in the countries in which we operate could materially adversely affect our business, financial condition, results of operations and prospects".

We paid compensation fees of approximately Rp. 550.0 million and incurred approximately Rp. 1.3 billion in remediation costs in connection with pollution caused by an oil spill at RU IV Cilacap in 2010.

Our management believes that we are in compliance with current applicable environmental laws and regulations in all material respects and that continued compliance with existing requirements will not have a material adverse impact on us. See "Risk Factors — Risks Relating to the Oil, Gas and Geothermal Industry — Our compliance with or breach of environmental regulations in Indonesia and in the countries in which we operate could materially and adversely affect our business, financial condition, results of operations and prospects".

**Legal Proceedings**

We are involved in certain judicial and arbitral proceedings before Indonesian courts or arbitral bodies concerning matters arising in connection with the conduct of our business in the ordinary course.

We believe, based on currently available information, that the results of our legal proceedings, in the aggregate, will not have a material adverse effect on our financial condition or operations.

# MANAGEMENT

In accordance with Indonesian law, we have both a Board of Commissioners and a Board of Directors. The two boards are separate and no individual may serve as a member on both boards.

The rights and obligations of each member of the Board of Commissioners and Board of Directors are regulated by our articles of association and by the decisions of our shareholder in general meeting. Under our articles of association, the Board of Directors must consist of one or more members, one of which will be appointed as the President Director and the other one will be appointed as Vice President Director. Any of the President Director, the Vice President Director or one of the Directors (in the event the President Director and Vice President Director are unavailable, and as appointed in writing by the President Director) is entitled to act for and on behalf of our Company, provided that their actions have been approved in the meeting of Board of Directors. If there is no such written approval, the Director who has had the longest term of office may act on our behalf. The Board of Commissioners must consist of one or more Commissioners, one of which will be appointed as the President Commissioner.

**Board of Commissioners**

The principal function of the Board of Commissioners is to supervise the policy of the Board of Directors in connection with our business activities and to give advice to the Board of Directors in accordance with our articles of association, shareholder resolutions and prevailing rules and regulations.

Members of the Board of Commissioners are appointed and removed at a shareholder's general meeting shareholders and generally serve five-year terms. The Board of Commissioners comprises five members.

The following table sets forth certain information concerning the current members of the Board of Commissioners.

| Name | Position | Age | Appointed Since |
|---|---|---|---|
| Sugiharto . . . . . . . . . . . . . . . . . . | President Commissioner and Independent Commissioner | 58 | May 2010 |
| Mahmuddin Yasin . . . . . . . . . . . | Commissioner | 59 | April 2013 |
| A. Edy Hermantoro . . . . . . . . . . | Commissioner | 57 | April 2013 |
| Nurdin Zainal . . . . . . . . . . . . . . | Independent Commissioner | 63 | May 2010 |
| Bambang P. S. Brodjonegoro . . | Commissioner | 47 | April 2013 |

**Sugiharto** was appointed to our Board of Commissioners in May 2010 and is currently President Commissioner and Independent Commissioner. Mr. Sugiharto has served as Senior Investment Banking Officer (as a member of the Board of Directors and Vice President) at Banker Trust Company and Chemical Bank, New York Group, Jakarta, as Chief Executive Officer and Chief Financial Officer of the Medoco Group President Commissioner of AJB Bumiputera 1912, as Commissioner of several private companies, and as Minister of State-Owned Enterprises. He received a Doctoral Degree in Social Science from Gadjah Mada University in 2008, a Master in Business Administration from the Indonesian School of Management in 1996 and a Bachelor Degree in Economics from the University of Indonesia in 1986.

**Mahmuddin Yasin** was appointed to our Board of Commissioners in April 2013. Mr. Yasin is currently the Deputy Minister in the Ministry of State-Owned Enterprises. He has served as Ministry

Secretary and Deputy Minister of Restructuring and Privatization in the Ministry of State-Owned Enterprises. He received a Ph.D. from Jakarta State University in 2012, a Master in Business Administration from Washington University, St. Louis in 1986 and a Bachelor in Economics from Krisnadwipayana University in 1982.

**A. Edy Hermantoro** was appointed to our Board of Commissioners in April 2013. Mr. Hermantoro is currently the Director-General of Oil and Gas in the Ministry of Energy and Mineral Resources, and has also served as the Secretary in the DGOG, and as national representative to Indonesia for the Organization of the Petroleum Exporting Countries. He received a Master in Business Policy from the University of Indonesia and a Bachelor in Geology from Universitas Pembangunan Nasional "Veteran" University in 1982.

**Nurdin Zainal** was appointed as an Independent Commissioner in May 2010. Mr. Zainal has served as Head of Strategic Intelligence Body and as Intelligence Assistant in the Indonesian Armed Forces. He received a Master in Human Resources from Universitas Jayakarta in 2001 and a Bachelor in Management from Indonesia Open University in 1996.

**Bambang P. S. Brodjonegoro** was appointed to our Board of Commissioners in April 2013. Mr. Brodjonegoro is currently the Acting Head of the Fiscal Policy Office in the Ministry of Finance. He has served as the Director-General of the Islamic Research and Training Institute at the Islamic Development Bank, and as Dean of the Economics Faculty at the University of Indonesia. He received a Ph.D. from the University of Illinois at Urbana-Champaign in 1997, a Master in Urban Planning from the University of Illinois at Urbana-Champaign in 1995 and a Bachelor in Economics from the University of Indonesia in 1990.

**Board of Directors**

Members of the Board of Directors are elected for five-year terms at a shareholder's general meeting. The Board of Directors is comprised of a President Director and Chief Executive Officer and eight other Directors. The Board of Directors is responsible for the management of our business.

The following table sets forth certain information concerning the current members of the Board of Directors.

| Name | Office/Division | Age | Appointed Since |
|---|---|---|---|
| Karen Agustiawan | President Director and Chief Executive Officer | 55 | February 2009 |
| M. Husen | Director, Upstream | 56 | May 2011 |
| Chrisna Damayanto | Director, Refining | 58 | April 2012 |
| Hari Karyuliarto | Director, Gas | 51 | April 2012 |
| Hanung Budya Yuktyanta | Director, Marketing & Trading | 54 | April 2012 |
| Luhur Budi Djatmiko | Director, General Affairs | 57 | April 2012 |
| Evita Maryanti Tagor | Director, Human Resources | 53 | April 2012 |
| M. Afdal Bahaudin | Director, Investment Planning & Risk Management | 58 | December 2011 |
| Andri T. Hidayat | Director, Finance | 55 | December 2011 |

**Karen Agustiawan** was appointed as our President Director and Chief Executive Officer in February 2009. She has served as Commercial Manager for Consulting and Project Management at Halliburton Indonesia and as Expert Assistant to Chief Executive Officer and Corporate Senior Vice President, Upstream at our Company. She received a degree in Physics Engineering from the Industrial Engineering Faculty at the Bandung Institute of Technology in 1983.

**Muhamad Husen** was appointed as Director, Upstream in May 2011. Mr. Husen has held positions as Head of Explorations at LEMIGAS, Assistant Deputy of Oil, Energy and Mineral Resources and the Forestry Directorate at the Coordinating Ministry of Economics. He received a degree in Geology from the Bandung Institute of Technology in 1984 and a Master of Science from the University of London in 1989.

**Chrisna Damayanto** was appointed as Director, Refining in April 2012. Mr. Damayanto has held positions in our Company as Senior Vice President, Refining Operations in the Refining Directorate and General Manager, Refinery Unit IV, Cilacap. He received a degree in Chemical Engineering from Sriwijaya University, Palembang in 1981.

**Hari Karyuliarto** was appointed as Director, Gas in April 2012. Mr. Karyuliarto has held positions in our Company as Corporate Secretary and Senior Vice-President, Gas. He has also served as President Director of Nusantara Gas Services, a joint venture between us and LNG Japan. He received a degree in International Law from Diponegoro University, Semarang in 1986 and a Master in Management from Gadjah Mada University in 1999.

**Hanung Budya Yuktyanta** was appointed as Director, Marketing & Trading in April 2012. Mr. Yuktyanta has served as Director and Chief Executive Officer of PT Badak NGL. He has also served in our Company as Senior Vice President, Marketing. He received a Master of Arts degree in Industrial Management from the Queensland University of Technology in 1998 and a degree in Industrial Technology from the University of Indonesia in 1998.

**Luhur Budi Djatmiko** was appointed as Director, General Affairs in April 2012. Mr. Djatmiko has held positions at our Company as Chief Audit Executive and Senior Manager, Finance. He received a Bachelor's degree in Economy Management from Brawijaya University, Malang in 1980.

**Evita Maryanti Tagor** was appointed as Director, Human Resources in April 2012. Ms. Tagor has served as President Director of PT Tugu Pratama Indonesia. She has also served in our Company as Senior Vice President, Treasury and Corporate Finance in the Finance Directorate. She received a degree in Accounting from the University of Indonesia in 1985 and a Magister Management degree from the University of Indonesia in 1998.

**M. Afdal Bahaudin** was appointed as Director, Investment Planning & Risk Management in December 2011. Mr. Bahaudin has held positions as President Director of our subsidiary, TPI, and as Senior Vice President Finance Operation and Vice President Risk Management & Assurance at our Company. He received a degree in Economics from Padjadiaran University, Indonesia in 1984 and a Master in Business Administration from the University of Illinois, U.S.A. in 1997.

**Andri T. Hidayat** was appointed as Director, Finance in December 2011. Mr. Hidayat has held positions as the Head of Internal Supervision and Finance Director at PT Pertamina EP and as Finance Director at PT Pertamina Geothermal Energy. He received a degree in Economics from Padjadiaran University, Indonesia in 1984 and Magister Management from the University of Indonesia, Jakarta in 1992.

**Senior Management**

The following table sets forth certain information concerning our senior management.

| Name | Office/Division | Age | Appointed Since |
|---|---|---|---|
| Karen Agustiawan . . . . . . . . . . . . . . . . . . . | President Director and Chief Executive Officer | 55 | February 2009 |
| Takfir . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | Vice-President, Integrated Supply Chain | 48 | July 2012 |
| Alan Frederik Panggabean . . . . . . . . . . . . . | Chief Legal Counsel | 55 | May 2011 |
| Alam Yusuf . . . . . . . . . . . . . . . . . . . . . . . . . | Chief Audit Executive | 49 | August 2012 |
| Nursatyo Argo . . . . . . . . . . . . . . . . . . . . . . | Corporate Secretary | 51 | June 2012 |
| M. Husen . . . . . . . . . . . . . . . . . . . . . . . . . . . | Director, Upstream | 56 | May 2011 |
| Chrisna Damayanto . . . . . . . . . . . . . . . . . . | Director, Refining | 58 | April 2012 |
| Hari Karyuliarto . . . . . . . . . . . . . . . . . . . . . | Director, Gas | 51 | April 2012 |
| Hanung Budya Yuktyanta . . . . . . . . . . . . . . | Director, Marketing & Trading | 54 | April 2012 |
| Luhur Budi Djatmiko . . . . . . . . . . . . . . . . . | Director, General Affairs | 57 | April 2012 |
| Evita Maryanti Tagor . . . . . . . . . . . . . . . . . | Director, Human Resources | 53 | April 2012 |
| M. Afdal Bahaudin . . . . . . . . . . . . . . . . . . . | Director, Investment Planning and Risk Management | 58 | December 2011 |
| Andri T. Hidayat . . . . . . . . . . . . . . . . . . . . . | Director, Finance | 55 | December 2011 |

**Karen Agustiawan** see "— Board of Directors".

**Tafkir** was appointed as our Vice-President, Integrated Supply Chain from July 17, 2012. Mr. Tafkir has served in our Company as Crude & Product Programming & Commercial Manager, Integrated Supply Chain. He received a Bachelor in Electrical Engineering from Bandung Institute of Technology in 1989 and a Master of Management from Gadjah Mada University, Yogyakarta.

**Alan Frederik Panggabean** was appointed as our Chief Legal Counsel from May 2, 2011. Mr. Panggabean has served as Chief Legal Officer of BPMIGAS. He obtained a degree in Law from the University of Indonesia, Jakarta and a Masters of Law degree from the Southern Methodist University School of Law, Dallas, Texas.

**Alam Yusuf** was appointed as our Chief Audit Executive from August 28, 2012. Mr. Yusuf has served as Vice President Marketing in Petral, Singapore, General Manager Marketing Unit VII in Makasar, and Vice President in Investor Relations. He obtained a Bachelor degree in International Law from Padjajaran University, Bandung in 1988 and a Magister Management degree from Gadjah Mada University, Jogjakarta in 2000.

**Nursatyo Argo** was appointed as our Corporate Secretary from June 26, 2012. Mr. Argo previously served as Vice President, Downstream Investment & Business Development, Investment Planning & Risk Management Directorate, Vice President, Strategic Planning & Business Development, Marketing & Trading Directorate. He received a Bachelor degree in Geotechnics Engineering from Gadjah Mada University, Yogyakarta in 1989 and a Magister Management degree from Gadjah Mada University, Yogyakarta in 1997.

**M. Husen** see "— Board of Directors".

**Chrisna Damayanto** see "— Board of Directors".

**Hari Karyuliarto** see "— Board of Directors".

**Hanung Budya Yuktyanta** see "— Board of Directors".

**Luhur Budi Djatmiko** see "— Board of Directors".

**Evita Maryanti Tagor** see "— Board of Directors".

**M. Afdal Bahaudin** see "— Board of Directors".

**Andri T. Hidayat** see "— Board of Directors".

**The Audit Committee**

The Audit Committee is headed by a member of the Board of Commissioners, who must be an independent commissioner, and must include at least two other persons, who do not have to be members of the Board of Commissioners. The current Head of the Audit Committee is Sugiharto. The other members of the Audit Committee are Irwan Darmawan, Dwi Martani and Rosjidi. The Audit Committee supports the Board of Commissioners as a consulting, controlling and initiating body in the areas of communicating with internal and external auditors, supervising the independence and objectivity of the internal audit function, reviewing and assessing the independence of external auditors, reviewing and assessing financial reporting as well as assessing the adequacy and effectiveness of internal control systems.

The committee normally meets at least 12 times a year for the time necessary to fulfill its purpose, which is estimated to be no less than one hour, or more frequently as circumstances dictate. In 2013, the committee held 38 meetings, lasting approximately two or more hours each.

**The Investment and Risk Management Committee**

The Investment and Risk Management Committee is headed by a member of the Board of Commissioners and must include at least two other persons. The current Head of the Investment and Risk Management Committee is A. Edy Hermantoro. The other members are Bambang P. S. Brodjonegoro, Supriyadi, Dewi Hanggraeni and Shahabudin. The Investment and Risk Management Committee proposes risk management guidelines to the Board of Commissioners and advises the Board of Commissioners on matters concerning investments and risk management.

The committee normally meets at least 12 times a year for the time necessary to fulfill its purpose, which is estimated to be no less than one hour, or more frequently as circumstances dictate. In 2013, the committee held 27 meetings, lasting approximately two or more hours each.

**Compensation**

Payment of compensation to the commissioners and directors is determined at the annual shareholder's general meeting. In 2013, total salaries paid to the commissioners and directors as a group was US$41.7 million.

# RELATIONSHIP WITH THE GOVERNMENT

## Overview

We are a profit-based, state-owned limited liability company *(Persero)*, created pursuant to the Oil and Gas Law of 2001 in conjunction with Government Regulation No. 31 of 2003 on the Transfer of Form of *Perusahaan Pertambangan Minyak dan Gas Bumi Negara (Pertamina)* to *Perusahaan Perseroan (Persero)* ("GR 31"). Our formal establishment was through Deed of Establishment No. 20, dated September 17, 2003, drawn up before Lenny Janis Ishak, SH, Notary in Jakarta. Our establishment by the Government was conducted by way of a contribution in kind of all the Government's assets in PERTAMINA, including PERTAMINA's assets in its subsidiaries and joint venture companies at the time of the enactment date of GR 31 but excluding PERTAMINA's assets that had been transferred to BPMIGAS. One of the Government's objectives in establishing us as a limited liability company was to contribute to the public welfare of Indonesia by enhancing domestic economic activity.

## History

Prior to our current form, we operated in Indonesia for more than 55 years through our various legal predecessors. We were first established on December 10, 1957, under the name *Perusahaan Minyak Nasional* ("PT PERMINA") pursuant to the Decree of Minister of Industry No. 3177/M and Decree of the Head of Staff of Army as the Central Commandant of War No. PRT/PM/017/1957, both dated October 15, 1957. This created the first national oil company of Indonesia.

In 1961, PT PERMINA was consolidated into a newly established company pursuant to Government Regulation No. 198 Year 1961, dated June 5, 1961, named *PN PERMINA (Perusahaan Negara Pertambangan Minyak Nasional)*. Further, in 1968, the Government established another new entity named *Perusahaan Negara Pertambangan Minyak dan Gas Bumi Nasional* (PN PERTAMINA), pursuant to Government Regulation No. 27 Year 1968, dated August 20, 1968, and consolidated both PN PERMINA as well as *Perusahaan Negara Pertambangan Minyak Indonesia* ("PN PERTAMIN"), which was another oil company established pursuant to Government Regulation No. 3 Year 1961, dated February 13, 1961. With the enactment of Law No. 8 Year 1971 regarding *Perusahaan Pertambangan Minyak dan Gas Bumi* ("Law No. 8/1971"), PN PERTAMINA was dissolved and all of its assets were contributed as the capital of the newly established company named PERTAMINA.

Within that period, the rights to explore and exploit crude oil and natural gas in Indonesia were delegated to us by the Government, as stipulated by Law No. 8/1971. As a representative of the Government, we acted as the sole holder of the mine concession right for all oil and gas areas under the jurisdiction of the Republic of Indonesia. In order to conduct the exploration and exploitation of oil and gas mining, we entered into contracts with third party contractors in the form of PSCs and other production sharing arrangements. Within this period, we also regulated all aspects of the oil and gas industry in Indonesia.

In 2001, the Oil and Gas Law of 2001 was enacted, terminating the exclusive rights held by PERTAMINA. Under the Oil and Gas Law of 2001, BPMIGAS (the predecessor to SKK MIGAS) and BPH MIGAS were established to regulate the upstream and downstream sectors of the Indonesian oil and gas industry. With the dissolution of PERTAMINA and the establishment of our Company in 2003, we became a state-owned limited liability company. Further, as a result, we restructured our business into upstream and downstream sectors operated through separate directorates and subsidiaries. See "Indonesian Regulatory Framework" for more information about the Indonesian oil and gas regulatory framework and "Corporate Structure" for more information on our subsidiaries.

**Government as Shareholder**

The Government owns 100% of our issued share capital. Our authorized share capital is Rp. 200,000 billion and our initial issued and paid up capital was Rp. 100,000 billion as reflected in our deed of establishment and our interim opening balance (*neraca pembukaan sementara*). Our issued and paid up capital was Rp. 82,569.8 billion pursuant to Minister of Finance Decree No.23/KMK.06/2008 dated January 30, 2008 which was retrospectively applied to 2003.

As our sole shareholder, the Government is entitled to receive dividend payments from us on an interim or annual basis. In 2011, 2012 and 2013, we paid final dividends of US$663.0 million, US$763.7 million and US$754.2 million, respectively, to the Government. For 2014, the Government is targeting us to pay 30% or less of our projected profits to the Government in dividends. The Government is also entitled, in its capacity as our sole shareholder, to approve any significant acquisitions which we may propose in line with our business strategy. See "Risk Factors — Risks Relating to Our Company — We may not be able to consummate future acquisitions, joint ventures or investments. In addition, any acquisitions, joint ventures or investments which we are able to consummate could adversely affect us."

As we are wholly-owned by the Government, our commissioners and directors are appointed by the Government, through the Ministry of State-Owned Enterprises, based on merit.

In 2008, the Government approved our conversion to a non-listed public company, which requires, among other things, the submission of a registration statement to the Indonesian Capital Markets and Financial Institution Supervisory Board and a Government Regulation to enact the change of status. The decision to convert our Company to a non-listed public company is intended to improve our transparency and subject us to higher corporate governance standards.

**Government as Regulator**

The Government divides the oil and gas industry into upstream and downstream sectors. The upstream sector is controlled by SKK MIGAS (as successor to BPMIGAS), on behalf of the Government, as the holder of the exclusive mine concession rights in Indonesia. The downstream sector is regulated by BPH MIGAS, an independent governmental agency tasked with the supervision and regulation of downstream operations in Indonesia. The objective of BPH MIGAS is to ensure the availability and distribution of refined oil products throughout Indonesia and to promote gas utilization in the domestic market.

The DGOG is the regulator of general policies in relation to the upstream and downstream sectors. The DGOG is authorized to formulate the policies and regulations relating to oil and gas in Indonesia. In order to carry out its duties, the DGOG may, among other things, prepare and implement policies on oil and gas, specify the standards, norms, guidelines, criteria and procedures for the oil and gas industry; and provide technical and evaluation guidance to oil and gas companies.

The policies set forth by SKK MIGAS, BPH MIGAS, and the DGOG impact many of our business activities. Any changes in these policies could have a significant effect on our competitive position, operations and financial condition. See "Risk Factors — Risks Relating to the Oil, Gas and Geothermal Industry — Increased regulation by governments and governmental agencies may increase the cost of regulatory compliance and limit our access to new exploration properties" for information on the risks which we face in connection with such regulation. Also, see "Indonesian Regulatory Framework" for more information on the oil and gas industry in Indonesia.

Certain Government agencies have different supervisory roles in relation to our business activities. The DGOG and BPH MIGAS are our main regulators. The DGOG creates policies and regulations relating to health, safety and the environment, as well as issuing operating licenses. The Ministry of the Environment monitors the compliance of our business activities with the prevailing environmental laws and regulations. The Minister of Energy and Mineral Resources, and BPH MIGAS regulate our upstream and downstream oil and gas businesses respectively. The Parliament reviews and approves the State Budget, which includes the subsidies to be paid to us pursuant to our PSO mandate. The Ministry of State-Owned Enterprises approves our annual budget, including the amount of our subsidies pursuant to our PSO mandate, at our shareholder's meetings and our long-term investments and funding plans. The Ministry of Finance monitors our finances and provides offshore loans, grants and subsidies to us. The Ministry of Finance and BAPPENAS approve investment projects which form part of the Government budget. See "— Government as Lender".

The PSO mandate to distribute subsidized fuel in specified regions of Indonesia is granted by the Government on an annual basis. Our PSO mandate was renewed by the Government in 2014 for another year. Under our PSO mandate, we are obliged to distribute kerosene, automotive diesel oil and certain grades of motor gasoline within Indonesia. Pursuant to the PSO mandate, we are entitled to receive payment from the Government as a reimbursement of subsidized fuel price, pursuant to the prevailing laws and regulations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operations — PSO Mandate" for details of our PSO compensation. The PSO mandate is not assignable. The PSO mandate is not exclusive; if there is scarcity of a PSO product within an area, BPH MIGAS can appoint other business entity to assist us to overcome the shortage.

Since 2007, we were assigned responsibility by the Government to distribute LPG in 3kg cylinders in connection with the kerosene conversion program. Under the terms of this assignment, we are entitled to receive compensation based on a reimbursement of costs and a profit margin from the Government. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Business and Results of Operations — PSO Mandate" for details of our compensation for distribution of LPG on behalf of the Government.

We also consult with the Government on increases in the prices of the LPG in 12kg and 50kg cylinders that we market and distribute in Indonesia.

Our distribution and sale of CNG to public and private transportation vehicles is carried out pursuant to the CNG mandate by the Government. The price at which CNG is purchased and sold is fixed by the Government and we earn a fixed margin from our distribution of CNG. See "Business — Pertamina Gas Business — CNG" for details of our compensation for the distribution and sale of CNG.

The Government supervises the activities in relation to geothermal resources through the Directorate General of New Energy, Renewable Energy and Energy Conservation (a directorate under the Ministry of Energy and Mineral Resources), through the issuance of policies and regulations.

**Government as Partner**

We, through our direct and indirect subsidiaries, have entered into cooperation contracts with BPMIGAS (such contracts now assumed by SKK MIGAS), as the representative of the Government, to conduct oil and gas upstream activities over a designated block that spans much of Indonesia. The term of a cooperation contract is 30 years from its date. See "Business — Pertamina Upstream Business" for a description of our operations, including those under cooperation contracts.

Under the terms of the cooperation contract, SKK MIGAS is responsible for the supervision of the working area, while we are responsible for the operation of the working area. We contribute funding, technical skill and expertise, as well as bear the risk of operations in the working area. For cooperation contracts entered into prior to the enactment of the Oil and Gas Law of 2001, approximately 33% of the crude oil and gas produced is allocated to SKK MIGAS and approximately 67% is allocated to us after cost recovery and we are compensated for DMO at the market rate. For cooperation contracts entered into after the enactment of the Oil and Gas Law of 2001, approximately 85% of the crude oil and gas produced is allocated to SKK MIGAS and approximately 15% of is allocated to us after cost recovery and tax and we are compensated for DMO at a reduced price which is less than the market rate and varies between cooperation contracts.

Pursuant to a letter dated February 1, 2005, BPMIGAS appointed us as its selling agent with respect to its crude oil entitlement under cooperation contracts and we are entitled to receive fees as compensation. Under this agreement, we are obligated to sell the entire portion of such crude oil and natural gas entitlement on its behalf and remit the proceeds to BPMIGAS (now SKK MIGAS).

**Government as Lender**

We have received financing from the Government in the form of a two-step loan from OECF. The Government originally lent to OECF an amount of ¥11,816.0 million (US$101.9 million), pursuant to a loan agreement between the Government and OECF dated November 29, 1994. We, in turn, borrowed ¥1,172.9 million (US$10.1 million) from OECF under a two-step loan agreement dated May 7, 2007 among us as borrower, the Government as co-obligor and OECF as lender. The proceeds of this loan were used to finance the construction of the Airport Fuel Filling Depot of Ngurah Rai International Airport in Bali. The two-step loan matures 30 years from November 29, 1994, the date of the loan agreement between the Government and OECF. There is no collateral given by our Company for the two-step loan, as the Government remains the primary obligor of the loan. The two-step loan bears interest at 3.1% per annum. Any late principal payments will be subject to a 2% per annum penalty.

We have also received financing from the Government in the form of a two-step loan from JICA. The Government obtained a loan of ¥26,966.0 million (US$232.5 million) from JICA under which we were appointed as executing and implementing agency, pursuant to a loan agreement between the Government and JICA dated March 29, 2011. The loan is to be utilized for the implementation of the Lumut Balai geothermal power plant project. There is no collateral given by the Company for this two-step loan, as the Government remains the primary obligor of the loan. The two-step loan is available as two loan facilities, one of which is ¥25,834.0 million (US$222.7 million) and is related to the construction of the project and bears interest at 0.6% per annum and the other facility is ¥1,132.0 million (US$9.8 million) and is related to consultants for the project and bears interest at 0.02% per annum. Any late principal payments will be subject to a 2% per annum penalty.

The two-step loans account for less than 0.1% of our total liabilities as of December 31, 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Indebtedness".

**Government as Customer**

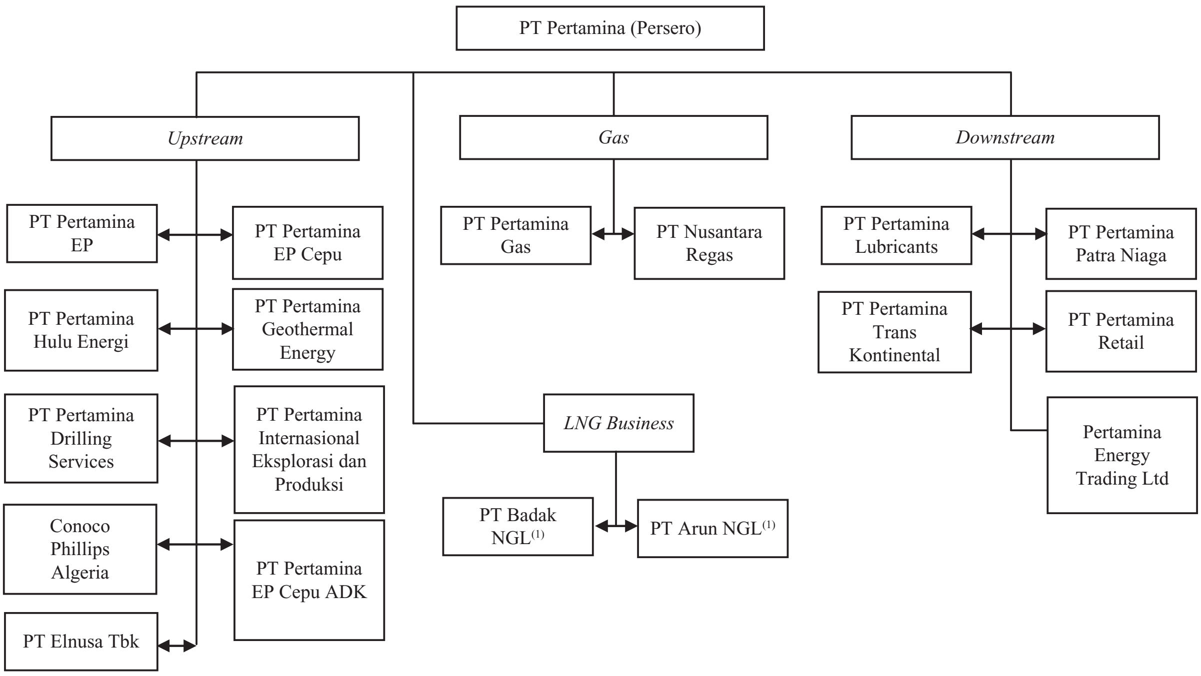
A number of other state-owned companies controlled by the Government (including PLN, PT Timah (Persero) Tbk, and Garuda) purchase fuel from us. Further, we supply our fuel to Government offices, such as the Indonesian police and the Indonesian Armed Forces. Our customers who are state-owned companies and Government offices purchase fuel from us on an arms'-length basis, based on market pricing for such fuel.

As of December 31, 2013, we had trade receivables of US$4,017.1 million, approximately 50.8% of which was owed to us by our related parties. Out of this amount, US$1,004.1 million is owed to us by PLN and its subsidiaries and US$771.7 million is owed to us by the Indonesian Armed Forces and the Ministry of Defense. US$89.5 million of our trade receivables owed to us by our related parties have been outstanding for over two years. As of December 31, 2013, we have made provisions for impairment of US$1.5 million against trade receivables owed to us by our related parties. See "Risk Factors — Risks Relating to Our Company — We are exposed to credit risk on our trade receivables", "Risk Factors — Risks Relating to Our Downstream Operations — We are dependent on certain key Government-owned customers and the loss of, or a significant reduction in, purchases by such customers could adversely affect our business", and "Management's Discussion And Analysis of Financial Condition and Results of Operations — Market Risks — Counterparty and Concentration of Credit Risks".

# CORPORATE STRUCTURE

We have an operating history of more than 56 years and were established on December 10, 1957 under the name PT PERMINA. In 1961, we changed our name to PN PERMINA and, after our merger with PN PERTAMIN in 1968, became PN PERTAMINA. With the enactment of Law 8 of 1971, we became PERTAMINA. This name persisted until we changed our legal status to an Indonesian limited liability company under Deed of Establishment No. 20 dated September 17, 2003 drawn up before Lenny Janis Ishak, SH, Notary in Jakarta, which was approved by the Minister for Law & Human Rights under its Decision No. C-24025 HT.01.01.TH.2003 on October 9, 2003 and we became PT Pertamina (Persero).

The following chart sets forth our key operating companies by business segments. This chart does not show all of our subsidiaries and associates. For a more complete discussion of our direct and indirect subsidiaries and affiliates, please refer to Note 1b of our consolidated financial statements for the years ended December 31, 2011, 2012 and 2013, included elsewhere in this Offering Memorandum.




*Source: Pertamina*

Note:

(1) We operate PT Arun NGL and PT Badak NGL on behalf of the Government but do not own or have management control over the assets of these entities.

We are required under the Oil and Gas Law of 2001 to operate the upstream and downstream sectors of our business through separate legal entities. Following the enactment of the Oil and Gas Law of 2001, we restructured our business and as a result, our upstream assets, operations and joint ventures, our downstream gas business and our supporting business units for our upstream and downstream operations and our non-core businesses are held and operated through subsidiaries of our Company. Our upstream business development unit, the majority of our downstream assets, operations and joint ventures and our LNG business continue to be held and operated through our Company.

The following table sets forth our core subsidiaries and associates and their respective businesses.

| Subsidiaries and Associates | Business |
|---|---|
| PT Pertamina EP | Exploration, development and production of crude oil and natural gas in our wholly-owned oil and gas fields. |
| PT Pertamina Hulu Energi | Exploration, development and production of crude oil and natural gas in certain of our partially-owned assets in Indonesia and internationally, in Australia, Iraq, Malaysia and Vietnam. |
| PT Pertamina EP Cepu(1) | Holding our 45% participating interest in the Cepu block. |
| PT Pertamina Geothermal Energy | Exploration, development and production of geothermal energy from our geothermal work areas for power generation, as well as building and operating geothermal power plants and selling electricity generated by our geothermal power plants. |
| PT Pertamina Gas | Trading, storing and transportation of natural gas through pipelines. |
| PT Pertamina Drilling Services Indonesia | Operation of our drilling services business, which primarily supports our upstream drilling activities, and providing integrated project management and rental of drilling tools. |
| PT Pertamina EP Cepu ADK(2) | Exploration, development and production of crude oil and natural gas in the Alas Dara and Kemuning fields. |
| PT Pertamina Internasional Eksplorasi dan Produksi | Exploration, development and production of crude oil and natural gas in international working areas. |
| Conoco Phillips Algeria | Exploration, development and production of crude oil and natural gas in Algeria. |
| PT Elnusa Tbk. | Conducting integrated upstream oil and gas services such as geophysical data services, drilling services and oilfield services and downstream oil and gas services such as storing, trading, distributing and marketing oil and gas products in Indonesia. |
| PT Arun NGL | Operator of the Arun LNG plant in Arun, North Sumatra. We operate PT Arun NGL and PT Badak NGL on behalf of the Government but do not have management control over the assets of these entities. |
| PT Badak NGL | Operator of the Bontang LNG plant in Badak, East Kalimantan. |
| PT Pertamina Retail | Management of our fuel stations for the marketing and trading of retail vehicle fuel. |
| PT Pertamina Patra Niaga | Operation of our downstream business relating to the trading of fuel. |

| Subsidiaries and Associates | Business |
|---|---|
| Pertamina Energy Trading Ltd. | Trading of crude oil and refined products as well as other products such as LPG, LNG, petrochemical products and green coke and engage in other downstream businesses such as storage, LNG and crude oil refining and shipping. |
| PT Pertamina Trans Kontinental | Provision of shipping and maritime services and management of our chartered shipping fleet. |
| PT Nusantara Regas | Operation and development of storage facilities and regasification terminals. |
| PT Pertamina Lubricants | Operation of our downstream business relating to the marketing and trading of lubricants. |

Note:

(1) Under the Oil and Gas Law of 2001 and Upstream Regulation, our interests in any new oil and gas work areas are required to be held through separate legal entities and we established this subsidiary to hold our interest in the Cepu block which was acquired after the Oil and Gas Law of 2001 and Upstream Regulation came into force. We intend to establish new subsidiaries to hold interests in any new oil and gas work areas we acquire in the future.

(2) The PSC authorizing PT Pertamina EP Cepu ADK to manage the Cepu block is expected to be issued in 2014.

We have certain other non-key subsidiaries and joint ventures through which we hold assets and participate in other non-core businesses. See “Business — Other Businesses”.

# DESCRIPTION OF THE NOTES

## 1 General

(a) The particular terms of any Notes sold will be described in an accompanying supplement to this Offering Memorandum (a "Pricing Supplement"). The terms and conditions set forth in this "Description of the Notes" will apply to each Note unless otherwise specified in the applicable Pricing Supplement and in such Note.

(b) The Notes will be duly authorized issues of Notes of PT Pertamina (Persero) (the "Company") (each Note a "Note", and collectively, the "Notes"), and will be issued pursuant to an Indenture dated as of May 3, 2013, between the Company and The Bank of New York Mellon, as Trustee (the "Trustee"), as amended, supplemented and/or restated from time to time (the "Indenture"). The terms of the Notes will be subject to all the provisions contained in the Indenture and the conditions set out in the Note (as modified and supplemented by the applicable Pricing Supplement, the "Conditions"). The Pricing Supplement for each Note will supplement the Conditions and may specify other terms and conditions, which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of the Note. The holders of the Notes (the "Holders") will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Indenture. A copy of the Indenture is on file and may be inspected at the Corporate Trust Office of the Trustee in New York City. All capitalized terms used in this "Description of the Notes" but not defined herein shall have the meanings assigned to them in the Indenture and in the Pricing Supplement.

(c) The Notes will (i) be direct, unsecured and unsubordinated obligations of the Company; (ii) be senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; (iii) rank at least *pari passu* in right of payment with all other unsecured and unsubordinated Debt of the Company (subject to any priority rights of such unsubordinated Debt pursuant to applicable law); and (iv) be effectively subordinated to its secured obligations and the obligations of its Subsidiaries.

(d) Registered Notes will be issued in fully registered form, without coupons. Registered Notes may be issued in certificated form (the "Certificated Securities"), or may be represented by one or more registered global securities (each, a "Registered Global Security") held by or on behalf of the Depositary. Certificated Securities will be available only in the limited circumstances set forth in the Indenture. The Registered Notes, and transfers thereof, will be registered as provided in Clause 2.6 of the Indenture. Any person in whose name a Registered Note is registered may (to the fullest extent permitted by applicable law) be treated at all times, by all persons and for all purposes as the absolute owner of such Registered Note regardless of any notice of ownership, theft, loss or any writing thereon.

(e) Bearer Notes will be issued in bearer form, with Coupons (and, where appropriate, Talons) attached, except in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in the Conditions are not applicable. Installment Notes will be issued with one or more Receipts attached. Bearer Notes may be issued in definitive form, or may be represented by one or more global securities, which may be Temporary Global Notes held by or on behalf of the Depositary. Interests in Temporary Global Notes will be exchangeable for interests in a Permanent Global Note or Definitive Bearer Notes on or after the Exchange Date upon certification as provided therein. Definitive Bearer Notes will be available only in the limited circumstances set forth in the Indenture. Any holder of any Bearer Note, Receipt, Coupon or Talon may (to the fullest extent permitted by applicable law) be treated at all times, by all persons and for all purposes as the absolute owner of such Bearer Note, Receipt, Coupon or Talon regardless of any notice of ownership, theft, loss or any writing thereon. Title to the Bearer Notes and any Coupon will pass by delivery.

## 2 Principal and Interest

The Company, for value received, will promise to pay to the Holder of a Note on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption to the Holder under the Conditions and (unless the Note does not bear interest under the Conditions) to pay to the Holder interest in respect of such Note from the Interest Commencement Date in arrears at the rates, in the amounts and on the dates for payment provided for in the Conditions together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

## 2A. General

A Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Installment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement. Details of such Interest, Redemption and/or Payment Basis not set out in this “Description of the Notes” will be set out in the Pricing Supplement.

## 2B. Interest and Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note will bear interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 2B(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note will bear interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 2B(h). Such Interest Payment Date(s) is either shown in the Pricing Supplement as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is shown in the Pricing Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Pricing Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in the Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Pricing Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of Condition 2B(b)(iii)(A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the Pricing Supplement;

(y) the Designated Maturity is a period specified in the Pricing Supplement; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Pricing Supplement.

For the purposes of Condition 2B(b)(iii)(A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified in the Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Pricing Supplement.

(y) if the Relevant Screen Page is not available or if, Condition 2B(b)(iii)(B)(x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if Condition 2B(b)(iii)(B)(x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if Condition 2B(b)(iii)(B)(y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Company suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market as at 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, the Euro-zone inter bank market as at 11.00 a.m. (Brussels time), as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 2B(b)(iii)(B)(z), the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the Pricing Supplement and interest will accrue by reference to an Index or Formula as specified in the Pricing Supplement.

(c) **Zero Coupon Notes:** Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortization Yield (as described in Condition 8(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest is to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the Pricing Supplement.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the Pricing Supplement.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 2B to the Relevant Date (as defined in Condition 9).

(g) **Margin, Maximum/Minimum Rates of Interest, Installment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified in the Pricing Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all

Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 2B(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 2B(g)(ii).

(ii) If any Maximum or Minimum Rate of Interest, Installment Amount or Redemption Amount is specified in the Pricing Supplement, then any Rate of Interest, Installment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to the Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Pricing Supplement, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Installment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Installment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Installment Amount to be notified to the Trustee, the Company, each of the Paying Agents, the Holders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or

(ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 2B(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 7, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated and notified as previously in accordance with this Condition 2B(i). The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Installment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) at the expense of the Issuer and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition 2B, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. If the Trustee appoints an agent to make such determination or calculation, the Trustee shall not be liable to monitor or supervise any such agent and shall not be liable for any determination or calculation made by any such agent.

(k) **Definitions:** For the purposes of this "Description of the Notes," unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial center for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centers, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Center(s) or, if no currency is indicated, generally in each of the Business Centers.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual — ISDA**" is specified in the Pricing Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non leap year divided by 365)

(ii) if "**Actual/365 (Fixed)**" is specified in the Pricing Supplement, the actual number of days in the Calculation Period divided by 365

(iii) if "**Actual/360**" is specified in the Pricing Supplement, the actual number of days in the Calculation Period divided by 360

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y1"** = is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y2"** = is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"M1"** = is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**"M2"** = is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"D1"** = is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

**"D2"** = is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y1"** = is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y2"** = is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"M1"** = is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**"M2"** = is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"D1"** = is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

**"D2"** = is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30.

(vi) if "**30E/360 (ISDA)**" is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y1"** = is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y2"** = is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"M1"** = is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**"M2"** = is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"D1"** = is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

**"D2"** = is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(vii) if "**Actual/Actual-ICMA**" is specified in the Pricing Supplement,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date and

"**Determination Date**" means the date(s) specified as such in the Pricing Supplement or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

**"Interest Amount"** means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Pricing Supplement, shall mean the Fixed Coupon Amount or Broken Amount specified in the Pricing Supplement as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Pricing Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the Pricing Supplement.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the Pricing Supplement.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Pricing Supplement.

"**Rate of Interest**" means the rate or rates of interest payable from time to time in respect of the Note specified in the Pricing Supplement or calculated or determined in accordance with the Conditions and/or the provisions of the Pricing Supplement.

"**Redemption Amount**" means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, each as specified as such in, or determined in accordance with the provisions of, the Pricing Supplement.

"**Redemption Date**" means the Optional Redemption Date specified in the applicable Pricing Supplement or such other date set for redemption of the Notes pursuant to Condition 8.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Pricing Supplement.

"**Reference Rate**" means the rate specified as such in the Pricing Supplement.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the Pricing Supplement.

"**Specified Currency**" means the currency specified as such in the Pricing Supplement or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on November 19, 2007 or any successor thereto.

(l) **Calculation Agent**: The Company shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Pricing Supplement and for so long as any Note is Outstanding (as defined in the Indenture). Where more than one Calculation Agent is appointed in respect of the Notes, references in the Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Installment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Company shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may at any time resign with respect to the Notes of one or more Series by giving not less than 60 days' written notice of resignation to the Company, upon which the Company shall appoint a successor as aforesaid.

## 2C. Redenomination, Renominalization and Reconventioning

Where Redenomination, Renominalization and Reconventioning is specified in the Pricing Supplement as being Applicable in relation to Notes denominated in the currency of a member state which becomes or announces its intention to become a Participating Member State:

(i) the Company may, without the consent of the Holders of the Notes, on giving not less than 30 days' prior notice ("**Redenomination Notice**") to the Holders of the Notes in accordance with Condition 13, the Trustee and the Paying Agents, with effect from (and including) the Redenomination Date, elect that the aggregate principal amount of each Holder 's holding of Notes shall be redenominated into Euro with an aggregate principal amount equal to their aggregate principal amount in the Relevant Currency and the amount of such payment shall be rounded to the nearest Euro 0.01. The rate for the conversion of the Relevant Currency (as defined below) into Euro shall be the rate established by the Council of the European Union pursuant to Article 881(4) of the Treaty establishing the European Community (the "**Treaty**") (including compliance with rules relating to roundings in accordance with applicable European Community regulations).

"**Participating Member State**" means a Member State of the European Communities which adopts the Euro as its lawful currency in accordance with the Treaty.

"**Redenomination Date**" means any Interest Payment Date falling on or after the date on which the country of the Relevant Currency becomes a Participating Member State, which is specified in the Redenomination Notice.

"**Relevant Currency**" means the currency of denomination of the Notes shown on such Notes and which is specified in the Pricing Supplement.

On or after the Redenomination Date, notwithstanding the other provisions of the Conditions, all payments in respect of the Notes will be made solely in Euro, including payments of interest in respect of a period before the Redenomination Date. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee. The Company shall appoint an exchange agent if necessary to comply with the procedures and requirements of the relevant clearing system and to give effect to this Condition 2C. None of the Company, the Trustee or any Paying Agent shall be liable to any Holder of Notes or other person for any commissions, costs, losses or expenses in relation to or resulting from the credit or transfer of Euro or any currency conversion or rounding effected in connection therewith;

(ii) provided that the Notes are represented by a Registered Global Security, the Company may, without the consent of the Holders of the Notes, on giving at least 30 days' prior notice to the Holders of the Notes in accordance with Condition 13, the Trustee and the Paying Agents, with effect from the Redenomination Date or such later date as it may specify in that notice, procure that the denomination of the Notes shall be Euro 0.01 and integral multiples thereof;

(iii) the Company may, without the consent of the Holders of the Notes, on giving at least 30 days' prior notice to the Holders of the Notes in accordance with Condition 13, the Trustee and the Paying Agents, with effect from the Redenomination Date or such later Interest Payment Date as it may specify in that notice, elect to amend the conventions which apply in respect of the Notes.

In particular, the Company may procure that the definition of "Business Day" and "Financial Center" in Condition 2B shall be amended so as to be a day on which TARGET is operating, and that, if interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365) or on any other basis which is customary and which the Company deems appropriate.

## 3 Payments

(a) **Registered Notes:** Principal of (and premium, if any, on) the Notes will be payable against surrender of such Notes at the Corporate Trust Office of the Trustee or, subject to applicable laws and regulations, at the specified office of the applicable Paying Agent in the Place of Payment, by check in the Specified Currency drawn on, or by transfer to an account in the Specified Currency maintained by the Holder with, a bank located in New York City (or, the Financial Center set out in the Pricing Supplement). Unless specified in the Pricing Supplement, payment of interest (including Additional Amounts (as defined below)) on Registered Notes will be made to the persons in whose name such Registered Notes are registered at the end of the Business Day (as defined below) preceding the date on which interest is to be paid (each, a "**Record Date**"), notwithstanding the cancellation of such Registered Notes upon any transfer or exchange thereof subsequent to the Record Date and prior to such Interest Payment Date; **provided** that if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names such Registered Notes are registered as of a subsequent record date established by the Company by notice, as provided in Condition 13, by or on behalf of the Company to the Holders not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest. Payment of interest on Certificated Securities will be made (i) by a check in the Specified Currency drawn on a bank in New York City (or, the Financial Center set out in the Pricing Supplement) mailed to the Holder at such Holder's registered address or (ii) upon application by the Holder of at least the amount specified in the Pricing Supplement in principal amount of Certificated Securities to the Trustee not later than the relevant Record Date, by wire transfer in immediately available funds to an account maintained by the Holder with a bank in New York City (or, the Financial Center set out in the Pricing Supplement), Payment of interest on a Registered Global Security will be made (i) by a check in the Specified Currency drawn on a bank in New York City delivered to the Depositary at its registered address or (ii) by wire transfer in immediately available funds to an in the Specified Currency account maintained by the Depositary with a bank in New York City (or, the Financial Center set out in the Pricing Supplement).

(b) **Bearer Notes:** Each Paying Agent acting through its specified office outside the United States, its territories and possessions will make payments of principal and interest in respect of Bearer Notes in accordance with the terms of the Indenture applicable to such Bearer Notes; provided, however, that:

(i) if any Temporary Global Note, Permanent Global Note, Definitive Bearer Note, Receipt or Coupon is presented or surrendered for payment to any Paying Agent and such Paying Agent has delivered a replacement therefor or has been notified that the same has been replaced, such Paying Agent should promptly notify the Company of such presentation or surrender and shall not make payment against the same until it is so instructed by the Company and has received the amount to be so paid;

(ii) a Paying Agent should not be obliged (but shall be entitled) to make payments of principal or interest in respect of the Bearer Notes, if it is not able to establish that the Trustee has received (whether or not at the due time) the full amount of any payment due to it;

(iii) the relevant Paying Agent should cancel or procure the cancellation of each Temporary Global Note, Permanent Global Note, Definitive Bearer Note (together, in the case of early redemption, with such unmatured Receipts or Coupons or unexchanged Talons as are attached to such Definitive Bearer Note at the time of such redemption), Receipt, Coupon or Talon, against surrender of which it has made full payment and should (if such Paying Agent is not the Trustee) deliver or procure the delivery of each Temporary Global Note, Permanent Global Note, Definitive Bearer Note (together with, as aforesaid, such unmatured Receipts or Coupons or unexchanged Talons as are attached to or surrendered with the relevant Bearer Notes), Receipt, Coupon or Talon so cancelled by it to, or to the order of, the Trustee; or

(iv) in the case of payment of interest, principal or, as the case may be, any other amount against presentation of a Temporary Global Note, the relevant Paying Agent should note or procure that there is noted on the schedule thereto (or, in the absence of a schedule, on the face thereof) the amount of such payment and, in the case of payment of principal, the remaining principal amount of the relevant Bearer Note (which shall be the previous principal amount less the principal which has then been paid) and shall procure the signature of such notation on its behalf;

(v) payments of principal and interest on Bearer Global Notes will be made in a manner specified in the relevant Bearer Global Notes against presentation or surrender, as the case may be, of such Bearer Global Note at the office of the relevant Paying Agent outside of the United States. A record of each payment of principal and any payment of interest will be made on each relevant Bearer Global Note by the relevant Paying Agent and such record will be prima facie evidence that the payment in question has been made absent manifest error;

(vi) if the relevant Pricing Supplement specifies that D Rules are applicable and the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note” or “Temporary Global Note exchangeable for Definitive Notes”, interest will only be paid on a Temporary Global Note upon certification in accordance with Schedule 2 of the Indenture. In addition, no payments will be made under the Temporary Global Note following the Exchange Date unless exchange for interests in the Permanent Global Note is improperly withheld or refused.

Payments of principal and interest on Definitive Bearer Notes will be made against presentation or surrender, as the case may be, of such Definitive Bearer Note at the office of the relevant Paying Agent outside of the United States. Payments of interest in respect of Definitive Bearer Notes will be made only against surrender of Coupons and payments of principal will be made only against surrender of Receipts, in each, at the office of the relevant Paying Agent outside of the United States.

Notwithstanding the provisions of Condition 3, if payments of interest and/or principal on a Bearer Note will be made in U.S. Dollars, such payments may be made in the United States if:

(1) the Company has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to

make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(2) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. Dollars; and

(3) such payment is then permitted under United States law without involving, in the opinion of the Company, adverse tax consequences to the Company.

A record of each payment of principal and any payment of interest will be made on each relevant Bearer Global Notes by the relevant Paying Agent and such record will be prima facie evidence that the payment in question has been made, absent manifest error.

No Paying Agent should exercise any Lien, right of set-off or similar claim against any person to whom it makes any payment under Condition 3 in respect thereof, nor shall any commission or expenses be charged by it to any such person in respect thereof.

If a Paying Agent makes any payment in accordance with Condition 3, it should notify the Trustee of the amount so paid by it, the serial number of the relevant Temporary Global Note, Permanent Global Note or Definitive Bearer Note against presentation or surrender of which payment of principal or interest was made and the number of Coupons by maturity against which payment of interest was made.

If at any time and for any reason a Paying Agent makes a partial payment in respect of a Temporary Global Note, Permanent Global Note, Definitive Bearer Note, Receipt or Coupon presented for payment to it, such Paying Agent should endorse thereon a statement indicating the amount and date of such payment.

(c) Unless another Business Day Convention is specified in the Pricing Supplement in any case where the date of payment of the principal of, or interest (including Additional Amounts), on the Notes shall not be a Business Day, then payment of principal or interest (including Additional Amounts) need not be made on such date at the relevant place of payment but may be made on the next succeeding Business Day. Any payment made on a date other than the date on which such payment is due as set forth herein shall have the same force and effect as if made on the date on which such payment is due, and no interest shall accrue for the period after such date.

(d) Interest in respect of any period of less than one year shall be calculated on the basis of the Day Count Fraction specified in the Pricing Supplement.

(e) All monies paid by or on behalf of the Company to the Trustee or to any Paying Agent for payment of the principal of, or interest (including Additional Amounts) on, any Note and not applied but remaining unclaimed for two years after the date upon which such amount shall have become due and payable shall be repaid to or for the account of the Company by the Trustee or such Paying Agent, the receipt of such repayment to be confirmed promptly in writing by or on behalf of the Company. The Holder or Holders of such Note or Notes shall thereafter look only to the Company for the payment that such Holder may be entitled to collect, and all liability of the Trustee or such Paying Agent with respect to such monies shall thereupon cease.

(f) If the Company at any time defaults in the payment of any principal of, or interest (including Additional Amounts) on, the Notes, the Company will pay interest on the amount in default (to the extent permitted by law in the case of interest on interest), calculated for each day until paid, at the rate per annum specified in the Pricing Supplement, together with Additional Amounts, if applicable.

(g) All payments of principal of, and premium, if any, and interest on the Notes will be made net of any deduction or withholding required by fiscal laws or regulations, and no Additional Amounts shall be paid with respect to any such deduction or withholding except as provided in Condition 4.

## 4 Taxation; Additional Amounts

All payments of principal of, and premium, if any, and interest on the Notes will be made without withholding or deduction for, or on account of, any present or future Taxes imposed or levied by or within any jurisdiction in which the Company or the Surviving Person (as defined under Condition 6) is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) or through which payment is made on behalf of the Company or the Surviving Person (each, a "**Relevant Jurisdiction**"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In such event, the Company or the Surviving Person, as the case may be, will make such deduction or withholding, make payment of the amount so withheld to the appropriate governmental authority and will pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holder of such amounts as would have been received by such Holder had no such withholding or deduction been required, provided that no Additional Amounts will be payable with respect to:

(1) any Tax that would not have been imposed, payable or due but for:

(a) the existence of any present or former connection between the Holder (or the beneficial owner of, or person ultimately entitled to receive the payment on such Notes or if the Holder is an estate, nominee, trust, partnership or corporation, between a fiduciary, settler, beneficiary, partner of, member or shareholder of, or possessor of power over the Holder) and the Relevant Jurisdiction (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in (including through a branch, agency or otherwise), or being physically present in, the Relevant Jurisdiction) other than the mere holding of the Notes or enforcement of rights thereunder or the receipt of payments in respect thereof;

(b) the failure of the Holder or beneficial owner to comply with a timely request of the Company or the Surviving Person, as the case may be, or the Paying Agent addressed to the Holder to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner;

(c) the presentation of Notes (where presentation is required) for payment more than 30 days after the date such payment was due and payable or was duly provided for, whichever is later; or

(d) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(2) any estate, inheritance, gift, sale, value added, use, excise, transfer, personal property or similar tax, assessment or other governmental charge;

(3) any withholding or deduction in respect of any Tax where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(4) any Tax which is payable otherwise than by deduction or withholding from payments of (or in respect of) principal of, premium, if any, or interest on the Notes;

(5) any withholding or deduction by or on behalf of a Holder of Notes who would have been able to avoid such deduction or withholding by presenting the relevant Note to another Paying Agent;

(6) any Tax which is imposed or required to be withheld under Sections 1471 to 1474 (or any successor provisions or amendments thereof) of the United States Internal Revenue Code of 1986, as amended, or pursuant to any agreements with the U.S. Internal Revenue Service or between the United States and the government of another country and any official pronouncements with respect thereto, or any law implementing an intergovernmental approach to such Sections; or

(7) any combination of Taxes referred to in the preceding clauses (1), (2), (3), (4), (5) and (6).

In addition, Additional Amounts will not be payable to a Holder that is a fiduciary, partnership, limited liability company or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or limited liability company or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner, member or beneficial owner been the Holder thereof.

The Company or Surviving Person, as the case may be, will make any required withholding or deduction and remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such Taxes. The Company will furnish to the Trustee, within 60 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

Whenever in the Indenture or in the Conditions there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under or with respect to any of the Notes, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

## 5 Certain Covenants

For the purposes of this "Description of the Notes", the terms defined below have the following meanings:

"**Affiliate**" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (ii) who is a commissioner, director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person.

"**Change of Control**" means the occurrence of any event resulting in the government of the Republic of Indonesia ceasing to own and control (directly or indirectly or in combination) more than 50% of the Company's issued and paid-up shares.

"**Change of Control Triggering Event**" means a Change of Control, provided that, in the event that the Notes are, on the Rating Date, rated Investment Grade by two or more Rating Agencies, a Change of Control Triggering Event shall mean the occurrence of both a Change Of Control and a Rating Decline. No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

"**Clearstream**" means Clearstream Banking, *société anonyme*, Luxembourg or any successor thereof.

"**Debt**" means, with respect to any Person as of any date of determination, without duplication, (i) all obligations, contingent or otherwise, of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, notes or other similar instruments, (iii) all obligations of such Person in respect of letters of credit or other similar instruments, (iv) all obligations of such Person to pay the unpaid purchase price of any property or service, (v) all obligations secured by a Lien on any property or asset of such Person, whether or not such obligations are assumed by such Person and (vi) all obligations of others guaranteed by such Person to the extent of such guarantees and, for clauses (i) through (vi), which has a final maturity of one year or more. The amount of Debt of any Person as of any date of determination shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability of such Person for any such contingent obligations at such date and, in the case of clause (vi), the lesser of the fair market value (as determined in good faith by the board of directors of such Person) at such date of the property or asset of such Person subject to a Lien securing the obligations of others and the amount of such obligations secured.

"**Default**" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"**Dollar Equivalent**" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"**DTC**" means The Depository Trust Company and its successors.

"**Euroclear**" means Euroclear Bank S.A./N.V. or any successor thereof.

"**Fitch**" means Fitch Ratings Ltd., and its successors.

"**guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term "guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"**IFAS**" means Indonesian Financial Accounting Standards.

"**Investment Grade**" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody's or any of its successors or assigns or a rating of "AAA," "AA," "A," or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody's or Fitch or two or three of them, as the case may be.

"**Issue Date**" means the date of issuance of the relevant Note.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind but excluding liens arising by operation of law).

"**Moody's**" means Moody's Investors Service, Inc., and its successors.

"**Offer to Purchase**" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(a) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(b) the purchase price and the date of purchase (which will be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(c) that any Note not tendered will continue to accrue interest pursuant to its terms;

(d) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase will cease to accrue interest on and after the Offer to Purchase Payment Date;

(e) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(f) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased;

(g) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; provided that each Note purchased and each new Note issued will be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof; and

(h) the CUSIP number(s) and/or ISIN/Common code(s), as applicable, of the Notes.

One Business Day prior to the Offer to Purchase Payment Date, the Company will deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company will (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent will promptly mail to the Holders so accepted payment in an amount equal to the purchase price, and the Trustee will promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; provided that each Note purchased and each new Note issued will be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the requirements of the relevant Offer to Purchase, the Company will comply with the applicable securities laws and regulations and shall not be deemed to have breached their obligations under the Notes or the Indenture by virtue of their compliance with such securities laws or regulations.

"**Officer**" means one of the executive officers or directors of the Company. "Officers' Certificate" means a certificate signed by two Officers.

"**Opinion of Counsel**" means a written opinion from legal counsel which opinion is acceptable to the Trustee that meets the requirements of the Indenture; provided that legal counsel shall be entitled to rely on a certificate of the Company as to matters of fact.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**Principal Property**" means any asset or property of the Company or a Subsidiary whether at the date of initial issuance of the Notes owned or thereafter acquired (other than any such asset or property, or portion thereof, reasonably determined by the Company not to be of material importance to the total business conducted by the Company and its Subsidiaries, taken as a whole).

"**Rating Agencies**" means (i) S&P, (ii) Moody's, (iii) Fitch and (iv) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, a United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be.

"**Rating Category**" means (i) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca, "C" and "D" (or equivalent successor categories); (iii) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C," or "D" (or equivalent successor categories); and (iv) the equivalent of any such category of S&P, Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's; "+" and "-" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB- " to "B+," will constitute a decrease of one gradation).

"**Rating Date**" means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control.

"**Rating Decline**" means, in connection with a Change of Control Triggering Event, the occurrence on, or within 90 days after, the date, or public notice of the occurrence of, a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of the following event: the Notes are (a) on the Rating Date rated Investment Grade by at least two Rating Agencies and (b) cease to be rated Investment Grade by at least two of such Rating Agencies.

"**S&P**" means Standard & Poor 's Ratings Services, a division of the McGraw-Hill Companies, Inc., and its successors.

"**Securities**" means bonds, debentures, notes or other similar securities having an original maturity of more than one year from its date of issue which (1) are, or are issued with the intention on the part of the issuer thereof that they should be, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market, and (2) either (A) are by their terms payable, or confer a right to receive payment, in any currency other than Rupiah or (B) are denominated in Rupiah and more than 50% of the aggregate principal amount of the offering of such international investment securities is initially distributed outside Indonesia by or with the Company's consent.

"**Stated Maturity**" means, (1) with respect to any Debt, the date specified in such debt security as the fixed date on which the final installment of principal of such Debt is due and payable as set forth in the documentation governing such Debt and (2) with respect to any scheduled installment of principal of or interest on any Debt, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Debt.

"**Subsidiary**" means (i) any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Company or (ii) any subsidiary subject to consolidation with the Company's financial statements under IFAS.

"**Tax**" shall mean any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

"**U.S. Government Obligations**" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and will also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"**Wholly-Owned**" means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary by such Person or one or more Wholly Owned Subsidiaries of such Person.

**5A. Change of Control**

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all Outstanding Notes (a "**Change of Control Offer**") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Debt or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding these agreements, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Debt, if any, that would prohibit the repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Debt, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, the Company would continue to be prohibited from purchasing the Notes. In that case, the failure of the Company to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future Debt of the Company or its Subsidiaries may also (1) prohibit the Company from purchasing the Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require the repayment or repurchase of such Debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Debt, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company or its Subsidiaries. The ability of the Company to pay cash to Holders of the Notes following the occurrence of a Change of Control Triggering Event may be limited by the financial resources then available to the Company. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes.

Except as described above with respect to a Change of Control Offer, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

### 5B. Negative Pledge

So long as any of the Notes are Outstanding, the Company will not create or permit to subsist, and the Company will ensure that none of its Subsidiaries that own a Principal Property (each, a "**Material Subsidiary**") will create or permit to subsist, any Lien for the benefit of the holders of any Securities upon the whole or any part of its property or assets, present or future, to secure: (i) payment of any sum due in respect of any Securities; (ii) any payment under any guarantee of any Securities; or (iii) any indemnity or other like obligation in respect of any Securities, without in any such case (x) at the same time according to the Notes the same Liens as are granted to or are outstanding in respect of such Securities or (y) providing such other Lien for the Notes as may be approved by the holders of the Notes; provided, however, that the foregoing restriction shall not apply to:

(a) any Lien existing at the time of acquisition of any property by the Company provided that such Lien was not created in contemplation of such acquisition or in connection therewith and the principal, capital or nominal amount of the indebtedness secured by such Lien outstanding at the time of such acquisition is not increased; or

(b) any Lien arising out of the refinancing, extension or renewal, in whole or in part, of a Lien permitted under clause (a) above or any Securities secured by any Lien permitted by the preceding clause, to the extent of the amount of such Securities; provided that such Securities are not secured by any additional property or assets.

## 5C. Reports

For so long as any of the Notes remain Outstanding, the Company will file with the Trustee:

(a) as soon as they are available, but in any event within 120 calendar days after the end of its fiscal year, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 60 calendar days after the end of each of its first, second and third fiscal quarters, copies of its financial statements (on a consolidated basis) in respect of such period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with its audited financial statements, together with a certificate signed by the Person then authorized to sign financial statements on behalf of it, to the effect that such financial statements are true in all material respects and present fairly its financial position as at the end of, and the results of its operations for, the relevant quarterly period; and

(c) promptly and in any event within 15 days after it obtains actual knowledge of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes an Event of Default and an Officer's Certificate setting forth the details thereof and the action it is taking or proposes to take with respect thereto.

Further, the Company has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company will supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

## 5D. Use of Proceeds

The Company will not use the net proceeds from the sale of any Tranche of Notes, in any material amount, for any purpose other than for the purposes specified under the caption "Use of Proceeds" in the Offering Memorandum or as set forth in the applicable Pricing Supplement.

## 5E. Payment of Stamp Duties and Other Taxes

The Company will pay any present or future stamp, court or documentary duties or taxes, or any other excise or property taxes, charges or similar levies which arise under the laws of the Republic of Indonesia, or the United States or any political subdivision or taxing authority thereof respectively, from the execution, delivery, registration, enforcement, redemption or retirement of the Notes or any other document or instrument relating thereto.

## 5F. Listing of the Program

The Company shall make such filings, registrations or qualifications and take all other necessary action and will use its best efforts to obtain such consents, approvals and authorizations, if any, and satisfy all conditions that the SGX-ST may impose on the listing of the Program.

**5G. No Payments for Consents**

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

**6 Limitations on Consolidation, Merger and Sale of Assets**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets, computed on a consolidated basis with its Subsidiaries, (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(1) the Company will be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "**Surviving Person**") will be a corporation organized and validly existing under the laws of the jurisdiction in which it is organized and will expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts, and the Indenture and the Notes will remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(3) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with and that the relevant supplemental indenture is enforceable.

For purposes of this covenant, the conveyance, transfer or lease of all or substantially all of the property or assets of one or more Subsidiaries of the Company, which constitutes all or substantially all of the property or assets of the Company and its Subsidiaries on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the property or assets of the Company.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company that may adversely affect Holders.

## 7 Events of Default

Each of the following is an "**Event of Default**":

(1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(3) default in the performance of or breaches of the provisions of the covenants described under Condition 6 or failure to make or consummate an Offer to Purchase in the manner described under Condition 5A (Change of Control);

(4) default in the performance of or breaches of any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 60 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the outstanding Notes;

(5) there occurs with respect to any Debt of the Company or any of its Material Subsidiaries having an outstanding principal amount of US$50.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Debt of all such Persons, whether such Debt now exists or will hereafter be created, (A) an event of default that has caused the holder thereof to declare such Debt to be due and payable prior to its Stated Maturity or (B) the failure to make a payment of principal (subject to the applicable grace period in the relevant documents) of such Debt when the same becomes due;

(6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Material Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$50.0 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(7) an involuntary case or other proceeding is commenced against the Company or any Material Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Material Subsidiary or for any substantial part of the property and assets of the Company or any Material Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Material Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect; or

(8) the Company or any Material Subsidiary (i) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Material Subsidiary or for all or substantially all of the property and assets of the Company or any Material Subsidiary or (iii) effects any general assignment for the benefit of creditors.

If an Event of Default (other than an Event of Default specified in Condition 7(7) or Condition 7(8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then Outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders will, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest will be immediately due and payable. If an Event of Default specified in Condition 7(7) or Condition 7(8) above occurs, the principal of, premium, if any, and accrued and unpaid interest on the Notes then Outstanding will automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the Outstanding Notes by written notice to the Company and the Trustee, may on behalf of all of the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences with respect to the Notes if:

(i) the Company pays or deposits with the Trustee a sum sufficient to pay all monies then due with respect to the Notes (other than amounts due solely because of such declaration of acceleration) and all other existing Events of Default have been cured or waived, and

(ii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

The Holders of at least a majority in aggregate principal amount of the Outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder may not pursue or institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(a) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(b) the Holders of at least 25% in aggregate principal amount of Outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder or Holders offer the Trustee indemnity and/or security and/or prefunding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(e) during such 60-day period, the Holders of a majority in aggregate principal amount of the Outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest, and Additional Amounts, if any, on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right will not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee, on or before a date not more than 120 calendar days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Subsidiaries and the Company's performance under the Indenture and the Notes and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See Condition 5C (Reports).

## 8 Redemption

(a) **Redemption by Installments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled each Note that provides for Installment Dates and Installment Amounts shall be partially redeemed on each Installment Date at the related Installment Amount specified in the Pricing Supplement. The outstanding nominal amount of each such Note shall be reduced by the Installment Amount (or, if such Installment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Installment Date, unless payment of the Installment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Installment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Pricing Supplement at its Final Redemption Amount (which, unless otherwise provided in the Pricing Supplement, is its nominal amount) or, in the case of a Note falling within Condition 8(a)(i) above, its final installment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 8(c) or upon it becoming due and payable as provided in Condition 7 shall be the Amortized Face Amount (calculated as provided below) of such Note unless otherwise specified in the Pricing Supplement.

(B) Subject to the provisions of Condition 8(b)(i)(C) below, the Amortized Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortization Yield (which, if none is shown in the

Pricing Supplement, shall be such rate as would produce an Amortized Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 8(c) or upon it becoming due and payable as provided in Condition 7 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortized Face Amount of such Note as defined in Condition 8(b)(i)(B) above, except that such Condition shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortized Face Amount in accordance with this Condition 8(b)(i)(C) shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 7.

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Pricing Supplement.

(ii) *Other Notes*: The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 8(c) or upon it becoming due and payable as provided in Condition 7, shall be the Final Redemption Amount unless otherwise specified in the Pricing Supplement.

(c) **Redemption for Taxation Reasons:**

The Notes may be redeemed, at the option of the Company or the Surviving Person, as the case may be, in whole but not in part, on any Interest Payment Date (if the Note is either a Floating Rate Note or an Index Linked Note) or at any time (if the Note is neither a Floating Rate Note nor an Index Linked Note), upon giving not less than 30 days' and not more than 60 days' notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption if, as a result of:

(i) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(ii) any change in the existing official position regarding the application or interpretation of, or the stating of an official position regarding the application or interpretation of, such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective on or after (i) in the case of the Company, the Issue Date, or (ii) in the case of a Surviving Person, the date on which the Surviving Person assumes the obligations of the Company under the Indenture and the Notes, the Company or the Surviving Person, as the case may be, is, or on the next date of interest payment on the Notes would be, required to pay Additional Amounts with respect to any payment due or to become due under the Notes or the Indenture, and such requirement cannot be avoided by the taking of reasonable measures (including an appointment of a new paying agent) by the Company or the Surviving Person, as the case may be (*provided* that changing the jurisdiction of the Company or a Surviving Person, as the case may be, is not a reasonable measure for purposes of this section); provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company or the Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due; provided further that where any such requirement to pay Additional Amounts is due to taxes of the Republic of Indonesia (or any political subdivision or taxing authority thereof or therein), the Company or the Surviving Person shall be permitted to redeem the Notes in accordance with the provisions above only if the rate of withholding or deduction so required is in excess of 20.0% (the "**Minimum Withholding Level**"). No less than 15 days (or such period as may be agreed between the Company or the Surviving Person, as the case may be, and the Trustee) before giving such notice, the Company or the Surviving Person, as the case may be, shall give notice to the Principal Paying Agent and in the case of a redemption of Registered Notes, the Registrar (which notices shall be irrevocable and shall specify the date fixed for redemption).

Prior to the publication and mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company or the Surviving Person, as the case may be, will deliver to the Trustee:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company or the Surviving Person, as the case may be, by taking reasonable measures available to it;

(2) an Opinion of Counsel or an opinion of a tax consultant of recognized standing with respect to such matter, or a copy of any judicial decision or regulatory determination or ruling, in each case to the effect that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph; and

(3) in the case of a redemption where the Minimum Withholding Level has been exceeded, an Opinion of Counsel or an opinion of a tax consultant of recognized standing with respect to such matter that the Company or the Surviving Person, as the case may be, has or will become obliged to pay Additional Amounts exceeding the Minimum Withholding Level.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

(d) **Redemption at the Option of the Company:**

If Call Option is specified in the Pricing Supplement, the Company or the Surviving Person, as the case may be, may, on giving not less than 20 nor more than 30 days' irrevocable notice to the Holders (or such other notice period as may be specified in the Pricing Supplement) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. No less than 15 days (or such period as may be agreed between the Company or the Surviving Person, as the case may be, and the Trustee) before giving such notice, the Company or the Surviving Person, as the case may be, shall give notice to the Principal Paying Agent and in the case of a redemption of Registered Notes, the Registrar (which notices shall be irrevocable and shall specify the date fixed for redemption). Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Pricing Supplement and no greater than the Maximum Redemption Amount to be redeemed specified in the Pricing Supplement.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 8(d).

In the case of a partial redemption, the notice to Holders shall, in the case of Bearer Notes, also contain the certificate numbers of the Bearer Notes or, in the case of Registered Notes, specify the nominal amount of Registered Notes selected and the holder(s) of such Registered Notes, to be redeemed, which shall have been selected in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Holders:**

If Put Option is specified in the Pricing Supplement, the Company or the Surviving Person, as the case may be, shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Company (or such other notice period as may be specified in the Pricing Supplement) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit a duly completed option exercise notice in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period with the Registrar or any Transfer Agent at its specified office, in the case of Definitive Notes together with the relevant Definitive Note representing such Note(s). No Note so deposited and option exercised may be withdrawn without the prior consent of the Company.

(f) **Partly Paid Notes:**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 8 and the provisions specified in the Pricing Supplement.

**9 Replacement, Exchange and Transfer of Notes**

(a) Upon the terms and subject to the conditions set forth in the Indenture, in case any Note shall become mutilated, defaced or be apparently destroyed, lost or stolen, the Company will execute, and upon the request of the Company, the Trustee or the Registrar, as applicable, shall authenticate and deliver, a new Note bearing a number not contemporaneously Outstanding, in exchange and substitution for the mutilated or defaced Note, or in lieu of and in substitution for the apparently destroyed, lost or stolen Note. In every case, the applicant for a substitute Note shall furnish to the Company and to the Trustee such security and/or indemnity as may be required by each of them to indemnify, defend and to save each of them and any agent of the Company or the Trustee harmless and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such Note and of the ownership thereof. Upon the issuance of any substitute Note, the Holder of such Note, if so requested by the Company, shall pay a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee and counsel to the Trustee) connected with the preparation and issuance of the substitute Note.

(b) Upon the terms and subject to the conditions set forth in the Indenture, and subject to Condition 9(e), a Definitive Note may be exchanged for an equal aggregate principal amount of Definitive Notes in different Specified Denominations by the Holder or Holders surrendering the Note or Notes for exchange at the Corporate Trust Office of the Trustee in The City of New York or at the office of a transfer agent, together with a written request for the exchange. Definitive Notes will only be issued in exchange for interests in a Registered Global Security pursuant to Clauses 2.6.6 through 2.6.10 of the Indenture. The exchange of the Notes will be made by the Trustee in The City of New York.

(c) Upon the terms and subject to the conditions set forth in the Indenture, and subject to Condition 9(e), a Certificated Security may be transferred in whole or in a smaller Specified Denomination by the Holder or Holders surrendering the Certificated Security for transfer at the Corporate Trust Office of the Trustee in The City of New York or at the office of a Paying Agent accompanied by an executed instrument of transfer substantially as set forth in Exhibit K to the Indenture. The registration of transfer of the Notes will be made by the Trustee in The City of New York.

(d) The costs and expenses of effecting any exchange, transfer or registration of transfer pursuant to this Condition 9 will be borne by the Company, except for the expenses of delivery (if any) not made by regular mail and the payment of a sum sufficient to cover any stamp duty, transfer tax or other governmental charge or insurance charge that may be imposed in relation thereto, which will be borne by the Holder.

(e) The Trustee may decline to accept any request for an exchange or registration of transfer of any Registered Note during the period of 15 days preceding the due date for any payment of principal of or interest on the Registered Notes.

**10 Trustee**

For a description of the duties and the immunities and rights of the Trustee under the Indenture, reference is made to the Indenture, and the obligations of the Trustee to the Holder of a Note are subject to such immunities and rights.

Subject to the provisions of the Indenture, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture unless indemnity and/or security and/or prefunding satisfactory to the Trustee against any loss, liability or expense shall have been offered to the Trustee.

**11 Paying Agents; Transfer Agents; Registrar**

The Company has initially appointed the Paying Agents, transfer agents and registrar. The Company may at any time appoint additional or other Paying Agents, transfer agents and, with respect to Registered Notes, registrars and terminate the appointment of those or any Paying Agents, transfer agents and registrar, provided that while the Notes are Outstanding the Company will maintain in London and, with respect to Registered Notes, New York City (i) a Paying Agent, (ii) an office or agency where the Notes may be presented for exchange, transfer and registration of transfer as provided in the Indenture and (iii) with respect to Registered Notes, a registrar. In addition, if and for so long as the Notes are listed on the SGX-ST and the rules of such exchange so require, the Company will maintain a Paying Agent and Transfer Agent in Singapore. Notice of any such termination or appointment and of any change in the office through which any Paying Agent, transfer agent or registrar will act will be promptly given in the manner described in Condition 13.

**12 Enforcement**

Subject to Clause 4.6 of the Indenture, a Holder may not pursue or institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(a) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(b) the Holders of at least 25% in aggregate principal amount of Outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder or Holders offer the Trustee indemnity and/or security and/or prefunding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(e) during such 60-day period, the Holders of a majority in aggregate principal amount of the Outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

**13 Notices**

Notices by the Company will be in writing in the English language and will be mailed to Holders of Notes at their registered addresses and shall be deemed to have been given on the date of such mailing. So long as the Notes are listed on the SGX-ST and the rules of the exchange so require, notices to Holders will be valid if published in a daily newspaper having general circulation in Singapore (which is expected to be The Business Times). Any such notice shall be deemed to have been given on the date of such publication, or if published more than once, on the first date on which publication is made. If publication is not practicable, the Company will have validly given notice if it gives notice in accordance with the rules of the SGX-ST.

**14 Further Issues of Notes**

The Company may, without the consent of the Holders, create and issue additional Notes with the same terms and conditions as the Notes (or that are the same except for the amount of the first interest payment and for the interest paid on the Notes prior to the issuance of the additional Notes). The Company may consolidate additional Registered Notes with the Outstanding Notes to form a single Series, provided that such additional Registered Notes will not have the same CUSIP number, ISIN number, Common Code or other identifying number as the Outstanding Notes unless the additional Notes are fungible with the Outstanding Notes for U.S. federal income tax purposes; provided further that in the case of Bearer Notes to which the D Rules apply that are initially represented by interests in a Temporary Global Note exchangeable for interest in a Permanent Global Note or Definitive Notes, such consolidation can only occur following the exchange of interests in the Temporary Global Note for interests in the Permanent Global Note or Definitive Notes upon certification of non-U.S. beneficial ownership.

**15 No Sinking Fund**

The Notes will not be subject to any sinking fund.

**16 Authentication**

A Note shall not become valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee or its agent.

**17 Governing Law; Agent for Service; Submission to Jurisdiction; Waiver of Immunity**

(a) The Notes will be governed by and interpreted in accordance with the laws of the State of New York.

(b) The Company hereby irrevocably submits to the non-exclusive jurisdiction of any New York State or United States Federal Court located in the Borough of Manhattan, The City of New York, over any suit, action or proceeding arising out of or relating to the Indenture or any Note. The Company hereby irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding brought in such courts and any claim that any such suit, action or proceeding brought in such courts has been brought in an inconvenient forum. To the extent that the Company has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process with respect to itself or its property, the Company hereby irrevocably waives such immunity in respect of its obligations under the Indenture and any Note. The Company agrees that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding on the Company and, to the extent permitted by applicable law, may be enforced in any court to the jurisdiction of which the Company, as the case may be, is subject by a suit upon such judgment or in any manner provided by law; provided that service of process is effected upon the Company, as the case may be, in the manner specified in the following paragraph or as otherwise permitted by law.

(c) As long as any of the Notes remain outstanding, the Company shall at all times have an authorized agent in New York City upon whom process may be served in any legal action or proceeding arising out of or relating to this Indenture or any Note. Service of process upon such agent and written notice of such service mailed or delivered to the Company, as the case may be, shall to the fullest extent permitted by law be deemed in every respect effective service of process upon the Company in any such legal action or proceeding. The Company has appointed Corporation Service Company as its agent for such purpose, and covenants and agrees that service of process in any suit, action or proceeding may be made upon it at the office of such agent at 1180 Avenue of the Americas, Suite 210, New York, New York 10036 (or at such other address or at the office of such other authorized agent as the Company, as the case may be, may designate by written notice to the Trustee from time to time).

(d) The Company will not bring any claim or otherwise initiate any legal action in any court or other tribunal in Indonesia against the Trustee, any Agents or any Holder of the Notes (in their capacity as a Holder of the Notes) on the basis that any offering of the Notes by the Company, the Indenture, any purchase agreements entered into by the Company in relation to the issue and sale of the Notes by the Issuer under the Indenture or any transaction contemplated thereby is or was invalid or illegal under any Indonesian law, regulation, court order or decree or was induced in any way by fraud, manipulation, legal manufacturing, fiction, fabrication or other deceptive means.

**18 Purchases of Notes by the Company**

The Company may at any time purchase or acquire any of the Notes in any manner and at any price. The Notes which are purchased or acquired by the Company may, at the Company's discretion, be held, resold or surrendered to the Trustee for cancellation.

**19 Amendment, Supplement and Waiver**

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders under the Indenture and the Notes at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding, on behalf of the Holders of all Notes, to waive compliance by the Company with certain provisions of the Indenture and the Notes and certain past defaults under the Indenture and their consequences. Any such consent or waiver by or on behalf of the Holder of the Note shall be conclusive and binding upon such Holder and upon all future Holders of the Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon the Note. Subject to the foregoing, the Indenture and the Notes may be amended by the Company and the Trustee, without the consent of any Holder, for the purpose of, among other things, curing any ambiguity, omission, defect or inconsistency, adding guarantees with respect to the Notes or to secure the Notes or making any change that does not adversely affect the rights of any Holder of the Notes.

No reference herein to the Indenture and no provision of the Note or of this Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest and Additional Amount on the Note at the times, place, and rate, and in currency, herein prescribed.

**20 Transfers**

(a) Restricted Global Security

Unless otherwise specified in the applicable Pricing Supplement, if (1) the owner of a beneficial interest in a Restricted Global Security wishes to transfer such interest (or portion thereof) to a Non U.S. Person pursuant to Regulation S and (2) such Non U.S. Person wishes to hold its interest in the Note through a beneficial interest in the Unrestricted Global Security, (x) upon receipt by the Registrar, as Transfer Agent, of:

(i) instructions from the Holder of the Restricted Global Security directing the Custodian and Registrar to credit or cause to be credited a beneficial interest in the Unrestricted Global Security equal to the principal amount of the beneficial interest in the Restricted Global Security to be transferred, and

(ii) a certificate from the transferor as to compliance with Regulation S in form and substance required by the Indenture, and (y) subject to the rules and procedures of DTC and the common depositary for Euroclear and Clearstream, the Registrar, as Transfer Agent, shall instruct DTC to increase the Unrestricted Global Security and decrease the Restricted Global Security by such amount in accordance with the foregoing, and the Registrar, as Transfer Agent, shall instruct the common depositary for Euroclear and Clearstream, as the case may be, concurrently with such reduction, to increase the principal amount of the Unrestricted Global Security of the same Series by the aggregate principal amount of the beneficial interest in the Restricted Global Security to be so exchanged or transferred, and to credit or cause to be credited to the account of the person specified in such instructions a beneficial interest in such Unrestricted Global Security equal to the reduction in the principal amount of such Restricted Global Security.

(b) Unrestricted Global Security

Unless otherwise specified in the applicable Pricing Supplement, if the owner of an interest in a Unrestricted Global Security wishes to transfer such interest (or any portion thereof) to a QIB pursuant to Rule 144A prior to the expiration of the Distribution Compliance Period therefor, (x) upon receipt by the Registrar, as Transfer Agent, of:

(i) instructions from the Holder of the Unrestricted Global Security directing the Custodian and Registrar to credit or cause to be credited a beneficial interest in the Restricted Global Security equal to the principal amount of the beneficial interest in the Unrestricted Global Security to be transferred, and

(ii) a certificate from the transferor as to compliance with Rule 144A in form and substance required by the Indenture,

and (y) in accordance with the rules and procedures of DTC, the common depositary for Euroclear and Clearstream, the Registrar, as Transfer Agent, shall instruct DTC to increase the Restricted Global Security and decrease the Unrestricted Global Security by such amount in accordance with the foregoing and the Registrar, as Transfer Agent, shall instruct the common depositary for Euroclear and Clearstream, or the custodian for DTC, as applicable, to reduce the principal amount of the Unrestricted Global Security by the aggregate principal amount of the beneficial interest in such Unrestricted Global Security or to be exchanged or transferred, and the Registrar, as Transfer Agent, shall instruct DTC, concurrently with such reduction, to increase the principal amount of such Restricted Global Security by the aggregate principal amount of the beneficial interest in such Unrestricted Global Security to be so exchanged or transferred, and to credit or cause to be credited to the account of the person specified in such instructions a beneficial interest in the Restricted Global Security equal to the reduction in the principal amount of such Unrestricted Global Security.

(c) Other Transfers or Exchanges

Any transfer of Restricted Global Securities not described above (other than a transfer of a beneficial interest in a Global Security that does not involve an exchange of such interest for a Certificated Security or a beneficial interest in another Global Security, which must be effected in accordance with applicable law and the rules and procedures of DTC, the common depositary for Euroclear and Clearstream, but is not subject to any procedure required by the Indenture) shall be made only upon receipt by the Registrar of such opinions of counsel, certificates and/or other information reasonably required by and satisfactory to it in order to ensure compliance with the Securities Act or in accordance with the above. Certificated Securities will not be exchangeable for Bearer Notes.

## 21 Defeasance

The Indenture provides that the Company will be deemed to have paid and will be discharged from any and all its obligations in respect of all outstanding Notes of any Series on the 183rd day after the deposit referred to below and payments of all amounts due to the Trustee, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust and to pay Additional Amounts) if, among other things:

(a) the Company has irrevocably deposited with the Trustee (or other qualifying trustee), as trust funds, in trust solely for the benefit of the Holders, cash in U.S. legal tender or U.S. Government Obligations, or a combination thereof, in such amounts as is sufficient (without consideration of any reinvestment of interest), in the opinion of an internationally recognized firm of independent public accountants selected by the Company, to pay the principal of and interest on the Notes on the scheduled due dates or on the applicable redemption date, as the case may be, provided that the Trustee shall have received an irrevocable written order from the Company instructing the Trustee to apply such U.S. legal tender or the proceeds of such U.S. Government Obligations to said payments with respect to such Notes;

(b) the Company has delivered to the Trustee an Opinion of Counsel in the United States of recognized standing acceptable to the Trustee, confirming that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of the Indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the beneficial owners of Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) the Company has delivered to the Trustee an Opinion of Counsel in the United States of recognized standing acceptable to the Trustee, to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 183 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(d) no Default or Event of Default shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit (other than a Default or Event of Default resulting solely from the borrowing of funds to be applied to such deposit);

(e) such defeasance shall not result in a breach or violation of or constitute a default under the Indenture or any other material agreement or instrument to which the Company or any of its Material Subsidiaries is a party or by which the Company or any of its Material Subsidiaries is bound (other than any such Default or default resulting solely from the borrowing of funds to be applied to such deposit); and

(f) the Company has delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others.

# FORMS OF THE NOTES

The Notes of each Series will be in bearer or registered form.

Unless otherwise provided with respect to a particular Series, Notes of each Series sold outside the United States in reliance on Regulation S will be represented by interests in a Temporary Global Note (as defined below), Permanent Global Note (as defined below) or by a global note in registered form, without interest coupons (an "Unrestricted Global Security"), which may be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream. With respect to all offers or sales by a Dealer of an unsold allotment or subscription, beneficial interests in a Temporary Global Note or Bearer Notes issued in definitive form ("Definitive Bearer Note") may not be offered or sold to, or for the account or benefit of, a U.S. person (unless pursuant to the Securities Act or an exemption therefrom) and may be held only through Euroclear and Clearstream, as the case may be. Temporary Global Notes, Permanent Global Notes and Unrestricted Global Securities will be exchangeable for Bearer Definitive Notes or Certificated Securities, as applicable, only in limited circumstances as more fully described in Global Clearance and Settlement Systems. Notes issued in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons (as defined in the Internal Revenue Code and the U.S. Treasury regulations thereunder).

Notes of each Series to be issued in registered form ("Registered Notes") may only be offered and sold in the United States in private transactions: (i) to QIBs or (ii) to Institutional Accredited Investors who agree to purchase the Notes for their own account and not with a view to the distribution thereof. Registered Notes of each Series sold in private transactions to QIBs pursuant to Rule 144A will, unless specified in the applicable Pricing Supplement, be represented by a restricted global note in registered form, without coupons (a "Restricted Global Security") deposited with a custodian for, and registered in the name of a nominee of, DTC.

Registered Notes of each Series sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (such Notes are defined as "4(2) Notes" in the Indenture). Notes in fully-registered certificated form evidencing all or part of a Series of Notes (each a "Certificated Security") will, at the request of the holder (except to the extent otherwise indicated in the applicable Pricing Supplement), be issued in exchange for interests in an Unrestricted Global Security or a Restricted Global Security (each a "Registered Global Security") upon compliance with the procedures for exchange as described in the Indenture.

Notes of each Series to be issued in bearer form ("Bearer Notes") will be initially represented by either a temporary global Note (a "Temporary Global Note") or a permanent global Note (a "Permanent Global Note" and together with a Temporary Global Note, a "Bearer Global Note") that will be deposited on the issue date thereof with a common depositary on behalf of Euroclear and Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream.

The relevant Pricing Supplement for any Bearer Notes will specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor rules that are applicable for purposes of Section 4701 of the Internal Revenue Code (the "C Rules") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules that are applicable for purposes of Section 4701 of the Internal Revenue Code (the "D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days (including unilateral rights to rollover or extend), that neither the C Rules nor the D Rules are applicable.

Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "Any United States person (as defined in the Internal Revenue Code of the United States) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

Bearer Notes will be assigned a Common Code and relevant ISIN (as applicable). Registered Notes will be assigned (as applicable) a Common Code, ISIN and CUSIP number. If a further Series is issued in the case of a Temporary Global Note, the Trustee shall arrange that the Notes of such Series shall be assigned (as applicable) a CUSIP number, Common Code and a relevant ISIN that are different from the CUSIP number, Common Code and relevant ISIN, as the case may be, assigned to Notes of any other Series until such time as is required by applicable law. In the case of Bearer Notes to which the D Rules apply, a Temporary Global Note that is exchangeable for an interest in a Permanent Global Note or Definitive Notes must have a different Common Code, ISIN or other identifying number from the identifying number assigned to Notes of any other Series until the exchange of interests in the Temporary Global Note for interests in the Permanent Global Note or Definitive Notes upon certification of non-U.S. beneficial ownership. Additional Registered Notes must be issued with a different Common Code, ISIN, CUSIP or other identifying number from the identifying numbers assigned to Notes of any other Series unless the additional Registered Notes are fungible with such outstanding Series of Notes for U.S. federal income tax purposes. At the end of such period, the CUSIP number, Common Code and relevant ISIN, as the case may be, thereafter applicable to the Notes of the relevant Series will be notified by the Trustee to the Relevant Dealers.

Each Temporary Global Note will be exchangeable, free of charge to the Noteholder, on or after its Exchange Date:

(a) if the relevant Pricing Supplement indicates that such Temporary Global Note is issued in compliance with the C Rules or in a transaction to which neither the C Rules nor D Rules are applicable (as to which, see "Plan of Distribution"), in whole, but not in part, for the Definitive Bearer Notes described below; and

(b) if the relevant Pricing Supplement indicates that such Temporary Global Note is issued in compliance with the D Rules, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Indenture for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Bearer Notes.

Each Permanent Global Note will be exchangeable, free of charge to the Noteholder, on or after its Exchange Date in whole but not in part for Definitive Bearer Notes:

(a) if an Event of Default has occurred in respect of any Note of the relevant Series; or

(b) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Bearer Global Note is exchanged for Definitive Bearer Notes, such Definitive Bearer Notes shall be issued in Specified Denomination(s) only. A holder of Notes with a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Exchange Date means the day which is 40 days after the Issue Date.

All Notes will be issued pursuant to the Indenture.

No beneficial owner of an interest in a Registered Global Security will be able to exchange or transfer that interest, except in accordance with the applicable procedures of DTC, Euroclear and/or Clearstream, in each case, to the extent applicable.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Security representing such Notes is exchanged for Definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the Definitive Notes, including details of the paying agent in Singapore.

# FORM OF PRICING SUPPLEMENT

**Pricing Supplement dated**
**PT PERTAMINA (PERSERO)**

**Issue of [Aggregate Nominal Amount of Series] [Title of Notes]**
**(the "Notes")**
**under its U.S.$10,000,000,000 Global Medium Term Note Program**

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Memorandum dated [and the supplemental [Offering Memorandum] dated ]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Memorandum [as so supplemented].

*[The following alternative language applies if the first issue of a Series which is being increased was issued under Offering Memorandum with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Memorandum dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Memorandum dated [current date] [and the supplemental Offering Memorandum dated [●]], save in respect of the Conditions which are extracted from the Offering Memorandum dated [original date] and are attached hereto.]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]*

| | | |
|---|---|---|
| 1. | Issuer: | PT Pertamina (Persero) |
| 2. | [(i)] Series Number: | |
| | [(ii) Tranche]: | |
| 3. | Specified Currency or Currencies: | |
| 4. | Aggregate Nominal Amount: | |
| 5. | [(i)] Issue Price: | % of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)] |
| | [(ii) Net proceeds: | (*Required only for listed issues*)] |
| 6. | (i) Specified Denominations: | |
| | (ii) Calculation Amount: | |

| | | |
|---|---|---|
| 7. | (i) Issue Date: | |
| | (ii) Interest Commencement Date: | [*Specify*/Issue date/Not Applicable] |
| 8. | Maturity Date: | [*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*] |
| 9. | (i) Interest Basis: | [ % Fixed Rate]<br><br>[[*specify reference rate*] +1- % Floating Rate]<br><br>[Zero Coupon]<br>[Other (*specify*)]<br>(further particulars specified below) |
| | (ii) Default Rate: | [ (*specify*/None] |
| 10. | Redemption/Payment Basis: | [Redemption at par]<br>[Partly Paid]<br>[Installment]<br>[Other (*specify*)] |
| 11. | Change of Interest or Redemption/ Payment Basis: | [*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*] |
| 12. | Put/Call Options: | [Investor Put]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 13. | Status of the Notes: | Senior |
| 14. | Listing: | [ (specify)/None] |
| 15. | Place of Payment: | [*Specify*] |
| 16. | Method of distribution: | [Syndicated/Non-syndicated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | |
|---|---|---|
| 17. | **Fixed Rate Note Provisions** | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (i) Rate[(s)] of Interest: | % per annum [payable [annually/semi-annually/quarterly/monthly] in arrears] |

| | | |
|---|---|---|
| (ii) | Interest Payment Date(s): | in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Center(s) for the definition of "Business Day*"]/not adjusted] |
| (iii) | Fixed Coupon Amount[(s)]: | per Calculation Amount |
| (iv) | Broken Amount(s): | per Calculation Amount, payable on the Interest Payment Date falling [in/on] |
| (v) | Day Count Fraction: | [30/360 / Actual/Actual (ICMA/ISDA) / other] |
| (vi) | [Determination Dates: | in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)] |
| (vii) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | [Not Applicable/*give details*] |

18. **Floating Rate Note Provisions** — [Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph.*

| | | |
|---|---|---|
| (i) | Interest Period(s): | |
| (ii) | Specified Interest Payment Dates: | |
| (iii) | Interest Period Date: | (*Not applicable unless different from Interest Payment Date* |
| (iv) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)] |
| (v) | Business (Center(s): | |
| (vi) | Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination/ other (*give details*)] |
| (vii) | Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): | |
| (viii) | Screen Rate Determination: | |
| | — Reference Rate: | |

| | | | |
|---|---|---|---|
| | | — Interest Determination Date(s) | |
| | | — Relevant Screen Page: | |
| | (ix) | ISDA Determination: | |
| | | — Floating Rate Option: | |
| | | — Designated Maturity: | |
| | | — Reset Date: | |
| | (x) | Margin(s): | [+/-] % per annum |
| | (xi) | Minimum Rate of Interest: | % per annum |
| | (xii) | Maximum Rate of Interest: | % per annum |
| | (xiii) | Day Count Fraction: | |
| | (xiv) | Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | |
| 19. | **Zero Coupon Note Provisions** | | [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (i) | Amortization Yield: | % per annum |
| | (ii) | Any other formula/basis of determining amount payable: | |
| 20. | **Index-Linked Interest Note Provisions** | | [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (i) | Index/Formula: | [*give or annex details*] |
| | (ii) | Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): | |

| | | |
|---|---|---|
| | (iii) Provisions for determining Rate of Interest and/or Interest Amount where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: | |
| | (iv) Interest Periods: | |
| | (v) Specified Interest Payment Dates: | |
| | (vi) Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (*give details)*] |
| | (vii) Business Center(s): | |
| | (viii) Minimum Rate of Interest: | % per annum |
| | (ix) Maximum Rate of Interest: | % per annum |
| | (x) Day Count Fraction: | |
| 21. | **Dual Currency Note Provisions** | [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) |
| | (i) Rate of Exchange/method of calculating Rate of Exchange: | [*give details*] |
| | (ii) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]): | |
| | (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | |
| | (iv) Person at whose option Specified Currency(ies) is/are payable: | |
| 22. | **Default Rate** | % per annum |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| 23. | **Call Option** | [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*) |

| | | |
|---|---|---|
| (i) | Optional Redemption Date(s): | |
| (ii) | Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s): | per Calculation Amount |
| (iii) | If redeemable in part: | |
| | (a) Minimum Redemption Amount: | per Calculation Amount |
| | (b) Maximum Redemption Amount: | per Calculation Amount |
| (iv) | Notice period: | |

24. **Put Option** [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)

| | | |
|---|---|---|
| (i) | Optional Redemption Date(s): | |
| (ii) | Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | per Calculation Amount |
| (iii) | Notice period: | |

25. **Final Redemption Amount of each Note** per Calculation Amount

26. **Early Redemption Amount**

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/ or the method of calculating the same (if required or if different from that set out in the Conditions):

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

27. (i) Form of Notes: [Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on days' notice]

| | | |
|---|---|---|
| | | [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]* <br><br> *(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000". In addition, the "limited circumstances specified in the Permanent Global Note" option may have to be amended to permit such Specified Denomination construction. Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)]* <br><br> [Registered Notes] |
| | (ii) Applicable TEFRA exemption: | [C Rules/ D Rules/ Not Applicable]† |
| 28. | Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): | [Yes/No. If yes, give details] |
| 29. | Financial Center(s) or other special provisions relating to Payment Dates: | [*Note that this paragraph relates to the Payment Date and Place of Payment, and not interest period end dates, to which sub paragraphs 16 (ii), 17(iv) and 19(vii) relate*] |
| 30. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/*give details*] |
| 31. | Details relating to Installment Notes: amount of each installment, date on which each payment is to be made: | [Not Applicable/*give details*] |
| 32. | Redenomination, Renominalization and Reconventioning: | [Not Applicable/The provisions [in Condition 2C] [annexed to this Pricing Supplement] apply] |
| 33. | Consolidation provisions: | [Not Applicable/The provisions [In Condition ] [annexed to this Pricing Supplement] apply] |
| 34. | Use of Proceeds: | [Not Applicable/*give details*] |
| 35. | Other terms or special conditions: | [Not Applicable/*give details*] |

* Cannot be used if D Rules apply.

† Bearer Notes with a maturity of 365 days or more (including unilateral right to rollover or extend) must be issued using either C Rules or D Rules.

**DISTRIBUTION**

| | | |
|---|---|---|
| 36. | (i) If syndicated, names of Managers: | [Not Applicable/*give details*] |
| | (ii) Stabilizing Manager (if any): | [Not Applicable/*give details*] |
| 37. | If non-syndicated, name of Dealer: | [Not Applicable/*give details*] |
| 38. | Additional selling restrictions: | [Not Applicable/*give details*] |
| 39. | Interests of [Managers][Dealers] involved in the issue / offer: | [*Give details*.] |

**OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| 40. | ISIN Code: | |
| 41. | CUSIP: | |
| 42. | Common Code: | |
| 43. | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s)*] |
| 44. | Delivery: | Delivery [against/free of] payment |
| 45. | Additional Paying Agent(s) (if any): | |

**[PURPOSE OF PRICING SUPPLEMENT**

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Singapore Exchange Securities Trading Limited of the Notes described herein pursuant to the US$10,000,000,000 Global Medium Term Note Program of the Issuer.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of PT Pertamina (Persero)

By: ___________________________________

Duly authorized

# GLOBAL CLEARANCE AND SETTLEMENT SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and Clearstream (together, the "Clearing Systems") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Our Company, any Arranger, Dealer, Trustee, Agent and party to the Indenture will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each series.

## DTC

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the United States Securities Exchange Act of 1934, as amended. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions among participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of security certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Indirect access to DTC is available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

DTC will take any action permitted to be taken by the holder of a beneficial interest in a Global Security (including, without limitation, the presentation of a Global Security for exchange) only at the direction of one or more participants to whose account with DTC interests in such Registered Global Security are credited and only in respect of such portion of the aggregate principal amount of Notes in respect of which such participant or participants has or have given such direction. If an Event of Default under the Notes occurs, DTC will exchange the Global Security for Certificated Securities bearing the appropriate legend, which it will distribute to the relevant participants. DTC makes payments only in U.S. dollars.

## Euroclear and Clearstream

Each of Euroclear and Clearstream holds securities for their account holders and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risks from lack of simultaneous transfers of securities.

Euroclear and Clearstream each provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream each also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems which enables their respective account holders to settle trades with each other.

Account holders in Euroclear and Clearstream are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to both Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder ’s contractual relations with either Euroclear or Clearstream are governed by the respective rules and operating procedures of Euroclear or Clearstream and any applicable laws.

Both Euroclear and Clearstream act under those rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective holders.

**Book-Entry Ownership of Global Certificates**

***Registered Notes***

The Company will make applications to Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of each Tranche of Notes to be represented by an Unrestricted Global Security. Each Unrestricted Global Security will have an ISIN or Common Code, and will be subject to restrictions on transfer contained in a legend appearing on the front of such Note, as set out under “Transfer Restrictions”.

The Company will make applications to DTC for acceptance in its book-entry settlement system of the Notes represented by a Restricted Global Security. Each Restricted Global Security will have a CUSIP number. Each Restricted Global Security will be subject to restrictions on transfer contained in a legend appearing on the front of such Note, as set out under “Transfer Restrictions”.

The custodian with whom the Global Securities are deposited (the “Custodian”) and DTC will electronically record the principal amount of the Notes represented by the Restricted Global Security held within the DTC system. Investors may hold their interests in the Unrestricted Global Security only through Clearstream or Euroclear. Investors may hold such interests in Restricted Global Securities directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system.

Payments of principal and interest in respect of Restricted Global Securities registered in the name of DTC’s nominee, will be to or to the order of its nominee as the registered holder of such Restricted Global Security. The Company expects that the nominee will, upon receipt of any such payment, immediately credit DTC participants’ accounts with any such payments denominated in U.S. dollars in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Restricted Global Security as shown on the records of DTC or its nominee. In the case of any such payments which are denominated otherwise than in U.S. dollars payment of such amounts will be made to the Paying Agent on behalf of the nominee who will make payment of all or part of the amount to the beneficial holders of interests in such Restricted Global Securities directly, in the currency in which such payment was made and/or cause all or part of such payment to be converted into U.S. dollars and credited to the relevant participant’s DTC account as aforesaid, in accordance with instructions received from DTC. The Company also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Securities held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. None of the Company, the Trustee nor any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Restricted Global Securities or for maintaining, supervising or reviewing any records relating to such ownership interests.

*Bearer Notes*

Bearer Notes held outside the United States may be held in book-entry form through Clearstream or Euroclear. In respect of Bearer Notes, as may be specified in the applicable Pricing Supplement, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons will be deposited with a common depositary for Euroclear and Clearstream. Transfers of interests in a Temporary Global Note or a Permanent Global Note will be made in accordance with customary Euromarket practice.

*Individual Certificated Securities*

Registration of title to Notes in a name other than its nominee or a depositary for Euroclear and Clearstream or DTC will not be permitted unless (i) in the case of Restricted Securities, an event of default with respect to such Series has occurred and is continuing or DTC notifies us that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Securities, or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such and the Company is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC, (ii) in the case of Unrestricted Global Securities deposited with a common depositary for Euroclear or Clearstream, Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, (iii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of Holders of the Notes under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes. In such circumstances, the Company will cause sufficient individual Certificated Securities to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Holder(s) of the Notes.

A person having an interest in a Global Security must provide the Registrar with:

(a) written order containing instructions and such other information as the Company and the Registrar may require to complete, execute and deliver such individual Certificated Securities; and

(b) in the case of a Restricted Global Security only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule l44A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Certificated Securities issued pursuant to this paragraph (b) shall bear the legends applicable to transfers pursuant to Rule l44A.

**Transfers of Notes represented by Global Securities**

Transfers of interests in Global Securities within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. The laws in some states in the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in a Global Securities to such persons may require that such interests be exchanged for Notes in definitive form. Because DTC can only act on behalf of participants in DTC, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Security to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest may require that such interests be exchanged for Certificated Securities. The ability of the holder of a beneficial interest in any Note represented by the Global Securities to resell, pledge or otherwise transfer such interest may also be impaired if the proposed transferee of such interest is not eligible to hold the same through a participant or indirect participant in DTC.

Beneficial interests in an Unrestricted Global Security may be held through Clearstream or Euroclear. Clearstream and Euroclear will operate with respect to the Notes in accordance with customary Euromarket practice.

**Secondary Trading, Same-Day Settlement and Payment**

All payments made by the Company with respect to Notes registered in the name of Cede & Co., as nominee for DTC, will be passed through to DTC in same-day funds. In relation to secondary market trading, since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller 's accounts are located to ensure that settlement can be made on the desired value date.

**Trading Within Same Clearing System**

The following describes the transfer mechanisms between DTC, Euroclear and Clearstream. Holders should note that transfers of beneficial interests in the Restricted Global Security, or the Unrestricted Global Security is subject to limitations as set forth in "Transfer Restrictions".

*Trading within DTC.* If neither the seller, nor the purchaser of Notes represented by any Global Security holds or will receive (as the case may be) such Notes through a participant in DTC acting on behalf of Euroclear or Clearstream, the trade will settle in same-day funds and in accordance with DTC rules, regulations and procedures.

*Trading within Euroclear or Clearstream.* Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

**Trading Between Clearing Systems**

*Trading between Euroclear or Clearstream seller and DTC purchaser involving only Global Securities.* Due to time zone differences in their favor, Euroclear and Clearstream account holders may employ their customary procedures for transactions in which interests in a Global Security are to be transferred by Euroclear or Clearstream (as the case may be) to a participant in DTC. The seller will send instructions to Euroclear or Clearstream through a Euroclear or Clearstream account holder (as the case may be) at least one business day prior to settlement. In these cases, Euroclear or Clearstream will instruct its respective depositary to deliver the interests in the Global Security to the participant's account against payment. Payment will include interest (if any) accrued on such interests in the Note from (and including) the immediately preceding date for the payment of interest to (and excluding) the settlement date. The payment will then be reflected in the account of the Euroclear or Clearstream account holder the following day, and receipt of cash proceeds in the Euroclear or Clearstream account holders' account would be back-valued to the value date (which would be the preceding day when settlement occurred in New York). Should the Euroclear or Clearstream account holder have a line of credit in its respective Clearing System and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e. the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream account holder 's account would be valued instead as of the actual settlement date.

*Trading between DTC seller and Euroclear or Clearstream purchaser involving only Global Securities.* When interests in a Global Security are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream account holder, the purchaser will send instructions to Euroclear or Clearstream through a Euroclear or Clearstream account holder, as the case may be, at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will instruct its respective depositary to receive such interests against payment. Payment will include interest (if any) accrued on such interest in the Global Security from (and including) the immediately preceding date for the payment of interest to (and excluding) the settlement date. Payment will then be made by the depositary to the participant's account against delivery of the interests in the Note. After settlement has been completed, the interests will be credited to the respective Clearing System, and by the Clearing System, in accordance with its usual procedures, to the Euroclear or Clearstream account holder 's account. The securities credit will appear the next day (Central European time) and the cash debit will be back-valued to, and any interest on the Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (i.e. the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Day traders that use Euroclear or Clearstream to purchase interests in an Unrestricted Global Security from participants for delivery to Euroclear or Clearstream account holders should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(a) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear or Clearstream accounts) in accordance with the Clearing System's customary procedures;

(b) borrowing the interests in the United States from a participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Euroclear or Clearstream account in order to settle the sale side of the trade; or

(c) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the participant is at least one day prior to the value date for the sale to the Euroclear or Clearstream account holder.

Euroclear or Clearstream account holders will need to make available to the respective Clearing System the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on-hand or existing lines of credit, as such participants would for any settlement occurring within Euroclear or Clearstream. Under this approach, such participants may take on credit exposure to Euroclear or Clearstream until the interests in the Note are credited to their accounts one day later.

Alternatively, if Euroclear or Clearstream has extended a line of credit to a Euroclear or Clearstream account holder, as the case may be, such account holder may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear or Clearstream account holders purchasing interests in the Note held in DTC would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the Note were credited to their accounts. However, any interest on the Note would accrue from the value date. Therefore, in many cases the investment income on the interests in the Note held in DTC earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each account holder 's particular cost of funds.

Since the settlement takes place during New York business hours, participants can employ their usual procedures for transferring interests in global Notes to the respective depositories of Euroclear or

Clearstream for the benefit of Euroclear or Clearstream account holders. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participants, a crossmarket transaction will settle no differently from a trade between participants.

Secondary trading in long-term notes and debentures of corporate issuers is generally settled in clearinghouse or next-day funds. In contrast, Notes held through participants or indirect participants will trade in DTC's Same-Day Funds Settlement System until the earliest of maturity or redemption, and secondary market trading activity in such Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlements in immediately available funds on trading activity in such Notes.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Securities among participants and account holders of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, the Trustee, any agent, any Arranger or any Dealer will have the responsibility for the performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Security is lodged with DTC or its custodian, Notes represented by individual Certificated Securities will not be eligible for clearing or settlement through DTC, Clearstream or Euroclear.

# TAXATION

## Indonesian Taxation

*The following is a summary of the principal Indonesian tax consequences relevant to prospective holders of the Notes based on Indonesian tax laws and their implementing regulations in force as of the date of this Offering Memorandum. The summary does not address any laws other than the tax laws of the Republic of Indonesia. Prospective investors in all jurisdictions are advised to consult their own tax advisors as to other tax consequences of the acquisition, ownership and disposition of the Notes.*

### *General*

Resident taxpayers, individual or corporate, are subject to income tax in Indonesia. Generally, an individual is considered to be a non-resident of Indonesia if the individual does not reside in Indonesia and does not intend to stay in Indonesia for more than 183 days within a 12-month period. A company will be considered a non-resident of Indonesia if the company is not established and not domiciled in Indonesia. In determining the residency and tax status of an individual or corporation, consideration will also be given to the provision of any applicable double tax treaty which Indonesia has concluded with other countries. In this section, both non-resident individuals and non-resident corporations will be referred to as "non-resident taxpayers".

The Indonesian Directorate General of Tax ("DGT") recently introduced Regulation PER-43/PJ/2011, which clarifies how to determine tax residency. The regulation, which came into force on December 28, 2011, is the sole implementing regulation on tax residency.

Pursuant to Regulation PER-43/PJ/2011, an individual is a resident if: (a) he/she resides in Indonesia; (b) he/she is domiciled in Indonesia for more than 183 days within 12 months; or (c) in a given fiscal year, he/she stays in Indonesia and intends to reside in Indonesia. The intention provided in the latter will be indicated by the individual obtaining of a working visa or limited stay permit card (*KITAS*) or having a contract of employment, business, or activities that are performed in Indonesia for more than 183 days. Leasing a residence or moving his/her family members to Indonesia will also indicates his/her intention to be an Indonesian tax resident. Resident status would commence as of the date he receives or derives earnings exceeding the nontaxable income threshold.

According to Regulation PER-43/PJ/2011, a legal entity is a resident taxpayer if it is an entity established in Indonesia or meets any of the following criteria:

(a) it is domiciled in Indonesia;

(b) its head office is in Indonesia;

(c) its central administration/finance office is in Indonesia;

(d) its controlling head office is in Indonesia;

(e) its management resides or is domiciled in Indonesia; or

(f) management meets in Indonesia to make a strategic decision.

Regulation PER-43/PJ/2011 stipulates that a foreign tax resident is an individual who does not reside in Indonesia and is located in Indonesia no more than 183 days within 12 months, or who is an

Indonesian citizen who works abroad for more than 183 days within 12 months. That citizen will be treated as a domestic tax resident if he does not have or is unable to provide an official valid ID proving he is a tax resident abroad.

Regulation PER-43/PJ/2011 also stipulates that an entity that is not established or domiciled in Indonesia but conducts business or activities in Indonesia, whether through a permanent establishment or not, and that receives or derives earnings from Indonesia is a foreign tax resident but will be treated as a domestic corporate tax resident. Having its management domiciled in Indonesia would not cause that entity to have a permanent establishment in Indonesia as long as the management only performs daily functions and does not control the whole operation of the company or make strategic decisions.

Subject to the provisions of any applicable agreement for the avoidance of double taxation ("tax treaty"), non-resident taxpayers, which derive income sourced in Indonesia from, among other things, interest, royalties or dividends from Indonesia, are subject to a final withholding tax on that income at the rate of 20%, so long as the income is not effectively connected with a permanent establishment of such individuals or corporations in Indonesia. If the income is effectively connected with a permanent establishment in Indonesia, such income shall be regarded as income earned by the permanent establishment. Income earned by the permanent establishment is subject to the income tax rate applied to income earned by an Indonesian corporate tax resident, which is 25%., and a branch profit tax of 20% will be imposed on the net profit after income tax. Such branch profit tax may be reduced by an applicable tax treaty and/or waived if certain requirements are met.

***Taxation on Interest***

The statutory withholding tax rate on interest due by the Issuer to a non-resident taxpayer is 20%. The 20% rate could be reduced under an applicable tax treaty. For example, under the U.S.-Indonesia tax treaty, the rate is generally reduced to 10% where the interest is not effectively connected to a permanent establishment in Indonesia and the recipient is the beneficial owner of the interest. Application of the reduced withholding tax rate under a tax treaty to a non-resident taxpayer who resides in the tax treaty country is subject to satisfying the eligibility and reporting requirements for the relevant tax treaty and domestic tax regulations. See "— Anti-Avoidance Rule on the Tax Treaty and New CoD Requirements".

Repayments of principal of the Notes by the Issuer are not subject to Indonesian tax. However, under Government Regulation No. 16/2009, which took effect on January 1, 2009 ("Tax Regulation No. 16"), any amount due by the Issuer attributable to interest or premium or discount (which in general are also treated as interest) payable on the Notes will be subject to a final withholding tax in Indonesia.

Generally, a final tax rate of 15% would apply to interest due to a resident taxpayer or permanent establishment (other than an Indonesian bank or foreign bank with a permanent establishment in Indonesia, in which case such entity is exempt from withholding tax). A special tax rate of 5% is available for interest received by a mutual fund until year 2013, provided that the fund is registered at the Indonesia Capital Market and Financial Institution Supervisory Board.

***Taxation on Sale or Disposition of Notes***

Under Tax Regulation No. 16, gain from disposal of Notes is considered interest that is subject to a final withholding tax.

Gains from disposal of the Notes derived by a resident taxpayer, whether an individual or a corporation, or by a permanent establishment, is subject to final withholding tax at the rate of 15%.

Non-resident individuals and corporations other than permanent establishments in Indonesia will not be subject to Indonesian tax or withholding tax on any gain derived from the direct sale or disposal of Notes to a non-resident individual or corporation other than a permanent establishment in Indonesia.

However, non-resident individuals and corporations other than permanent establishments in Indonesia may be subject to a 20% Indonesian withholding tax on any gain derived from the sale or disposal of Notes to a resident taxpayer or permanent establishment in Indonesia, or where the transaction is conducted through a securities company, dealer or bank in Indonesia, as such gain would be characterized as interest under Indonesian law in these situations. However, if the non-resident investor is a tax resident of a country that has signed a tax treaty with Indonesia, a reduced withholding tax rate applicable to interest income may be available if the gain (or a portion thereof) is considered as interest for purposes of the relevant tax treaty. Further, a full relief from the imposition of such withholding tax may be available if the relevant treaty treats the income as gain that is taxable only by the country in which the investor is resident for tax purposes. Under the U.S. — Indonesia tax treaty, interest is generally taxed at a rate of 10%, and the term "interest" as used in the treaty includes any income that under Indonesian law is assimilated to income from money lent. Under such treaty, capital gains that are not governed by the interest article of the treaty are generally exempt from Indonesian tax (subject to exceptions applicable to permanent establishments and certain individuals). Any tax treaty relief applicable to a nonresident taxpayer who resides in a tax treaty country is also subject to satisfying the eligibility and reporting requirements for the relevant tax treaty and domestic tax regulations. See "— Anti-Avoidance Rule on the Tax Treaty and New CoD Requirements".

Non-resident investors should consult their own tax advisors regarding the application of Indonesian withholding tax on any gain on the sale or disposal of Notes.

***Anti-Avoidance Rule on the Tax Treaty and New CoD Requirements***

Indonesia has concluded tax treaties with a number of countries including Australia, Belgium, Canada, France, Germany, Japan, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America. The relevant tax treaty may affect the definition of non-resident taxpayers.

Where a tax treaty exists and the eligibility requirements of that treaty are satisfied, a reduced rate of withholding tax may be applicable in the case of interest (or payments in the nature of interest, such as premium), royalty and dividends. This is also subject to there being no misuse of the tax treaties and the non-resident taxpayers meeting the administrative requirements under the Indonesian tax regulations. Some tax treaties also provide an exemption from Indonesian tax on any capital gains of non-resident taxpayers arising from alienation of certain properties in Indonesia.

To obtain the benefit of an applicable tax treaty, the non-resident taxpayer must be the beneficial owner of the income received from Indonesia and comply with the eligibility requirements of the tax treaty and the specific requirements in Indonesia. Please see below the specific requirements to obtain tax treaty benefits in Indonesia.

On November 5, 2009, the DGT issued two regulations which are designed to prevent tax treaty misuse, i.e. PER-61/PJ./2009 ("DGT-61") regarding the administrative procedures to apply a tax treaty and PER-62/PJ./2009 ("DGT-62") regarding the prevention of tax treaty misuse. Further, on April 30, 2010, those tax regulations were amended, respectively, by DGT Regulation No. PER-24/PJ/2010 and No. PER-25/PJ/2010. These new regulations set out stringent anti-tax treaty misuse tests and administrative requirements to be satisfied. Failure to comply with the conditions means that Indonesian withholding tax will apply at the statutory rate of 20%.

Under DGT-61 and DGT-62, in order for a non-resident recipient of the payment from Indonesia to be eligible for tax treaty benefit, it must:

(a) not be an Indonesian tax resident;

(b) fulfill the administrative requirements to implement the tax treaty provisions; and

(c) not commit any tax treaty misuse.

Under DGT-61, the administrative requirements to be fulfilled by the non-resident taxpayer in order to apply the tax treaty are in the new certificate of domicile ("CoD") form, which must be:

(a) in the form prescribed by the DGT (i.e. Form DGT-1 or Form DGT-2, where applicable);

(b) filled in completely by the non-resident;

(c) signed by the non-resident;

(d) certified by the competent tax authority of the treaty country of the non-resident; and

(e) submitted prior to the lodgment of the relevant monthly tax return of the Issuer.

In the case that the non-resident taxpayer is unable to obtain the required signature or its equivalent on the prescribed CoD from its competent authority (Form DGT-1 page 1 and DGT-2), the non-resident taxpayer can use any form of CoD commonly verified or issued by the tax authority of the tax treaty country (such as the U.S. Internal Revenue Service ("IRS") Form 6166 in the case of the United States) as an attachment to Form DGT-1 page 1 and Form DGT-2, as long as the CoD meets certain requirements; among others, the CoD is in English, is issued after January 1, 2010, contains the name of the non-resident taxpayer, and is signed by the authorized official or its representative of the tax treaty partner country.

Further, DGT-62 stipulates that misuse of a tax treaty may occur in the case that:

(a) a transaction that has no economic substance is performed using a structure or scheme that is arranged solely to gain the benefit of the tax treaty;

(b) a transaction has a structure or scheme whose legal form differs from its economic substance solely with the intention to gain the benefit of the tax treaty;

(c) the recipient of the income is not the actual owner of the economic benefit of the income (the "beneficial owner").

The beneficial owner criteria shall be applied only to income for which the article in the relevant tax treaty contains the beneficial owner requirement.

The new CoD forms (i.e. Form DGT-1 page 1 and Form DGT-2) are valid for 12 months from the date of issue and must be renewed subsequently. However, Form DGT-1 page 2 must be produced by the non-bank non-resident income recipient in respect of each payment of income subject to withholding tax.

DGT-62 defines the "beneficial owner" of the income as a non-resident income recipient, that is not acting as an agent, a nominee, or a conduit company. "Agent" is defined as a person or an entity that acts as an intermediary and conducts action for and/or on behalf of other party. A "nominee" is defined as a person or an entity that legally owns an asset and/or income (i.e. a legal owner) for the interests of or based on instruction/mandate from the party who is the actual owner of the asset and/or the party who actually enjoys the benefit of the income. A "conduit company" is defined as a company which enjoys the tax treaty benefits in relation to income sourced from other country, while the economic benefits of said income is owned by persons in other country who would not be able to enjoy tax treaty benefits if such income were directly received by them.

DGT-62 further states that the following non-resident taxpayers, residing in a treaty partner country, shall not be deemed to commit tax treaty misuse:

(a) an individual who is not acting as an agent or a nominee;

(b) an institution whose name is clearly stated in the tax treaty or one that has been jointly agreed by the competent authorities in Indonesia and the treaty partner country;

(c) a non-resident taxpayer that receives or earns income through a custodian in relation to income from transaction on the transfer of shares or bonds that are traded or reported in a capital market in Indonesia, other than interest and dividend, in the case that the non-resident taxpayer is not acting as an agent or as a nominee;

(d) a company whose shares are listed on a stock exchange and are regularly traded;

(e) a pension fund that is established under the laws of the tax treaty partner country and is a tax subject of the tax treaty partner country;

(f) a bank; or

(g) a company that satisfies the following conditions:

    (i) the establishment of the company in the tax treaty partner country or the arrangement of the transaction structure/scheme is not aimed solely at utilizing tax treaty benefits;

    (ii) the company has its own management to conduct the business and the management has independent discretion;

    (iii) the company has employees;

    (iv) the company engages in genuine business activities;

    (v) the income derived from Indonesia is subject to tax in the country of the recipient; and

    (vi) the company does not use more than 50% of its total income (non-consolidated) to fulfill obligations to other parties in the form of interest, royalty, or other fees (excluding reasonable remuneration to employees or dividends distribution to shareholders).

When a company receives income for which the provision in the relevant tax treaty does not stipulate a beneficial owner requirement, the company will not be deemed to commit misuse of tax treaty if the establishment of the company or the arrangement of the transaction structure/scheme is not aimed solely at utilizing the relevant tax treaty.

If a particular transaction or structure is found to be misusing a tax treaty, the Indonesian payer of the income, who is obligated to withhold the tax, is not allowed to apply the benefits of the relevant tax treaty and must withhold tax which is payable in accordance with Indonesian tax regulations at the applicable rate (i.e. 20% rate). In addition, in the event that it is found that the legal form of a structure of a particular transaction is different from its economic substance, the Indonesian Tax Authority will apply the "substance over form" principle in imposing taxes in accordance with the economic substance of the transaction.

***Stamp Duty***

According to Government Regulation No. 24 of 2000, a document that effects a sale of Indonesian notes is subject to stamp duty. Currently, the nominal amount of the Indonesian stamp duty is Rp. 6,000 for transactions having a value greater than Rp. 1,000,000 and Rp. 3,000 for transactions having a value up to a maximum of Rp. 1,000,000. Generally, the stamp duty is due at the time the document is executed. Stamp duty is payable by the party that benefits from the executed document unless both parties state otherwise.

***Other Indonesian Taxes***

There are no Indonesian estate, inheritance, succession, or gift taxes generally applicable to the acquisition, ownership or disposition of the Notes. There are no Indonesian issue, registration or similar taxes or duties payable by the Noteholders as a result of their holding of the Notes.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of the Notes. Prospective investors in the Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

**Certain U.S. Federal Income Tax Considerations for U.S. Holders**

**TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY PROSPECTIVE PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON PROSPECTIVE PURCHASERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE NOTES; AND (C) PROSPECTIVE PURCHASERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Registered Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Program, and the relevant Pricing Supplement may contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address the recently effective Medicare tax on certain unearned income or state, local, foreign or other tax laws. This summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). Moreover, the summary deals only with Notes with a term of 30 years or less and does not deal with Partly Paid Notes or Dual Currency Notes. The U.S. federal income tax consequences of owning such Notes will be discussed in the applicable Pricing Supplement.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation, created or organized under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States including the Internal Revenue Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Indonesia (the "Treaty") all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

Bearer Notes are not being offered to U.S. Holders, and this summary does not discuss Bearer Notes. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### U.S. Federal Income Tax Characterization of the Notes

The characterization of a Series or Tranche of Notes may be uncertain and will depend on the terms of those Notes. The determination of whether an obligation represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. There may be no statutory, judicial or administrative authority directly addressing the characterization of some of the types of Notes that are anticipated to be issued under the Program or of instruments similar to the Notes.

The following summary applies to Notes that are properly treated as debt for U.S. federal income tax purposes. No rulings will be sought from the U.S. Internal Revenue Service ("IRS") regarding the characterization of any of the Notes issued hereunder for U.S. federal income tax purposes. Each holder should consult its own tax adviser about the proper characterization of the Notes for U.S. federal income tax purposes and consequences to the holder of acquiring, owning or disposing of the Notes. Possible alternative characterizations, if applicable, may be discussed in the relevant Final Terms or any Prospectus or series prospectus.

### Payments of Interest

#### *General*

Interest on a Note that is "qualified stated interest" (defined below under "— Original Issue Discount — General"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the U.S. Holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Company on the Notes and original issue discount ("OID"), if any, accrued with respect to the Notes (as described below under "— Original Issue Discount") generally will constitute income from sources outside the United States.

#### *Effect of Indonesian Withholding Taxes*

As discussed in "Taxation — Indonesian Taxation," under current law payments of interest by the Company on the Notes to investors that are not resident in Indonesia are generally subject to a 20% Indonesian withholding tax. The rate of withholding tax applicable to U.S. Holders that are eligible for benefits under the Treaty is reduced to a maximum of 10%. The Company is liable for the payment of Additional Amounts (see Condition 4 of the "Description of the Notes — Taxation") so that U.S. Holders will receive the same amounts they would have received had no Indonesian withholding taxes been imposed. For U.S. federal income tax purposes, U.S. Holders will be treated as having actually received the amount of Indonesian taxes withheld by the Company with respect to a Note, and as then having paid over the withheld taxes to the Indonesian taxing authorities. Indonesia tax withheld should generally be includible in such U.S. Holder's income at the time such amount is received or accrued in accordance with such U.S. Holder's method of U.S. federal income tax accounting. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest will be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Indonesian income taxes withheld. U.S. Holders that are eligible for benefits under the Treaty will not be entitled to a foreign tax credit for the amount of any Indonesian taxes withheld in excess of the applicable maximum rate under the Treaty (generally 10%). See "Taxation — Indonesian Taxation — Anti-Avoidance Rule on the Tax Treaty and New CoD Requirements" for a discussion on how to obtain the rate of withholding tax under the Treaty. For purposes of the foreign tax credit limitation, foreign source income is classified as belonging to one of two "baskets," and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Interest and OID (defined below) generally will constitute foreign source income in the "passive income" basket. In certain circumstances a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for Indonesian taxes imposed on a payment of interest if the U.S. Holder has not met certain holding period requirements. If Notes are issued with OID, since a U.S. Holder may be required to include OID on the Notes in its gross income in advance of any withholding of Indonesian income taxes from payments attributable to the OID (which would generally occur when the Note is repaid or redeemed), a U.S. Holder may not be entitled to a credit or deduction for all of the Indonesian income taxes in the year the OID is included in the U.S. Holder's gross income, and may be limited in its ability to credit or deduct in full the Indonesian taxes in the year those taxes are actually withheld by the Company. Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of these Indonesian taxes.

**Original Issue Discount**

***General***

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterized as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Company issues contingent payment debt instruments the applicable Pricing Supplement will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a "Short-Term Note"), will be treated as issued with OID (a "Discount Note") if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "installment obligation") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25% of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold for money to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest". A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually during the entire term of the Note at a single fixed rate (with certain exceptions for different rates that take into account different compounding periods), or a variable rate (in the circumstances described below under "Variable Interest Rate Notes"), applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Company will be deemed to exercise any unconditional call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any unconditional put option that has the effect of increasing the yield on the Note.

U.S. Holders of Discount Notes (regardless of their method of accounting for U.S. federal income tax purposes) must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note. The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Discount Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Discount Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Discount Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Discount Note allocable to the accrual period. The "adjusted issue price" of a Discount Note at the beginning of any accrual period is the issue price of the Discount Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Discount Note that were not qualified stated interest payments.

***Acquisition Premium***

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Discount Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "acquisition premium") and that does not make the election described below under "— Election to Treat All Interest as Original Issue Discount", is permitted to reduce the daily portions of OID which must be included in income by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Discount Note immediately after its purchase over the Discount Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Discount Note after the purchase date, other than payments of qualified stated interest, over the Discount Note's adjusted issue price.

***Short-Term Notes***

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but the U.S. Holder may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain recognized on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is recognized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election will apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

***Market Discount***

A Note, other than a Short-Term Note, generally will be treated as purchased at a market discount (a "Market Discount Note") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Discount Note's "revised issue price," exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an installment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount". For this purpose, the "revised issue price" of a Discount Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Under current law, any gain recognized on the maturity or disposition of a Market Discount Note (including any payment on a Market Discount Note that is not qualified stated interest) will be treated as ordinary income to the extent the gain does not exceed the accrued market discount on the Note while held by such U.S. Holder. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for certain interest on borrowings incurred to purchase or carry a Market Discount Note, to the extent this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Market Discount Note with respect to which it is made and may not be revoked without the consent of the IRS.

***Variable Interest Rate Notes***

It is expected that the Notes that provide for interest at variable rates ("Variable Interest Rate Notes") generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A "qualified floating rate" is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Note.

An "objective rate" is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Company (or a related party) or that is unique to the circumstances of the Company (or a related party), such as dividends, profits or the value of the Company's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Company). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A "qualified inverse floating rate" is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (i.e., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a "current value" of that rate. A "current value" of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a "variable rate debt instrument," then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Company) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a "variable rate debt instrument" will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a "true" discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from "true" discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a "variable rate debt instrument" will be converted into an "equivalent" fixed rate debt instrument for purposes of determining the amount and accrual of any OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an "equivalent" fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a "variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note that qualifies as a "variable rate debt instrument" is converted into an "equivalent" fixed rate debt instrument, pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest and any OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. The proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt obligations will be more fully described in the applicable Pricing Supplement.

***Notes Purchased at a Premium***

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, will generally have "amortizable bond premium" to the extent of such excess. If so, the U.S. Holder will not be required to include any OID in income. In addition, the U.S. Holder may elect to amortize such premium (or, if it results in a smaller amount, a premium computed using the amount payable by the Company on an earlier call date), in which case the amount required to be included in the U.S. Holder's income each year with respect to qualified stated interest on the Note will be reduced by the amount of amortizable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortize bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also "— Original Issue Discount — Election to Treat All Interest as Original Issue Discount".

***Election to Treat All Interest as Original Issue Discount***

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "— Original Issue Discount — General," with certain modifications. For purposes of this election, interest includes stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortizable bond premium (described above under "— Notes Purchased at a Premium") or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under "— Market Discount" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and if the election to apply the constant yield method to all interest on a Note is made with respect to a Note purchased at a premium, the electing U.S. Holder will be treated as having made the election discussed above under "— Notes Purchased at a Premium" to amortize bond premium on all taxable bonds held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

**Purchase, Sale and Retirement of Notes**

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to de minimis OID and de minimis market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and the tax basis of the Note. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under "— Original Issue Discount — Market Discount" or "— Original Issue Discount — Short Term Notes" or attributable to changes in exchange rates (as discussed below), gain or loss recognized on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year.

Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Therefore, a U.S. Holder may not be able to utilize foreign tax credits attributable to any Indonesian withholding tax imposed on the sale or disposition of a Note unless such holder has foreign source income in the same category from other sources. See “Taxation — Indonesian Taxation”. Prospective purchasers should consult their tax advisers as to the foreign tax implications of the sale or disposition of Notes.

**Foreign Currency Notes**

***Interest***

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognized by a cash basis U.S. Holder will generally be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the U.S. dollar amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

***OID***

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

***Market Discount***

Market discount on a Note that is denominated in, or determined by reference to, a foreign currency will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognize U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognize, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

***Bond Premium***

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognize a capital loss to the extent of the bond premium when the Note matures.

***Sale or Retirement***

As discussed above under "Purchase, Sale and Retirement of Notes," a U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects) on the settlement date for the purchase.

The amount realized on a sale or retirement of a Note for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects) on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the principal amount (which is generally considered to equal the purchase price, adjusted for previously amortized bond premium or previously accrued market discount) of the Note on (i) the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange gain or loss will be realized only to the extent of total gain or loss realized on the sale or retirement of the Note.

***Disposition of Foreign Currency***

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the interest is received or at the time of the sale or retirement. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

**Backup Withholding and Information Reporting**

In general, payments of interest and accruals of OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder to the extent required under applicable regulations. Backup withholding will apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or if the U.S. Holder had been notified that it is subject to backup withholding because of a failure to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Certain U.S. Holders who are individuals (and under proposed regulations, certain entities) may be required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). U.S. Holders should consult their tax advisers regarding the effect, if any, of this requirement on their ownership and disposition of the Notes.

**Reportable Transactions**

U.S. Treasury Regulations require a U.S. taxpayer that participates in a "reportable transaction" to disclose this participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat any foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds US$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, ownership or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of US$10,000 in the case of a natural person and US$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction.

# PLAN OF DISTRIBUTION

## Summary of the Program Agreement

Subject to the terms and conditions contained in a program agreement dated May 3, 2013, as amended and supplemented from time to time (the "Program Agreement"), between the Company, the Arrangers and the Dealers, the Notes may be offered on a continuous basis by the Company to the Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the Relevant Dealer(s). The Notes may also be sold by the Company through the Dealers, acting as agents of the Company. The Program Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Company will pay the Relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Company has agreed to reimburse each of the Arrangers for certain of its expenses incurred in connection with the establishment of the Program and the Dealers for certain of their activities in connection with the Program.

The Company has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Program Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Company.

## Other Relationships

The Dealers and their affiliates may, from time to time, engage in transactions with and perform services for the Company, its subsidiaries and to affiliates in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. It is expected that the Dealers and their respective affiliates will continue to provide such services to, and enter into such transactions with, the Company and its subsidiaries and affiliates in the future.

In connection with the offering of any Notes, each Dealer and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to Notes being offered should be read as including any offering of Notes to the Dealers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

## Selling Restrictions

### *General*

The Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Company, the Dealers or any other person that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any supplement hereto or thereto, or any other offering material relating to the Company or the Notes, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Notes, and the delivery of this Offering Memorandum, are restricted by law in certain jurisdictions and Notes may not be offered or sold, and this Offering Memorandum may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

Without limiting the foregoing, prospective purchasers of Notes should be aware of the following restrictions:

***European Economic Area***

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that relevant Member State (the "relevant implementation date"), an offer of the Notes which are the subject of the offering contemplated by this Offering Memorandum as completed by the Pricing Supplement in relation thereto may not be made to the public in that relevant Member State prior to the publication of a prospectus in relation to the Notes, except that, with effect from and including the relevant implementation date, an offer of such Notes may be offered to the public in that relevant Member State:

(i) to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

(ii) to fewer than 100, or if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Company for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (i) to (iii) above shall require the publication by the Company or any Dealer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an "offer of Notes to the public" in any relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes, as the same may be varied in that relevant Member State by any measure implementing the Prospectus Directive in that relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC (and the amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in each relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 ("FSMA") by the Company;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

***Hong Kong***

In relation to each Tranche of Notes issued by the Company, each Dealer has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made thereunder; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

***Indonesia***

This Offering does not constitute a public offering in Indonesia under Law Number 8 of 1995 on Capital Markets. The Offering Memorandum may not be distributed in Indonesia and Notes under the Program may not be offered or sold in Indonesia or to Indonesian citizens wherever they are domiciled, or to Indonesian residents in a manner which constitutes a public offer under the laws of Indonesia.

***Singapore***

Each Dealer has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS"). Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

*Note:*

This Offering Memorandum has not been registered as a prospectus with the MAS. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA, except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person from an offer referred to in Section 275(1A) or 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

***United States***

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. Each Dealer has agreed, and each further Dealer appointed under the Program will be required to agree, that it will not offer or sell any Notes within the United States, except as permitted by the Program Agreement.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the Internal Revenue Code and regulations thereunder.

The Notes are being offered and sold outside the United States in reliance on Regulation S. The Program Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Offering Memorandum has been prepared by the Company for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Company and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Memorandum does not constitute an offer to any person in the United States or to any U.S. person, other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker dealer affiliate. Distribution of this Offering Memorandum by any non-U.S. person outside the United States or by any qualified institutional buyer in the United States to any U.S. person or to any other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non U.S. person or qualified institutional buyer with respect thereto, is unauthorized and any disclosure without the prior written consent of the Company of any of its contents to any such U.S. person or other person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such non-U.S. person or qualified institutional buyer, is prohibited.

***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "FIEA") and each Dealer has represented and agreed that it has not directly or indirectly offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

***Malaysia***

This Offering Memorandum has not been and will not be registered as a prospectus with the Securities Commission of Malaysia under the Malaysian Capital Markets and Services Act 2007 ("CMSA"). Accordingly, this Offering Memorandum or any other document or material in connection therewith will not be circulated or distributed, nor will any invitation, offer or sale, directly or indirectly, be made in Malaysia with respect to offer or sale of Notes, other in circumstances falling within any one of the categories specified in Schedules 6, 7, 8 and 9 of the CMSA, subject to any law, order, regulation or official directive of Central Bank of Malaysia, Securities Commission of Malaysia and/or any other regulatory authority from time to time. Any invitation or offer of Notes in Malaysia shall only be binding upon obtaining the approval of the Securities Commission of Malaysia for the invitation or offer in respect of the Notes. Such approval shall not however, be taken to indicate that the Securities Commission of Malaysia recommends the purchase or subscription of the Notes. In addition, residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Notes. It is the responsibility of such residents to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Notes as aforesaid without the necessary approvals being in place.

### *General*

Each Dealer has agreed or will agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Company nor any other Dealer shall have any responsibility therefor.

Neither the Company nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the Relevant Dealer(s) will be required to comply with such other additional restrictions as the Company and the Relevant Dealer(s) shall agree and as shall be set forth in the applicable Pricing Supplement.

Purchasers of Notes sold by the Dealers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price and accrued interest, if any.

Each Series or Tranche of Notes is a new issue of securities with no established trading market. Any one or more of the Dealers may make a market in the Notes, but are not obliged to do so and may discontinue any market-marking, if commenced, at any time without notice. No assurance can be given as to the liquidity of the trading markets for the Notes.

## Stabilization

In connection with the issue of Notes in any Series or Tranche under the Program, the Relevant Dealer or Relevant Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes in such a Series at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization will be conducted in accordance with all applicable laws and regulations.

# TRANSFER RESTRICTIONS

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes.

Each prospective purchaser of Notes that have a legend regarding restrictions on transferability by accepting delivery of this Offering Memorandum, will be deemed to have represented and agreed that this Offering Memorandum is personal to such offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Offering Memorandum, or disclosure of any of its contents to any person other than such offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Company, is prohibited.

The Notes have not been and will not be registered under the Securities Act or any state securities laws in the United States, and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold in the United States only to persons reasonably believed to be QIBs. The international offering is being made outside the United States to non-U.S. persons in offshore transactions pursuant to Regulation S.

**Sales within the United States**

Each purchaser of Notes within the United States pursuant to Rule 144A by accepting this Offering Memorandum will be deemed to have represented, agreed and acknowledged as follows:

- It is (a) a QIB, (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

- The Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States.

- Such Notes, for compliance with applicable law, will bear a legend to the following effect:

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. TERMS USED HEREIN HAVE THE MEANINGS GIVEN THEM IN REGULATION S UNDER THE SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY AND THE DEALERS THAT (A) IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, (B) THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND (C) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (B) ABOVE.

[FOR THE PURPOSES OF APPLYING THE ORIGINAL ISSUE DISCOUNT RULES UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, (1) THE ISSUE DATE OF THIS NOTE IS ; (2) THE ISSUE PRICE OF THIS NOTE IS ; (3) THE YIELD TO MATURITY IS % (COMPOUNDED SEMIANNUALLY); AND (4) THIS NOTE IS BEING ISSUED WITH ORIGINAL ISSUE DISCOUNT IN THE AMOUNT OF [U.S.$] PER U.S.$1,000 PRINCIPAL AMOUNT.]

- It understands that the Company, the Registrar, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

- It understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Security. Before any interest in the Restricted Global Security may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Security, it will be required to provide the Registrar with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

Each Certificated Security that is offered and sold in the United States to an Institutional Accredited Investor pursuant to Section 4(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act will bear a legend to the following effect, in addition to such other legends as may be necessary or appropriate for compliance with applicable law:

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND UNDER APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS OF THE UNITED STATES, AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE ACKNOWLEDGES FOR THE BENEFIT OF THE COMPANY AND THE DEALERS THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH BELOW AND AGREES THAT

IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED IN THE INDENTURE ENTERED INTO BY THE COMPANY AND THE TRUSTEE AS OF MAY 3, 2013. THE PURCHASER REPRESENTS THAT IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) AND IT IS ACQUIRING THIS NOTE FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO ANY RESALE OR DISTRIBUTION HEREOF, SUBJECT TO ITS ABILITY TO RESELL THIS NOTE PURSUANT TO RULE 144A OR REGULATION S UNDER THE SECURITIES ACT OR AS OTHERWISE PROVIDED BELOW AND SUBJECT IN ANY CASE TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE PROPERTY OF ANY PURCHASER SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, RESELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH NOTE), ONLY (A) IN THE UNITED STATES TO A PERSON WHOM IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, (B) INSIDE THE UNITED STATES TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (WITHIN THE MEANING OF RULE 501 (A)(1), (2), (3) or (7) UNDER THE SECURITIES ACT) THAT IS ACQUIRING THE NOTE FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR", IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF THE NOTES OF US$250,000 AND MULTIPLES OF US$1,000 IN EXCESS THEREOF FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO, OR FOR OFFER OR RESALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (B), (D) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO THE COMPANY, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND, IN EACH OF THE FOREGOING CASES, NOT IN VIOLATION OF ANY APPLICABLE STATE SECURITIES LAWS. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN THIS PARAGRAPH.

IF REQUESTED BY THE COMPANY OR A DEALER, THE PURCHASER AGREES TO PROVIDE THE INFORMATION NECESSARY TO DETERMINE WHETHER THE TRANSFER OF THIS NOTE IS PERMISSIBLE UNDER THE SECURITIES ACT. THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALES OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE

ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

[FOR THE PURPOSES OF APPLYING THE ORIGINAL ISSUE DISCOUNT RULES UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, (1) THE ISSUE DATE OF THIS NOTE IS ; (2) THE ISSUE PRICE OF THIS NOTE IS ; (3) THE YIELD TO MATURITY IS % (COMPOUNDED SEMIANNUALLY); AND (4) THIS NOTE IS BEING ISSUED WITH ORIGINAL ISSUE DISCOUNT IN THE AMOUNT OF [U.S.$] PER U.S.$1,000 PRINCIPAL AMOUNT.]

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS."

Each purchaser of Certificated Securities will be required to deliver to the Company and the Registrar an investment representation letter substantially in the form prescribed in the Indenture. The Certificated Securities in definitive form will be subject to the transfer restrictions set forth in the above legend, such letter and in the Indenture. Inquiries concerning transfers of Notes should be made to any Dealer.

**Sales outside the United States**

Regulation S prohibits purchasers of the Notes under Regulation S from offering, selling or delivering the Notes within the United States or to or for the account or benefit of U.S. persons until the expiration of the period ending 40 days after the later of the commencement of the offering of the Notes and the date the Notes were originally issued (the "Distribution Compliance Period").

Each purchaser of the Notes outside the United States pursuant to Regulation S by accepting delivery of this Offering Memorandum and the Notes will be deemed to have represented, agreed and acknowledged that it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is located outside the United States and is not a U.S. person (as defined under Regulation S and the Internal Revenue Code) and (b) it is not an affiliate of the Company or a person acting on behalf of such an affiliate.

Each purchaser of the Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the Distribution Compliance Period by accepting delivery of this Offering Memorandum and the Notes, will be deemed to have represented, agreed and acknowledged that:

(i) It is, or at the time the Notes are purchased will be, the beneficial owner of such Notes and (A) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (B) it is not an affiliate of the Company or a person acting on behalf of such an affiliate.

(ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the Distribution Compliance Period, it will not offer, sell, pledge or otherwise transfer such Notes except (A) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(iii) The Company, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes are no longer accurate, it agrees to promptly notify us.

(iv) It understands that Registered Notes offered in reliance on Regulation S will be represented by an Unrestricted Global Security, which will, unless otherwise agreed by us in accordance with applicable law, bear a legend substantially to the following effect:

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. TERMS USED HEREIN HAVE THE MEANINGS GIVEN THEM IN REGULATION S UNDER THE SECURITIES ACT."

Bearer Notes will be issued in accordance with rules in substantially the same form as United States Treasury Regulations Section 1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the Code (the "D Rules"), or in accordance with rules in substantially the same form as United States Treasury Regulations Section 1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Code (the "C Rules") or not in accordance with the D Rules or the C Rules, as specified in the applicable Pricing Supplement.

In respect of Notes issued in accordance with the D Rules, each purchaser has represented and agreed that:

(i) except to the extent permitted under the D Rules, (x) it has not offered or sold, and during the restricted period will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person, and (y) such purchaser has not delivered and will not deliver within the United States or its possessions definitive Notes that are sold during the restricted period;

(ii) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within n the United States or its possessions or to a Unites States person, except as permitted by the D Rules;

(iii) if such purchaser is a United States person, it has represented that it is acquiring the Notes for purposes of resale in connection with their original issuance and if such purchaser retains Notes for its own account, it will only do so in accordance with the requirements of the D Rules;

(iv) with respect to each affiliate that acquires Notes from such purchaser for the purposes of offering or selling such Notes during the restricted period, such purchaser either (x) repeats and confirms the agreements contained in sub-clauses (i), (ii) and (iii) on such affiliate's behalf or (y) agrees that it will obtain from such affiliate for the benefit of the Issuer the agreements contained in sub-causes (i), (ii) and (iii); and

(v) such purchaser will obtain for the benefit of the Company the representations and agreements contained in sub-clauses (i), (ii), (iii) and (iv) from any person other than its affiliate with whom it enters into a written contract, as defined in the D Rules, for the offer and sale during the restricted period of the Note.

Terms used in the above paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder, including the D Rules. Notes issued pursuant to the D Rules and any Receipts, Coupons or Talons appertaining thereto will bear the following legend:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

In respect of Bearer Notes issued in accordance with the C Rules, Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each purchaser has represented and agreed that, in connection with the original issuance of Notes, it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, Notes issued in accordance with the C Rules within the United States or its possessions and it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of Notes. Terms used in this paragraph have the meaning given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder, including the C Rules.

Prior to the expiration of the Distribution Compliance Period, before any interest in the Temporary Global Note or Permanent Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in such Notes, it will be required to provide the Registrar with a written certification (in the form provided in the Indenture) as to compliance with the applicable securities laws.

**General**

Delivery of the Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Notes which date may be specified in the Pricing Supplement. Pursuant to Rule 15c6 (1) under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own advisor.

# UNITED STATES BENEFIT PLAN INVESTOR CONSIDERATIONS

The Notes may be purchased and held by an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or by an individual retirement account or other plan subject to Section 4975 of the Code. A fiduciary of an employee benefit plan subject to ERISA must determine that the purchase and holding of a note is consistent with its fiduciary duties under ERISA. The fiduciary of an ERISA plan, as well as any other prospective investor subject to Section 4975 of the Code or any similar law, must also determine that its purchase and holding of the Notes does not result in a non-exempt prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code or similar law. Each purchaser and transferee of a Note who is subject to ERISA and/or Section 4975 of the Code or a similar law will be deemed to have represented by its acquisition and holding of the Note that its acquisition and holding of the Notes does not constitute or give rise to a non-exempt prohibited transaction under ERISA, Section 4975 of the Code or any similar law.

## LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Latham & Watkins LLP as to matters of New York law and U.S. federal securities law and by Ali Budiardjo, Nugroho, Reksodiputro as to matters of Indonesian law. Certain legal matters with respect to the Notes will be passed upon for the Arrangers and Dealers by Davis Polk & Wardwell as to matters of New York law and U.S. federal securities law and by Hiswara Bunjamin & Tandjung as to matters of Indonesian law.

## INDEPENDENT PUBLIC ACCOUNTANTS

Our consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013, included elsewhere in this Offering Memorandum, have been audited by KAP Tanudiredja, Wibisana & Rekan (a member firm of PwC global network), independent public accountants, as stated in their reports appearing herein.

# ENERGY INDUSTRY CONSULTANT

The information contained in the section “Industry Overview” in this Offering Memorandum, including all statistics and data therein, was prepared by Wood Mackenzie, independent energy industry consultants and experts in the energy industry, in a report dated April 3, 2013. Wood Mackenzie has given and not withdrawn its written consent to the issue of this Offering Memorandum with the inclusion herein of their name and all references thereto and to the inclusion of the “Industry Overview” section in this Offering Memorandum, in the form and context in which it appears, and to act in such capacity in relation thereto. The “Industry Overview” section does not include all of the information that may be important for an investment decision.

# SUMMARY OF CERTAIN DIFFERENCES BETWEEN INDONESIAN FINANCIAL ACCOUNTING STANDARDS AND U.S. GAAP

The financial information included elsewhere in this Offering Memorandum has been prepared and presented in accordance with IFAS. Certain differences exist between IFAS and U.S. GAAP which might be material to the financial information herein. The matters described below summarize certain differences between IFAS and U.S. GAAP that may be material. The Issuer has not prepared a complete reconciliation of its consolidated financial statements and related footnote disclosures between IFAS and U.S. GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFAS and U.S. GAAP is complete. In making an investment decision, investors must rely upon their own examination of the Issuer, the Notes, the terms of the offering and financial information. Potential investors should consult their own professional advisors for an understanding of the differences between IFAS and U.S. GAAP, and how those differences might affect the financial information herein.

**Reserves and Resources**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Definitions | There is no prescribed reserve classification and there is no restriction on categories used for financial reporting purposes. | Entities must use the definitions of "reserves" and "resources" approved by the SEC. Only proved reserves can be disclosed for financial reporting purposes. Proved and proved developed are used for depletion depending on the nature of the costs. |
| Disclosure requirements | There is no specific requirement to disclose reserves and resources. | Detailed disclosures required by FASB ASC 932 and SEC Regulation S-X. |

**Consolidation**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Consolidation model | IFAS focuses on the concept of control in determining whether a parent-subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Control is presumed to exist when the parent company owns, directly or indirectly through subsidiaries, more than 50% of the voting rights of an entity. Controls also exists when the parent owns half or less of the voting power of an entity when there is:<br><br>(a) power over more than half of the voting rights by virtue of an agreement with other investors;<br><br>(b) power to govern the financial and operating policies of the entity under a statute or an agreement;<br><br>(c) power to appoint or remove the majority of the members of the board of directors; or<br><br>(d) power to cast the majority of votes at meeting of the board of directors.<br><br>IFAS also specifically requires potential voting rights to be assessed. Instruments that are currently exercisable or convertible are included in the assessment, with no requirement to assess whether exercise is economically reasonable (provided such rights have economic substance).<br><br>IFAS requires a special purpose entity ("SPE") to be consolidated when the substance of the | An entity should first consider the guidance under ASC 810-10-15-3, which requires an entity to be considered if the entity is a variable interest entity ("VIE"). VIEs include many entities such as SPEs and other entities not previously thought of as SPEs under U.S. GAAP. If a reporting entity has an interest in an entity that meets the definition of a VIE, the power and economic model should be applied for entities' annual reporting periods that begin after November 15, 2009. For periods prior to that, an entity would look at the risk-and-rewards model to determine whether consolidation of VIE would be required. Under the new model, the primary beneficiary of a VIE is the enterprise that has both (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. If it has been determined that an entity is outside the scope of ASC 810-10-15-3, then consideration should be given to ASC 810-10-15-8, which generally requires consolidation when one of the companies in a group directly or indirectly has a controlling financial interest in the other companies. The usual condition for controlling financial interests is ownership of a majority of the voting interest, and therefore, as a general rule, ownership by one company, directly or indirectly, of over 50.0% of the outstanding voting shares of another company is a condition pointing towards consolidation. |

| Area | IFAS | U.S. GAAP |
| --- | --- | --- |
| | relationship between an entity and the SPE indicates that the SPE is controlled by that entity. When control of an SPE is not apparent, IFAS requires evaluation of every entity — based on the entity's characteristics as a whole — to determine the controlling party. The concept of economic benefit or risk is just one part of the analysis. Other factors considered in the evaluation are the entity's design (e.g., autopilot), the nature of the entity's activities and the entity's governance. | Consolidation of majority-owned subsidiaries is required in the preparation of consolidated financial statements, unless control is temporary and does not rest with the majority owner. |

**Financial Assets**

| Area | IFAS | U.S. GAAP |
| --- | --- | --- |
| Classification and measurement | Classification is not driven by legal form which classifies financial assets into the categories of:<br>● financial assets at fair value through profit or loss;<br>● held-to-maturity investments;<br>● loans and receivables; and<br>● available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired which is determined at initial recognition. | Under U.S. GAAP, the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities is as follows:<br>● debt securities that the entity has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost; debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings; and |

| Area | IFAS | U.S. GAAP |
|---|---|---|
| | Financial assets may be reclassified between categories, albeit with conditions. More significantly, debt instruments may be reclassified from held for trading or available-for-sale into loans and receivables, if the debt instrument meets the definition of loans and receivables and the entity has the intent and ability to hold for the foreseeable future. | ● debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale ("AFS") securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, net of tax effects. As it relates to available-for-sale debt financial assets, any component of the overall change in fair market value that may be associated with foreign exchange gains and losses is treated in a manner consistent with the remaining overall change in the instrument's fair value. |
| | Effective January 1, 2012<br>Starting January 1, 2012, IFAS allows a non-derivative financial asset to be reclassified out of held-for-trading category on certain circumstances. At the date of reclassification, the fair value of any financial asset reclassified becomes its new cost or amortized cost as applicable. | Changes in classification between trading, available-for-sale and held-to-maturity categories occur only when justified by the facts and circumstances within the concepts of ASC 320. Given the nature of a trading security, transfers into or from the trading category should be rare, though they do occur. |
| Impairment principles: AFS debt securities | A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as the result of one or more events that occurred after initial recognition of the asset (a loss event) and if that loss event has an impact on the estimated future cash flows of | An investment in debt securities is assessed for impairment if the fair value is less than cost. An analysis is performed to determine whether the shortfall in fair value is temporary or other-than-temporary. In a determination of whether |

| Area | IFAS | U.S. GAAP |
|---|---|---|
| | the financial asset or group of financial assets that can be estimated reliably. In assessing the objective evidence of impairment, an entity considers the following factors:<br><br>● significant financial difficulty of the issuer;<br><br>● high probability of bankruptcy;<br><br>● granting of a concession to the issuer;<br><br>● disappearance of an active market because of financial difficulties;<br><br>● breach of contract, such as default or delinquency in interest or principal; and<br><br>● observable data indicating there is a measurable decrease in the estimated future cash flows since initial recognition.<br><br>An impairment analysis under IFAS focuses only on the triggering events that affect the cash flows from the asset itself and does not consider the holder's intent. Once impairment of a debt instrument is determined to be triggered, the loss in equity due to changes in fair value is released into the income statement. | impairment is other-than-temporary, the following factors are assessed:<br><br>● Step 1 — Can management assert (a) it does not have intent to sell and (b) it is more likely than not that it will not have to sell before recovery of cost? If no, then impairment is triggered. If yes, then move on to Step 2.<br><br>● Step 2 — Does management expect recovery of the entire cost basis of the security? If yes, then impairment is triggered.<br><br>Once it is determined that impairment is other-than-temporary, the impairment loss recognized in the income statement depends on the impairment trigger:<br><br>● If impairment is triggered as a result of Step 1, the loss due to changes in fair value is released into the income statement. If impairment is triggered in Step 2, impairment loss is measured by calculating the present value of cash flows expected to be collected from the impaired security. The determination of such expected credit loss is not explicitly defined; one method could be to discount the best estimate of cash flows by the original effective interest rate. The difference between the fair value and the post impairment amortized cost is recorded within comprehensive income. |

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Impairment principles: AFS equity instruments | Same treatment with AFS debt security as discussed above. In addition, objective evidence of impairment of AFS equity includes:<br><br>● significant decline in fair value below cost;<br><br>● prolonged decline in fair value cost; or<br><br>● significant adverse changes in technological, market, economic or legal environment.<br><br>Whether a decline in fair value below cost is considered as significant must be assessed on an instrument-by-instrument basis and should be based on both qualitative and quantitative factors. | U.S. GAAP looks to whether the decline in fair value below cost is other-than-temporary. The factors to consider include:<br><br>● the length of the time and the extent to which the market value has been less than cost;<br><br>● the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer, such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; and<br><br>● the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.<br><br>The evaluation of the other-than-temporary impairment trigger requires significant judgment in assessing the recoverability of the decline in fair value below cost.<br><br>Generally, the longer the decline and the greater the decline, the more difficult it is to overcome the available-for-sale equity other than temporarily impaired. |
| Impairment principles: held-to-maturity debt instruments | Same treatment with AFS debt security as discussed above. In addition, once impairment is triggered, the loss is measured by discounting the estimated | The two-step impairment test mentioned above is also applicable to investments classified as held-to-maturity. It would be expected that held-to- |

| Area | IFAS | U.S. GAAP |
| --- | --- | --- |
| | future cash flows (adjusted for incurred loss) by the original effective interest rate. As a practical expedient, impairment may be measured based on the instrument's observable fair value. | maturity investments would not trigger Step 1 (as tainting would result). Rather, evaluation of Step 2 may trigger impairment.<br><br>Once triggered, impairment is measured with reference to expected credit losses as described for available-for-sale securities (see above). The difference between the fair value and the post impairment amortized cost is recorded within other comprehensive income and accreted from other comprehensive income to the amortized cost of the debt security over its remaining life prospectively. |
| Impairment — reversal of losses | For financial assets carried at amortized cost, if in a subsequent period the amount of impairment loss decreases and the decrease can be objectively associated with an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. The reversal, however, does not exceed what the amortized cost would have been had the impairment not been recognized.<br><br>For available-for-sale debt instruments, if in a subsequent period the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the loss was recognized, the loss may be reversed through the income statement.<br><br>Reversals of impairments on equity investments are prohibited. | One-time reversals of impairment losses for debt securities classified as available-for-sale or held-to-maturity securities, however, are prohibited. Rather, any expected recoveries in future cash flows are reflected as a prospective yield adjustment.<br><br>Reversals of impairment on equity investments are prohibited. |

### Inventories

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Impact of changes in market prices after balance sheet date | Inventories are measured at the lower of cost and net realizable value. Events occurring between the balance sheet date and the date of completion of the financial statements need to be considered in arriving at the net realizable value at the balance sheet date (for example, a subsequent reduction in selling prices), to the extent that such events confirm conditions existing at the end of the year. | Inventories are measured at the lower of cost and market value. When market value is lower than cost at the balance sheet date, a recovery of market value after the balance sheet date but before the issuance of the financial statements is recognized as a type I (adjusting) post balance sheet event. |
| Write-downs | Reversals of inventory write-downs (limited to the amount of the original write-down) are required for increase in value of inventory previously written down. | Reversals of write-downs are prohibited. |

### Leases

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Finance lease | Under IFAS, determination of financial lease depends on whether the lease transfers substantially all of the risks and rewards of ownership to the lessee.<br><br>While the lease classification criteria identified in U.S. GAAP are considered in classification of a lease under IFAS, there are no quantitative breakpoints or bright lines to apply (e.g., 90%).<br><br>Depreciation policy for depreciable leased assets follows lessee's normal depreciation policy. If there is no reasonably certainty that the lessee will obtain ownership by the end of the lease term, the leased asset is depreciated over the shorter of the lease term and its useful life. | Under U.S. GAAP, financial (or capital) leases are recognized if one of the following criteria is met: (a) ownership of the leased assets transfers to the lessee at the end of the lease term; (b) the lease contains a bargain purchase option; (c) the lease term is equals to 75% or more if the estimated useful life of the assets; or (d) the net present value of the minimum lease payments equals or exceeds 90% of the underlying fair value of the lease assets less any investment tax credit retained by the lessor. If the lease meets the criteria of either (a) or (b) above, the asset is amortized in a manner consistent with the lessee's normal depreciation policy for owned fixed assets. If the lease does not meet the criteria (a) or |

| Area | IFAS | U.S. GAAP |
| --- | --- | --- |
| | | (b) above, the asset is amortized in a manner consistent with the lessee's normal depreciation policy, except that the period of amortization shall be the lease term. The asset shall be amortized to its expected value, if any, to the lessee at the end of the lease term. |

**Land Use Rights**

| Area | IFAS | U.S. GAAP |
| --- | --- | --- |
| Land use rights | Pre 2012<br>A land held based on certain types of rights other than a freehold title (i.e. right to build and right to use the land) will typically be classified as a PPE item by an entity, even though the entity does not get the freehold title. The predominant practice is to capitalize the cost of acquired land rights and not to amortize them. Expenses associated with the acquisition of a government permit to use the land are amortized over the period the holder is expected to retain the land rights.<br><br>Effective January 1, 2012<br>Starting January 1, 2012, IFAS interprets that the initial legal costs paid to obtain land use rights are considered to be part of the cost of land, and therefore they are not depreciated. Subsequent costs incurred to renew land use rights are capitalized as part of intangible assets and are amortized over the shorter of (a) legal life of the land rights or (b) economic life of the land. | Land rights are considered as leases. Any premium paid for such rights represent prepaid lease payments which should be amortized over the period the holder is expected to retain the land rights. |

**Capitalization of Costs**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Accounting models | Pre-2012<br>Similar with U.S. GAAP model, there are two formal models — successful efforts and full cost methods. Types of expenditure that may be capitalized are defined, however less detail compared to U.S. GAAP.<br><br>Effective January 1, 2012<br>Because of the withdrawal of the particular standard for oil and gas industry, there is no specific guidance on accounting model for oil and gas upstream activities other than the financial reporting for the exploration and evaluation of mineral resources. | There are two formal models — successful efforts and full cost methods, in accordance with FASB ASC 932 and Rule 4-10 (c) of Regulation S-X. Types of expenditure that may be capitalized are defined. |
| Acquisition costs | Acquisition costs are not specifically prescribed but capitalized when asset recognition criteria are met. | Acquisition costs should be capitalized when incurred. |
| Exploration costs | Pre-2012<br>For successful efforts method, exploration costs, other than exploration drilling costs, should be charged to expense when incurred. These costs include the following:<br><br>● geological and geophysical costs; and<br><br>● dry hole and bottom hole contributions.<br><br>The cost of drilling exploratory wells (including drilling exploratory — type stratigraphic wells) is capitalized when the well found proved reserves. Under IFAS, there are no specific indicators when evaluating whether suspended exploratory well costs should continue to be capitalized. | For successful efforts method, exploration costs, other than exploration drilling costs, should be charged to expense when incurred. These costs include the following:<br><br>● geological and geophysical costs;<br><br>● costs of carrying and retaining unproved properties; and<br><br>● dry hole and bottom hole contributions.<br><br>The cost of drilling exploratory wells should be capitalized, pending determination of whether the well has found proved reserves. Costs of wells that are assigned proved reserves remain capitalized. |

| Area | IFAS | U.S. GAAP |
|---|---|---|
| | Effective January 1, 2012<br>There is no IFAS accounting standard that specifically addresses the treatment of exploration costs for oil and gas companies. However, IFAS provides limited guidance for all the extractive industries including the exploration and evaluation for oil and natural gas. IFAS requires an entity to determine accounting policy specifying which expenditures are capitalized and recognized as exploration and evaluation assets and apply the policy consistently. Such accounting policy should take into account the degree to which the expenditure can be associated with finding mineral resources. IFAS provides a non-exhaustive list of examples of types of expenditures that may be included in cost at initial recognition:<br><br>(a) Acquisition of rights to explore<br><br>(b) Topographical, geological, geochemical, and geophysical studies<br><br>(c) Exploratory drilling<br><br>(d) Sampling<br><br>(e) Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource | Costs also are capitalized for exploratory wells that have found reserves even if the reserves cannot be classified as proved when the drilling is completed, provided the exploratory well has found a sufficient quantity of reserves to justify its completion as a producing well and the entity is making sufficient progress assessing the reserves and the economic and operating viability of the project. All other exploratory wells and costs are expensed.<br><br>Specific indicators under FSP 19-1 have to be considered when evaluating whether suspended exploratory well costs should continue to be capitalized. |

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Development costs | Pre-2012<br>Broadly similar with U.S. GAAP.<br><br>Effective January 1, 2012<br>An entity should develop an accounting policy for development expenditure based on the guidance in the standards related to fixed asset, intangible asset and the IFAS framework. Development expenditures are capitalized to the extent that they are necessary to bring the property to commercial production. | Development costs are capitalized. These include the costs to obtain access to proved reserves and to drill development wells. The costs of drilling development wells, including unsuccessful development wells, should be capitalized. |
| Internal costs | Internal costs are not specifically addressed but capitalized when asset recognition criteria are met. | Internal costs for acquisition, development and exploration may be capitalized if directly related to acquisition, development, or exploration activities that are capitalizable under the successful efforts method. Indirect internal costs should be expensed. |
| Accumulation of costs | Pre-2012<br>IFAS only states amortization of proved property costs is calculated on a property-by-property or reserves-by-reserves basis under successful efforts method.<br><br>Effective January 1, 2012<br>Since the withdrawal of the particular standard for oil and gas industry, IFAS does not prescribe what basis should be used for the Unit-of-Production ("UOP") calculation. | For successful effort method, capitalized costs are accumulated on a property- by-property basis or on the basis of some reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a field or reservoir. |
| Capitalization of interest cost | Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are required to be capitalized as part of the cost of that asset.<br><br>A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. | Capitalization of interest costs while a qualifying asset is being prepared for its intended use is required.<br><br>The guidance does not require that all borrowings be included in the determination of a weighted- average capitalization rate. Instead, the requirement is to capitalize a reasonable measure of cost for financing the asset's acquisition in terms of the interest cost incurred that otherwise could have been avoided. |

| Area | IFAS | U.S. GAAP |
|---|---|---|
| | IFAS acknowledges that determining the amount of borrowing costs that are directly attributable to an otherwise qualifying asset may require professional judgment. IFAS first requires the consideration of any specific borrowings and then requires consideration of all general borrowings outstanding. | An investment accounted for by using the equity method meets the criteria for a qualifying asset while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. |

**Depreciation, Depletion and Amortization ("DD&A")**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Aggregation of assets for the purposes of DD&A | Significant parts (components) of an item of PPE are depreciated separately if they have different useful lives. | Cost categories follow major types of assets as required by FASB ASC 932-360 — individual items are not separated. |
| DD&A method and application | IFAS requires that each part of an item of property, plant and equipment that has a cost that is significant when compared to the total cost of the item, should be depreciated separately.<br><br>Consistent with the componentization model, IFAS requires that the carrying amount of parts or components that are replaced be derecognized.<br><br>The reserve and resource classifications used for the depletion calculation are not specified. An entity should develop an appropriate accounting policy for depletion and apply the policy consistently, e.g. unit of production method. | U.S. GAAP generally does not require the component approach for depreciation.<br><br>Capitalized acquisition costs should be depleted on the unit-of-production method using total proved (both developed and undeveloped) reserves.<br><br>Capitalized exploration and development costs should be amortized on the unit-of-production method using proved developed reserves. |
| Considerations of future development costs | There is no specific guidance on future development cost but generally is not allowed. | Future development costs and asset retirement obligations ("AROs") that are not currently included in the recorded asset value are not considered in computing the DD&A rate. |

| Area | IFAS | U.S. GAAP |
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| Costs excluded from DD&A calculation | There is no specific guidance on exclusion of cost. | If significant development costs (such as the cost of an off-shore production platform) are incurred in connection with a planned group of development wells before all of the planned wells have been drilled, it will be necessary to exclude a portion of those development costs in determining the unit-of-production amortization rate until the additional development wells are drilled. Similarly, it will be necessary to exclude, in computing the amortization rate, those proved developed reserves that will be produced only after significant additional development costs are incurred, such as for improved recovery systems. |

**Impairment of Long-lived Assets**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Impairment of long-lived assets (including production and downstream assets and finite-lived intangible assets) | Uses a one-step impairment test. Impairment is measured as the excess of the asset's carrying amount over its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.<br><br>Fair value less cost to sell represents the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal.<br><br>IFAS does not contain guidance about which market should be used as a basis for measuring fair value when more than one market exists.<br><br>Value in use represents the future cash flows discounted to present value by using a pre- | Requires a two-step impairment test and measurement model as follows:<br><br>1. The carrying amount is first compared with the undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognized, although it may be necessary to review depreciation (or amortization) estimates and methods for the related asset.<br><br>2. If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value. Fair value is |

| Area | IFAS | U.S. GAAP |
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| | tax, market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset for which the cash flow estimates have not been adjusted. | defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (“exit price”). As a result, consideration must be given to the following during step 2 of an impairment test: |
| | The use of entity-specific discounted cash flows is required in the value in use analysis. Changes in market interest rates can potentially trigger impairment and hence are impairment indicators. If certain criteria are met, the reversal of impairments, other than those of goodwill, is permitted. | • *Use of market participant assumptions* — U.S. GAAP emphasizes that a fair value measurement should be based on the assumptions of market participants and not those of the reporting entity. Therefore, entity-specific intentions should not impact the measurement of fair values unless those assumptions are consistent with market participant views. |
| | Effective January 1, 2012 Financial reporting standard for the exploration and evaluation of mineral resources introduces a new impairment-testing regime for exploration and evaluation assets. An entity assesses exploration and evaluation assets for impairment when there are indicators that impairment exists. Impairment testing is also required immediately before assets are reclassified out of the exploration and evaluation assets.<br><br>It provides specific relief for exploration & evaluation assets. Cash-generating units (CGUs) may be combined up to the | • Determining the appropriate market — A reporting entity is required to identify and evaluate the markets into which an asset may be sold or a liability transferred. In establishing a fair value, a reporting entity must determine whether there is a principal market or, in its absence, a most advantageous market. However, in measuring the fair |

| Area | IFAS | U.S. GAAP |
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| | level of an operating segment for exploration & evaluation assets. | value of non-financial assets and liabilities, in many cases, there will not be observable data or a reference market. As a result, management will have to develop a hypothetical market for the asset or liability.<br><br>• *Application of valuation techniques* — The calculation of fair value will no longer default to a present value technique. While present value techniques may be appropriate, the reporting entity must also consider all valuation techniques appropriate in the circumstances. If the asset is recoverable based on undiscounted cash flows, the discounting or fair value type determinations are not applicable. Changes in market interest rates are not considered impairment indicators. |
| Reversal of impairment charge | Impairment losses, other than those relating to goodwill, are reversed when there has been a change in the economic conditions or in the expected use of the asset. | Impairment losses are never reversed. |

**Asset Retirement Obligations**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Measurement of liability | IFAS requires that management's best estimate of the costs of dismantling and removing the item or restoring the site on which it is located be recorded when an obligation exists. The estimate is to be based on a present obligation (legal or constructive) that arises as a result of the acquisition, construction or development of a long-lived asset. If it is not clear whether a present obligation exists, the entity may evaluate the evidence under a more likely-than-not threshold. This threshold is evaluated in relation to the likelihood of settling the obligation. | An entity records the fair value of a liability for an ARO when there is a legal obligation as a result of the acquisition, construction or development of long-lived asset and the liability can be reasonably estimated.<br><br>The use of a credit-adjusted, risk-free rate is required for discounting purposes when an expected present-value technique is used for estimating the fair value of the liability. |
| | The guidance uses a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.<br><br>Changes in the measurement of an existing decommissioning, restoration or similar liability that result from changes in the estimated timing or amount of the cash outflows or other resources or a change in the discount rate adjust the carrying value of the related asset under the cost model. | The guidance also requires an entity to measure changes in the liability for an ARO due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used for measuring that change would be the credit-adjusted, risk-free rate that existed when the liability, or portion thereof, was initially measured. In addition, changes to the undiscounted cash flows are recognized as an increase or a decrease in both the liability for an ARO and the related asset retirement cost. Upward revisions are discounted by using the current credit-adjusted, risk-free rate at the time of revision. Downward revisions are discounted by using the credit-adjusted, risk-free rate that existed when the original liability was recognized. |
| Recognition of retirement asset | Capitalized as part of the related asset to be decommissioned. | Capitalized as a separate asset from the asset to be decommissioned. |

**Pension Costs**

| Area | IFAS | U.S. GAAP |
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| Defined benefit plan | The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.<br><br>The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefit will be paid, and that have terms to maturity approximating the terms of the related pension liability. Government bond yields are used where there is no deep market in high-quality corporate bonds.<br><br>Expected return on plan assets is determined based on market expectations at the beginning of the period for returns over the entire life of the obligation. Positive and negative past-service costs are recognized over the remaining vesting period. Where a benefit has already vested, the company should recognize past-service cost immediately. Actuarial gains and losses arising from experience adjustments, or changes in actuarial assumptions among others when exceeding 10% of defined benefit or 10% of fair value of plan assets are charged or credited to income over the average remaining service lives | Similar to IFAS, except that government bonds are not used. Expected return on plan assets is determined based on market conditions and nature of the assets. Positive prior-service costs for current and former employees are recognized over remaining service lives of active employees. Negative prior-service costs are used first to offset previous positive prior-service costs. Actuarial gains and losses and unrecognized prior service costs are amortized as a component of net periodic benefit cost. Further, U.S. GAAP requires, at a minimum, a liability for the amount of the unfunded accumulated benefit obligation to be recognized at the balance sheet date. If all or almost all plan participants are retired, actuarial gains and losses are amortized over the remaining life expectancy of the plan participants. |

| Area | IFAS | U.S. GAAP |
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| | of the related employees. There is no requirement to recognize a minimum of pension liability.<br><br>Effective January 1, 2012<br>Starting January 1, 2012, IFAS allows reporting entity to recognize actuarial gains or losses in full as they arise, outside profit or loss, as other comprehensive income in equity. | |

**Provisions and Contingencies**

| Area | IFAS | U.S. GAAP |
|---|---|---|
| Recognition and measurement | A provision is recorded when the following three conditions are met: (a) an entity has a present obligation as a result of a past event; (b) it is probable that an outflow of resources embodying the economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The anticipated cash flows are discounted using a pre-tax discount rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability (for which the cash flow estimates have not been adjusted) if the effect is material. If a range of estimates is predicted and no amount in the range is more likely than any other amount in the range, the 'mid-point' of the range is used to measure the liability. Contingent liabilities are disclosed unless the probability of economic benefit outflows is remote. 'Probable' is defined as more likely than not. | An accrual for a loss contingency is required if it is probable that there is a present obligation resulting from a past event and that an outflow of economic resources is reasonably estimable.<br><br>Guidance uses the term "probable" to describe a situation in which the outcome is likely to occur. While a numeric standard for probable does not exist, practice generally considers an event that has a 75% or greater likelihood of occurrence to be probable.<br><br>A single standard does not exist to determine the measurement of obligations. Instead, entities must refer to guidance established for specific obligations (e.g., environmental or restructuring) to determine the appropriate measurement methodology. Pronouncements related to provisions do not necessarily have settlement price or even fair value as an objective in the measurement of liabilities and the guidance often describes an accumulation of the entity's cost estimates. |

**Joint Ventures**

| Area | IFAS | U.S. GAAP |
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| Definition | A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. Joint control is the contractually sharing of control of an economic activity. Unanimous consent of the parties sharing control, but not necessarily all parties in the venture, is required. | A corporate joint venture is a corporation owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group. |
| Types of joint venture | There are three types of joint ventures:<br>● jointly controlled operations — each venturer uses its own assets for a specific project;<br>● jointly controlled assets — a project carried on with assets that are jointly owned; and<br>● jointly controlled entities, in which the arrangement is carried on through a separate entity (company or partnership). | Refers only to jointly controlled entities, where the arrangement is carried on through a separate corporate entity. |
| Accounting for joint venture arrangements | For jointly controlled operations, a venturer recognizes in its financial statements: the assets that it controls and the liabilities that it incurs; and the expenses that it incurs, and its share of income that it earns from the sale of goods or services by the joint venture. For jointly controlled assets, a venturer recognizes in its financial statements: its share of the jointly controlled assets, classified according to the nature of the assets; any liabilities that it has incurred; its share of any liabilities | Prior to determining the accounting model, an entity first assesses whether the joint venture is a VIE. If the joint venture is a VIE, the primary beneficiary should consolidate. If the joint venture is not a VIE, venturers assess the accounting using the voting interest model. If control does not exist then the criteria to apply the equity method to measure the investment in the jointly controlled entity. Proportionate consolidation is generally not permitted except for unincorporated entities operating in certain industries, such as the oil and gas industry. |

| Area | IFAS | U.S. GAAP |
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| | incurred jointly with the other venturers in relation to the joint venture; any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and any expenses that it has incurred in respect of its interest in the joint venture.<br><br>Either the proportionate consolidation method or the equity method is allowed to account for a jointly controlled entity (a policy decision that must be applied consistently). Proportionate consolidation requires the venturer's share of the assets, liabilities, income and expenses to be either combined on a line-by-line basis with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements. A full understanding of the rights and responsibilities conveyed in management agreements is necessary. | |

**Business Combinations**

| Area | IFAS | U.S. GAAP |
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| Acquisition-related costs | Acquisition-related costs incurred to effect a business combination are charged to expenses in the periods in which the costs are incurred and services are received. However, the costs to issue debt or equity securities are included in the initial recognition of those instruments. | In a business combination accounted for by the purchase method the cost of an acquired entity includes the direct costs of acquisition. All internal costs associated with a business combination are expensed as incurred. |
| Contingent consideration | Contingent consideration is recognized initially at fair value as either an asset, liability or equity according the applicable IFAS guidance. | Contingent consideration is recognized initially at fair value as either an asset, liability or equity according the applicable U.S. GAAP guidance.<br><br>Contingent consideration classified as an asset or a liability is remeasured to the |

| Area | IFAS | U.S. GAAP |
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| | | fair value at each reporting date until the contingency is resolved. The changes in fair value are recognized in earnings unless the arrangement is a hedging instrument for which ASC 815, as amended by the new business combination guidance (included in ASC 805), requires the changes to be initially recognized in other comprehensive income. |
| | Contingent consideration classified as an asset or a liability will likely be a financial instrument measured at fair value, with any gains or losses recognized in profit or loss (or OCI, as appropriate). Contingent consideration classified as an asset or liability that is not a financial instrument is subsequently accounted for in accordance with the provisions standard or other IFAS as appropriate.<br><br>Contingent consideration classified as equity is not remeasured. Settlement is accounted for within equity. | Contingent consideration classified as equity is not remeasured at each reporting date. Settlement is accounted for within equity. |
| Acquired contingencies | The acquiree's contingent liabilities are recognized separately at the acquisition date, provided their fair values can be measured reliably. The contingent liability is measured subsequently at the higher of the amount initially recognized less, if appropriate, cumulative amortization recognized under the revenue guidance or the best estimate of the amount required to settle (under the provisions guidance). Contingent assets are not recognized. | Acquired liabilities and assets subject to contractual contingencies are recognized at fair value if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. An acquirer shall develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies depending on their nature. |

| Area | IFAS | U.S. GAAP |
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| Assignment/allocation and impairment of goodwill | Goodwill is no longer amortized and subject to impairment testing annually. Goodwill is allocated to a CGU or group of CGUs, as defined within the guidance.<br><br>Goodwill impairment testing is performed under a one-step approach:<br><br>The recoverable amount of the CGU or group of CGUs (i.e., the higher of its fair value less costs to sell and its value in use) is compared with its carrying amount.<br><br>Any impairment loss is recognized in operating results as the excess of the carrying amount over the recoverable amount.<br><br>The impairment loss is allocated first to goodwill and then on a pro rata basis to the other assets of the CGU or group of CGUs to the extent that the impairment loss exceeds the book value of goodwill. | Goodwill is assigned to an entity's reporting units, as defined within the guidance.<br><br>Goodwill impairment testing is performed under a two-step approach:<br><br>1. The fair value and the carrying amount of the reporting unit, including goodwill, are compared. If the fair value of the reporting unit is less than the carrying amount, step 2 is completed to determine the amount of the goodwill impairment loss, if any.<br><br>2. Goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value. The implied fair value of goodwill — calculated in the same manner that goodwill is determined in a business combination — is the difference between the fair value of the reporting unit and the fair value of the various assets and liabilities included in the reporting unit.<br><br>Any loss recognized is not permitted to exceed the carrying amount of goodwill. The impairment charge is included in operating income. |
| Non-controlling interests | Entities have an option, on a transaction-by-transaction basis, to measure non-controlling interests at their proportion of the fair value of the identifiable net assets or at full fair value. The use of the | Measured at fair value. In addition, no gains or losses are recognized in earnings for transactions between the parent company and the non-controlling interests — unless control is lost. |

| Area | IFAS | U.S. GAAP |
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| | full fair value option results in full goodwill being recorded on both the controlling and non-controlling interest. In addition, no gains or losses will be recognized in earnings for transactions between the parent company and the non-controlling interests — unless control is lost. | |
| Measuring of fair value of assets acquired and liabilities assumed | Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. IFAS does not specifically refer to either an entry or exit price. | Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The exchange price represents an exit price. |

**Derivative Financial Instruments and Hedging Activities**

| Area | IFAS | U.S. GAAP |
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| Derivative financial instrument and hedging activities | IFAS does not include a requirement for net settlement within the definition of a derivative. IFAS requires documentation of the entity's risk management objectives and how the effectiveness of the hedge will be assessed. For retrospective test, a hedge qualifies for hedge accounting if 'actual' results are within a range of 80% to 125%.<br><br>IFAS does not allow a shortcut method by which an entity may assume no ineffectiveness. It permits portions of risk to be designated as the hedged risk for financial instruments in a hedging relationship such as selected contractual cash flows or a portion of the fair value of the hedged item, which can improve the effectiveness of a hedging relationship. Nevertheless, entities are still required to test effectiveness | Similar to IFAS, requires documentation of the entity's risk management objectives and how the effectiveness of the hedge will be assessed. For retrospective test, a hedge qualifies for hedge accounting if 'actual' results are within a range of 80% to 125%.<br><br>U.S. GAAP provides for a shortcut method that allows an entity to assume no ineffectiveness (and, hence, bypass an effectiveness test) for certain fair value or cash flow hedges of interest rate risk using interest rate swaps (when certain stringent criteria are met).<br><br>Under U.S. GAAP, for hedges that do not qualify for the shortcut method, if the critical terms of the hedging instrument and the entire hedged item are the same ("matched-terms method"), |

| Area | IFAS | U.S. GAAP |
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| | and measure the amount of any ineffectiveness.<br><br>IFAS does not specifically discuss the methodology of applying a matched-terms approach in the level of detail included within U.S. GAAP. However, if an entity can prove for hedges in which the principal terms of the hedging instrument and the hedged items are the same that the relationship will always be 100 percent effective based on an appropriately designed test, a similar qualitative analysis may be sufficient for prospective testing. | the entity can conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset. An entity is not allowed to assume (1) no ineffectiveness when it exists or (2) that testing can be avoided. Rather, matched terms provide a simplified approach to effectiveness testing in certain situations. |

**Taxation**

| Area | IFAS | U.S. GAAP |
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| Deferred taxes | Current enacted or substantially enacted tax rates are used to determine deferred income tax. Deferred tax assets relating to future tax benefits and the carry-forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the future tax benefit and unused tax losses can be utilized. When an entity presents current and non-current classifications in its balance sheet, it should not classify deferred tax assets (liabilities) as current assets (liabilities). | Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to the period in which the deferred tax asset or deferred tax liability is expected to be settled or released to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred tax assets are recognized in full, but are reduced by a valuation allowance if, in the opinion of management, it is considered “more likely than not” that some portion of, or all of, the deferred tax asset will not be realized in the future. “More likely than not” is defined as a likelihood of more than 50%. In determining whether a valuation allowance is necessary, a company may not generally consider future anticipated income in measuring the valuation allowance if that |

| Area | IFAS | U.S. GAAP |
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| | | company has a history of losses. The classification of deferred tax assets and deferred tax liabilities follows the classification of the related, non-tax asset or liability for financial reporting (as either current or non-current). If a deferred tax asset is not associated with an underlying asset or liability, it is classified based on the anticipated reversal periods. Any valuation allowances are allocated between current and non-current deferred tax assets for a tax jurisdiction on a pro-rata basis. |

**Revenue**

| Area | IFAS | U.S. GAAP |
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| Revenue recognition — general | Two primary revenue standards capture all revenue transactions within one of four broad categories:<br>• sale of goods;<br>• rendering of services;<br>• others' use of an entity's assets (yielding interest, royalties, etc.); and<br>• construction contracts.<br><br>Revenue recognition criteria for each of these categories include the probability that the economic benefits associated with the transaction will flow to the entity and that the revenue and costs can be measured reliably. Additional recognition criteria apply within each broad category.<br><br>The principles laid out within each of the categories are generally to be applied without significant further rules and/or exceptions. | Revenue recognition guidance is extensive and includes a significant volume of literature issued by various US standard setters.<br><br>Generally, the guidance focuses on revenues being (i) either realized or realizable and (ii) earned. Revenue recognition is considered to involve an exchange transaction; that is, revenue should not be recognized until an exchange transaction has occurred.<br><br>These rather straightforward concepts are, however, augmented with detailed rules. |

| Area | IFAS | U.S. GAAP |
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| Overlift/underlift | There is no specific guidance, however the predominant practices is that revenue is recognized in overlift/underlift situations on a modified entitlements basis. | U.S. GAAP permits a choice of the sales/lifting method or the entitlements method for revenue recognition. |

**Cash Flow Statement**

| Area | IFAS | U.S. GAAP |
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| Cash flow statement | Interest paid is classified as financing cash flows; receipt of interest classified as operating and dividends classified as investing activities. Cash and cash equivalents may also include bank overdrafts.<br><br>Companies which present their cash flows using the direct method are not required to present a reconciliation of net income to net cash flows from operating activities. | Interest paid, interest received and dividends received are classified as operating activities. Bank overdrafts are not included in cash and cash equivalents and, accordingly, changes in balances of overdrafts are classified as financing cash flows.<br><br>Companies which present their cash flows using the direct method are required to present, in a separate schedule, a reconciliation of net income to cash flows from operating activities. Such reconciliation shows: (a) the effects of all deferrals of past operating cash receipts and payments, such as changes during the period in inventory, deferred income and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables, and (b) the effects of all items which cash effects are investing or financing cash flows such as depreciation, amortization of goodwill, gains or losses on sales of property, plant and equipment and discontinued operations and gains or losses on extinguishment of debt. |

**Guarantees**

| Area | IFAS | U.S. GAAP |
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| Accounting for guarantees | Under IFAS, recognizing a guarantee as a liability is prohibited unless the entity's economic outflow related to the | Requires the recognition of a liability or asset at fair value determined based on the probability weighted cash flows |

| Area | IFAS | U.S. GAAP |
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| | guarantee is probable. In addition, the guarantor is only required to disclose the nature and amount of guarantees. | for certain types of third-party guarantees. In addition, the guarantor is required to disclose: (a) the nature of the guarantee including the approximate term of the guarantee, how the guarantee arose and the events or circumstances that would require the guarantor to perform under the guarantee; (b) the maximum potential amount of future payments under the guarantee; (c) the carrying amount of the liability, if any, for the guarantor's obligation under the guarantee; and (d) the nature and extent of any recourse provision or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. |

**Disclosures**

| Area | IFAS | U.S. GAAP |
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| Disclosure of Non-GAAP measures | There is no specific guidance or prohibition under IFAS regarding the disclosure of non-GAAP measures. | Non-GAAP measures that are not specifically permitted by applicable accounting standards may not be presented in financial statements or related notes. For reporting to the U.S. Securities and Exchange Commission, non-GAAP measures may be presented in financial information accompanying financial statements if the non-GAAP measures is accompanied by the most directly comparable financial measure calculated and presented in accordance with GAAP and a reconciliation (by schedule or other clearly understandable method) between the non-GAAP measure disclosed and released and the most comparable financial measure or measured calculated and presented in accordance with GAAP. |

# GLOSSARY

***Oil and Gas Terms***

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| "AMDAL" . . . . . . . . . . . . . . . . . . . . . . . . | means Environmental Impact Analysis *(Analisa Mengenai Dampak Lingkungan).* |
| "API gravity" . . . . . . . . . . . . . . . . . . . . . | means American Petroleum Institute gravity, which is the inverse measure of the relative density of a petroleum liquid and the density of water. |
| "bottom upgrade" . . . . . . . . . . . . . . . . . . | means the upgrading of a refinery to produce higher value products. |
| "CBM" . . . . . . . . . . . . . . . . . . . . . . . . . . | means coal bed methane gas. |
| "CDU" . . . . . . . . . . . . . . . . . . . . . . . . . . | means crude distillation unit. |
| "CNG" . . . . . . . . . . . . . . . . . . . . . . . . . . | means compressed natural gas. |
| "contract area" . . . . . . . . . . . . . . . . . . . . | means a specified geographic area that is the subject of a production sharing arrangement pursuant to which an operator and its partners provide financing and technical expertise to conduct exploration, development and production operations. |
| "delineation well" . . . . . . . . . . . . . . . . . . | means a well drilled in a newly discovered or known discovery to gain further information. |
| "developed reserves" . . . . . . . . . . . . . . . . | means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included as "developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved. |
| "development well" . . . . . . . . . . . . . . . . . | means a well that is drilled to exploit the hydrocarbon accumulation defined by a delineation well. |
| "dry well" . . . . . . . . . . . . . . . . . . . . . . . . | an exploratory, development or delineation well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well. |
| "exploration well" . . . . . . . . . . . . . . . . . . | means a well that is designed to test the validity of a seismic interpretation and to confirm the presence of hydrocarbons in an undrilled formation. |
| "FCCU" . . . . . . . . . . . . . . . . . . . . . . . . . | means fluidized catalytic cracking unit. |
| "floating production and storage unit" . . | means a floating production and storage unit, which is a vessel used for both the processing of hydrocarbons and storage of oil. |

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| "floating storage and regasification unit" | means a floating storage and regasification unit, which is a special vessel designed for the transport of LNG. |
| "fractions" | chemical components of crude oil separated by a refining process. |
| "FTP" | means first tranche petroleum. |
| "HVU" | means high vacuum unit. |
| "ICP" | means the Indonesian Crude Price, a reference price calculated using a formula determined by the Government. |
| "Indonesian Participant" | means an Indonesian entity designated by SKK MIGAS, which must be offered a certain specified percentage undivided interest in the total rights and obligations under a production sharing arrangement. |
| "Indonesian Participation Arrangement" or "IP" | means our participation in an agreement pursuant to our role as the Indonesian Participant. |
| "JOB" | means joint operating body. |
| "JOC" | means joint operating contract. |
| "lead" | means preliminary interpretation of geological and geophysical information that may or may not lead to prospects. |
| "lifting cost" | means, for a given period, cost incurred to operate and maintain wells and related equipment and facilities. |
| "LNG" | means liquefied natural gas. |
| "LPG" | means liquefied petroleum gas. |
| "LSWR" | means low sulfur waxy residual fuel oil. |
| "MOPS" | means Mean of Platts Singapore, a measure of fuel oil pricing in Singapore. It refers to the mean price of oil traded through Singapore as per the data from Platts, a commodity information and trading company. |
| "NCI" | means Nelson Complexity Index, a measure of the level of complexity of a refinery's processing equipment. |
| "production" | represents our Company's share of the gross production from a block or field, as the case may be, attributable to our Company's working interest. |
| "production capacity" | means, in respect of a facility, the maximum amount that can, or is expected to be able to, be produced by such facility. |

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|---|---|
| "proved reserves" .................. | represent those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and Government regulations. |
| "proved plus probable reserves" ....... | represent proved reserves plus those reserves that are unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. |
| "PSC" ........................... | means production sharing contract. |
| "RCC" ........................... | means residual catalytic cracker. |
| "reserves" ........................ | represent our Company's share of the gross reserves in a block or field, as the case may be, attributable to our Company's working interest. |
| "TAC" ........................... | means technical assistance contract. |
| "turnaround" ...................... | an event wherein an entire process unit is taken offstream for maintenance or renewal. |
| "UKL" ........................... | means an environmental management effort plan (Upaya Pengelolaan Lingkungan). |
| "UPL" ........................... | means an environmental monitoring effort plan (Upaya Pemantauan Lingkungan). |

**Units of Measurement**

| | |
|---|---|
| "bbls" ............................ | means barrels. |
| "bbls/d" .......................... | means barrels per day. |
| "bcf" ............................ | means billion cubic feet. |
| "boe" ............................ | means barrels of oil equivalent; natural gas is converted to boe using the ratio of 1 mmcf of natural gas to 0.1726 mboe of oil equivalent, except in "Industry Overview", where natural gas is converted to boe using the ratio of one mmcf of natural gas to 0.176 mboe of oil equivalent. |
| "btu" ............................ | means British thermal unit. |
| "bbtu" ........................... | means billion British thermal units. |
| "bbtu/d" .......................... | means billion British thermal units per day. |
| "GWh" ........................... | means gigawatt hour. |

| | |
|---|---|
| "kg" | means kilograms. |
| "KL" | means kiloliters. |
| "KWh" | means kilowatt hours. |
| "mbbls/d" | means thousand barrels per day. |
| "mboe" | means thousand barrels of oil equivalent. |
| "mboe/d" | means thousand barrels of oil equivalent per day. |
| "mcf" | means thousand cubic feet. |
| "mcf/d" | means thousand cubic feet per day. |
| "mmbbls" | means million barrels. |
| "mmbbls/d" | means million barrels per day. |
| "mmboe" | means million barrels of oil equivalent. |
| "mmboe/d" | means million barrels of oil equivalent per day. |
| "mmbtu" | means million British thermal units. |
| "mmcf" | means million cubic feet. |
| "mmcf/d" | means million cubic feet per day. |
| "mtoe" | means metric tons of oil equivalent. |
| "mt" | means metric ton. |
| "Mton" | means thousand metric tons. |
| "mtpa" | means metric ton per annum. |
| "MW" | means megawatts. |

# INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

# PT PERTAMINA (PERSERO)
# AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2013, 2012 AND 2011

PERTAMINA

**DIRECTORS' STATEMENT REGARDING THE RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011**

**PT PERTAMINA (PERSERO) AND SUBSIDIARIES**

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On behalf of the Board of Directors, we, the undersigned:

1. Name : Karen Agustiawan
   Office address : Jl. Medan Merdeka Timur 1A
   Jakarta 10110
   Telephone : 021 - 3815000
   Position : President Director & CEO

2. Name : Andri Trunajaya Hidayat
   Office address : Jl. Medan Merdeka Timur 1A
   Jakarta 10110
   Telephone : 021 - 3816000
   Position : Finance Director

declare that:

1. We are responsible for the preparation and presentation of the consolidated financial statements of PT Pertamina (Persero) and Subsidiaries (the Group);

2. The Group's consolidated financial statements have been prepared and presented in accordance with Indonesian Financial Accounting Standards;

3. a. All information has been fully and correctly disclosed in the Group's consolidated financial statements;

   b. The Group's consolidated financial statements do not contain false material information or facts, nor do they omit material information or facts; and

4. We are responsible for the Group's internal control systems.

This statement is confirmed to the best of our knowledge and belief.

For and on behalf of the Board of Directors

Jakarta
07 March 2014

METERAI TEMPEL
D526CACF068863047
6000 DJP

**Karen Agustiawan**
**President Director & CEO**

**Andri Trunajaya Hidayat**
AB **Finance Director**

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF

# PT PERTAMINA (PERSERO)

We have audited the accompanying consolidated financial statements of PT Pertamina (Persero) (the "Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of such consolidated financial statements in accordance with Indonesian Financial Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on such consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether such consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PT Pertamina (Persero) and its subsidiaries as at 31 December 2013, and their consolidated financial performance and cash flows for the year then ended, in accordance with Indonesian Financial Accounting Standards.

*Kantor Akuntan Publik Tanudiredja, Wibisana & Rekan*
*Plaza 89, Jl. H.R. Rasuna Said Kav. X-7 No.6 Jakarta 12940 - INDONESIA, P.O. Box 2473 JKP 10001*
*T: +62 21 5212901, F:+ 62 21 52905555 / 52905050, www.pwc.com/id*

Nomor Izin Usaha: KEP-151/KM.1/2010.

A140307008/DC2/HSH/I/2014

## Other matter

This report has been prepared solely for inclusion in the Company's offering memorandum in connection with the annual update of the Company's global medium term note program from which debt securities will be issued from time to time, and is not intended to be, and should not be, used for any other purposes. We previously expressed our opinion dated 14 February 2014 on the consolidated financial statements of the Company and its subsidiaries as at 31 December 2013 and for the year then ended. As disclosed in Note 50, the accompanying consolidated financial statements are reissued to include the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity, cash flow, and the related notes for the year then ended.

JAKARTA
7 March 2014

**Drs. Haryanto Sahari, CPA**
License of Public Accountant No. AP.0223

A140307008/DC2/HSH/I/2014

pwc

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF

# PT PERTAMINA (PERSERO)

We have audited the consolidated statements of financial position of PT Pertamina (Persero) (the "Company") and its subsidiaries (together the "Group") as of 31 December 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Pertamina Energy Trading Limited ("Petral"), a wholly-owned subsidiary of the Company, which statements reflect total assets of 2% and 2% of the related consolidated amounts as of 31 December 2012 and 2011, respectively; and revenues of 5% and 5% and net income of 2% and 2%, respectively, of the related consolidated amounts for the year ended 31 December 2012 and 2011. The financial statements of Petral were audited by other independent auditors whose report, which expressed unqualified opinions, have been furnished to us, and our opinion, insofar as it relates to the amounts included for Petral for the years ended 31 December 2012 and 2011, is based solely on the reports of another independent auditor.

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

In our opinion, based on our audits and the reports of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Pertamina (Persero) and its subsidiaries as at 31 December 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with Indonesian Financial Accounting Standards.

We previously expressed our opinion dated 15 March 2013 on the consolidated financial statements of the Group as at, and for the years ended 31 December 2012 and 2011 in relation to the establishment of the Company's global medium term note program. As disclosed in Note 49, these consolidated financial statements have been reclassified to conform to the basis on which the consolidated financial statements for the year 2013 were presented.

*Kantor Akuntan Publik Tanudiredja, Wibisana & Rekan*
*Plaza 89, Jl. H.R. Rasuna Said Kav. X-7 No.6 Jakarta 12940 - INDONESIA, P.O. Box 2473 JKP 10001*
*T: +62 21 5212901, F:+ 62 21 52905555 / 52905050, www.pwc.com/id*

Nomor Izin Usaha: KEP-151/KM.1/2010.

A140307012/DC2/DWD/I/2014

This report has been prepared solely for inclusion in the Company's offering memorandum in connection with the annual update of the Company's global medium term note program from which debt securities will be issued from time to time, and is not intended to be, and should not be, used for any other purposes.

JAKARTA
7 March 2014

**Dwi Wahyu Daryoto, M.Si, Ak., CPA**
License of Public Accountant No. AP.0228

***NOTICE TO READERS***
*The accompanying consolidated financial statements are not intended to present the financial position, result of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices utilised to audit such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than Indonesia. Accordingly the accompanying consolidated financial statements and the auditor's report thereon are not intended for use by those who are not informed about Indonesian accounting principles and auditing standards, and their application in practice.*

A140307012/DC2/DWD/I/2014

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 2e,5 | 4,686,040 | 4,295,373 | 3,199,325 |
| Restricted cash | 2e,6 | 212,858 | 172,788 | 128,009 |
| Short-term investments | 2f | 152,993 | 66,223 | 169,835 |
| Long-term investments - current portion | 2f,2k,10 | - | 103,413 | 110,278 |
| Trade receivables | | | | |
| Related parties | 2d,2g,2h, 39a | 2,039,173 | 2,246,090 | 2,171,989 |
| Third parties | 2g,2h,7 | 1,977,930 | 1,609,266 | 1,369,773 |
| Due from the Government - current portion | 8 | 4,290,954 | 2,714,526 | 1,828,857 |
| Other receivables | | | | |
| Related parties | 2d,2g,2h, 39b | 448,468 | 291,930 | 20,159 |
| Third parties | 2g,2h | 503,170 | 677,771 | 396,661 |
| Inventories | 2i,9 | 9,104,487 | 8,961,211 | 7,778,112 |
| Prepaid taxes - current portion | 2t,38a | 467,896 | 405,314 | 306,909 |
| Prepayments and advances | 2j | 262,392 | 481,727 | 158,076 |
| Total current assets | | 24,146,361 | 22,025,632 | 17,637,983 |
| **NON-CURRENT ASSETS** | | | | |
| Due from the Government - net of current portion | 8 | - | - | 77,021 |
| Deferred tax assets | 2t,38e | 968,292 | 896,683 | 926,682 |
| Long-term investments - net of current portion | 2k,10 | 685,272 | 650,493 | 625,280 |
| Fixed assets | 2l,2m,2v,11 | 9,187,367 | 7,972,593 | 7,730,143 |
| Oil & gas and geothermal properties | 2m,2n,2p, 2v,12 | 11,061,987 | 7,391,494 | 5,371,993 |
| Prepaid taxes - net of current portion | 2t,38a | 2,023,645 | 1,662,787 | 2,179,343 |
| Other assets | 2v,13 | 1,268,947 | 358,959 | 441,854 |
| Total non-current assets | | 25,195,510 | 18,933,009 | 17,352,316 |
| **TOTAL ASSETS** | | **49,341,871** | **40,958,641** | **34,990,299** |

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **SHORT-TERM LIABILITIES** | | | | |
| Short-term loans | 14 | 4,994,964 | 3,843,002 | 2,923,096 |
| Trade payables | | | | |
| Related parties | 2d,2o,39c | 89,217 | 148,027 | 142,956 |
| Third parties | 2o,15 | 4,993,723 | 4,597,349 | 3,989,163 |
| Due to the Government - current portion | 16 | 2,417,590 | 2,166,793 | 2,468,155 |
| Taxes payable | 2t,38b | | | |
| Income taxes | | 319,533 | 305,385 | 366,828 |
| Other taxes | | 314,100 | 228,492 | 320,171 |
| Accrued expenses | 17 | 1,849,931 | 1,752,472 | 1,552,305 |
| Long-term liabilities - current portion | 2m,18 | 746,397 | 489,347 | 673,203 |
| Other payables | | | | |
| Related parties | 2d,2o,39d | 9,080 | 72,668 | 66,425 |
| Third parties | 2o | 572,566 | 469,019 | 373,907 |
| Deferred revenue - current portion | | 138,733 | 77,545 | 75,004 |
| Total short-term liabilities | | 16,445,834 | 14,150,099 | 12,951,213 |
| **LONG-TERM LIABILITIES** | | | | |
| Due to the Government - net of current portion | 16 | 155,426 | 196,002 | 209,369 |
| Deferred tax liabilities | 2t,38e | 2,026,083 | 1,163,410 | 954,611 |
| Long-term liabilities - net of current portion | 2m,18 | 2,038,525 | 1,383,916 | 1,741,604 |
| Bond payables | 2f,2w,19 | 7,185,525 | 3,937,935 | 1,465,711 |
| Employee benefits liabilities | 2r,20b | 2,685,889 | 3,302,530 | 3,378,871 |
| Provision for decommissioning and site restoration | 2p,21 | 1,218,563 | 1,440,567 | 815,929 |
| Deferred revenue - net of current portion | | 203,691 | 92,456 | 101,690 |
| Other non-current payables | | 93,043 | 98,945 | 88,691 |
| Total long-term liabilities | | 15,606,745 | 11,615,761 | 8,756,476 |
| Total liabilities | | 32,052,579 | 25,765,860 | 21,707,689 |

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | | | | |
| Authorised - 200,000,000 ordinary shares at par value of Rp1,000,000 (full amount) per share; issued and paid up - 2013 and 2012: 83,090,697 shares and 2011: 82,569,779 shares | 2y,23 | 9,864,901 | 9,864,901 | 9,809,882 |
| Additional paid in capital | | 3,791 | - | - |
| Equity adjustments | 24 | (2,647,666) | (2,647,666) | (2,647,666) |
| Government contributed assets pending final clarification of status | | 1,361 | 1,361 | 61,969 |
| Other equity components | | (175,128) | (10,930) | 351 |
| Retained earnings | | | | |
| - Appropriated | | 6,772,928 | 4,875,239 | 3,538,331 |
| - Unappropriated | | 3,393,026 | 3,032,833 | 2,444,869 |
| | | 17,213,213 | 15,115,738 | 13,207,736 |
| Non-controlling interest | 2c,22 | 76,079 | 77,043 | 74,874 |
| Total equity | | 17,289,292 | 15,192,781 | 13,282,610 |
| **TOTAL LIABILITIES AND EQUITY** | | **49,341,871** | **40,958,641** | **34,990,299** |

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED**
**31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **Sales and other operating revenues** | 2q | | | |
| Domestic sales of crude oil, natural gas, geothermal energy and oil products | 26 | 44,736,285 | 43,764,013 | 44,611,660 |
| Subsidy reimbursements from the Government | 27 | 20,303,734 | 21,923,958 | 17,860,494 |
| Export of crude oil, natural gas and oil products | 28 | 5,502,922 | 4,714,261 | 4,289,796 |
| Marketing fees | | 107,317 | 110,930 | 150,707 |
| Revenues in relation to other operating activities | 29 | 451,844 | 411,278 | 384,784 |
| Total sales and other operating revenues | | 71,102,102 | 70,924,440 | 67,297,441 |
| **Cost of sales and other direct costs** | 2q | | | |
| Cost of goods sold | 30 | (60,910,208) | (60,699,253) | (57,165,899) |
| Upstream production and lifting costs | 31 | (2,468,081) | (2,390,961) | (2,003,134) |
| Exploration costs | 32 | (209,826) | (376,030) | (203,056) |
| Expenses in relation to other operating activities | 33 | (514,736) | (521,930) | (534,152) |
| Total cost of sales and other direct costs | | (64,102,851) | (63,988,174) | (59,906,241) |
| **Gross profit** | | **6,999,251** | **6,936,266** | **7,391,200** |
| Selling and marketing expenses | 34 | (1,165,603) | (1,150,825) | (998,988) |
| General and administrative expenses | 35 | (995,394) | (1,021,223) | (1,038,288) |
| Reversal/(provision) for impairment of receivables | | 450,865 | (38,827) | (679,594) |
| Foreign exchange (loss)/gain | | (195,611) | 40,452 | (10,090) |
| Reversal/(provision) for impairment of oil and gas properties | 12 | - | 108,760 | (188,990) |
| Finance income | 36 | 126,759 | 132,040 | 118,095 |
| Finance costs | 36 | (478,536) | (329,303) | (287,396) |
| Share in net loss of associates | 2k,10 | (975) | (1,693) | (6,320) |
| Other income - net | 37 | 292,125 | 126,641 | 205,125 |
| | | **(1,966,370)** | **(2,133,978)** | **(2,886,446)** |

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED**
**31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | Notes | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| **Income before income tax expense** | | **5,032,881** | **4,802,288** | **4,504,754** |
| Income tax expense | 2t,38c | (1,965,826) | (2,036,578) | (2,099,452) |
| **Income for the year** | | **3,067,055** | **2,765,710** | **2,405,302** |
| Other comprehensive income | 2c,2k | (21,439) | (537) | (8,728) |
| Differences arising from translation of foreign currency financial statements | | (149,153) | (13,631) | 1,994 |
| **Other comprehensive income, net of tax** | | **(170,592)** | **(14,168)** | **(6,734)** |
| **Total comprehensive income** | | **2,896,463** | **2,751,542** | **2,398,568** |
| **Income attributable to:** | | | | |
| Owners of the parent | | 3,061,625 | 2,760,654 | 2,399,157 |
| Non-controlling interest | 2c | 5,430 | 5,056 | 6,145 |
| **Income for the year** | | **3,067,055** | **2,765,710** | **2,405,302** |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | | 2,897,427 | 2,749,373 | 2,392,865 |
| Non-controlling interest | 2c | (964) | 2,169 | 5,703 |
| **Total comprehensive income** | | **2,896,463** | **2,751,542** | **2,398,568** |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Expressed in thousands of US Dollars, unless otherwise stated)

| | | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other equity components | | | | | | |
| | | | | | | | Retained earnings | | | | |
| | Notes | Issued and paid-up capital | Equity adjustments | Government contributed assets pending final clarification of status | Differences arising from translation of non US$ currency financial statements | Other comprehensive income | Appropriated | Unappropriated | Total | Non-controlling interest | Total equity |
| **Balance as at 1 January 2011** | | **9,809,882** | **(2,647,666)** | **67,010** | **(17,483)** | **24,126** | **2,462,719** | **1,999,992** | **11,698,580** | **69,171** | **11,767,751** |
| Differences arising from translation of non US$ currency financial statements | 2s | - | - | - | (998) | - | - | - | (998) | 2,992 | 1,994 |
| Other comprehensive loss | | - | - | - | - | (5,294) | - | - | (5,294) | (3,434) | (8,728) |
| Adjustment to the Government contributed assets pending final clarification of status | | - | - | (5,041) | - | - | - | - | (5,041) | - | (5,041) |
| Dividends declared | 2z,25 | - | - | - | - | - | - | (829,812) | (829,812) | - | (829,812) |
| Appropriations of compulsory reserves | 25 | - | - | - | - | - | 97,714 | (97,714) | - | - | - |
| Appropriations of other reserves | 25 | - | - | - | - | - | 977,898 | (977,898) | - | - | - |
| Appropriations of net income for partnership and community development programs | 25 | - | - | - | - | - | - | (48,856) | (48,856) | - | (48,856) |
| Income for the year | | - | - | - | - | - | - | 2,399,157 | 2,399,157 | 6,145 | 2,405,302 |
| **Balance as at 31 December 2011** | | **9,809,882** | **(2,647,666)** | **61,969** | **(18,481)** | **18,832** | **3,538,331** | **2,444,869** | **13,207,736** | **74,874** | **13,282,610** |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Expressed in thousands of US Dollars, unless otherwise stated)

| | | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other equity components | | Retained earnings | | | | |
| | Notes | Issued and paid-up capital | Equity adjustments | Government contributed assets pending final clarification of status | Differences arising from translation of non US$ currency financial statements | Other comprehensive income | Appropriated | Unappropriated | Total | Non-controlling interest | Total equity |
| **Balance as at 1 January 2012** | | **9,809,882** | **(2,647,666)** | **61,969** | **(18,481)** | **18,832** | **3,538,331** | **2,444,869** | **13,207,736** | **74,874** | **13,282,610** |
| Approval of Government contributed assets pending final clarification of status to share capital | | 55,019 | - | (61,969) | - | - | - | - | (6,950) | - | (6,950) |
| Government contributed assets pending final clarification of status | | - | - | 1,361 | - | - | - | - | 1,361 | - | 1,361 |
| Differences arising from translation of non US$ currency financial statements | 2s | - | - | - | (13,052) | - | - | - | (13,052) | (579) | (13,631) |
| Other comprehensive income/(loss) | | - | - | - | - | 1,771 | - | - | 1,771 | (2,308) | (537) |
| Dividends declared | 2z,25 | - | - | - | - | - | - | (769,978) | (769,978) | - | (769,978) |
| Appropriations of compulsory reserves | | - | - | - | - | - | 108,602 | (108,602) | - | - | - |
| Appropriations of other reserves | 25 | - | - | - | - | - | 1,228,306 | (1,228,306) | - | - | - |
| Appropriations of net income for partnership and community development programs | 25 | - | - | - | - | - | - | (65,804) | (65,804) | - | (65,804) |
| Income for the year | | - | - | - | - | - | - | 2,760,654 | 2,760,654 | 5,056 | 2,765,710 |
| **Balance as at 31 December 2012** | | **9,864,901** | **(2,647,666)** | **1,361** | **(31,533)** | **20,603** | **4,875,239** | **3,032,833** | **15,115,738** | **77,043** | **15,192,781** |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED 31 DECEMBER 2013, 2012 AND 2011
(Expressed in thousands of US Dollars, unless otherwise stated)

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Other equity components | | | | | | |
| | | | | | | | | Retained earnings | | | | |
| | Notes | Issued and paid-up capital | Equity adjustments | Additional paid in capital | Government contributed assets pending final clarification of status | Differences arising from translation of non US$ currency financial statements | Other comprehensive income | Appropriated | Unappropriated | Total | Non-controlling interest | Total equity |
| **Balance as at 1 January 2013** | | **9,864,901** | **(2,647,666)** | **-** | **1,361** | **(31,533)** | **20,603** | **4,875,239** | **3,032,833** | **15,115,738** | **77,043** | **15,192,781** |
| Impact of SFAS 38 application | 2b | - | - | 3,791 | - | - | - | - | - | 3,791 | - | 3,791 |
| Differences arising from translation of non US$ currency financial statements | 2s | - | - | - | - | (148,031) | - | - | - | (148,031) | (1,122) | (149,153) |
| Other comprehensive Income | | - | - | - | - | - | (16,167) | - | - | (16,167) | (5,272) | (21,439) |
| Dividends declared | 2z,25 | - | - | - | - | - | - | - | (803,743) | (803,743) | - | (803,743) |
| Appropriations of compulsory reserves | 25 | - | - | - | - | - | - | 138,033 | (138,033) | - | - | - |
| Appropriations of other reserves | 25 | - | - | - | - | - | - | 1,759,656 | (1,759,656) | - | - | - |
| Income for the year | | - | - | - | - | - | - | - | 3,061,625 | 3,061,625 | 5,430 | 3,067,055 |
| **Balance as at 31 December 2013** | | **9,864,901** | **(2,647,666)** | **3,791** | **1,361** | **(179,564)** | **4,436** | **6,772,928** | **3,393,026** | **17,213,213** | **76,079** | **17,289,292** |

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOW**
**FOR THE YEARS ENDED**
**31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash receipts from customers | 50,860,781 | 46,519,820 | 44,763,727 |
| Cash receipts from Government in relation to subsidy and marketing fee | 18,410,050 | 21,508,605 | 14,764,935 |
| Cash paid to suppliers | (48,910,369) | (44,204,230) | (42,228,920) |
| Cash paid to Government | (14,741,064) | (18,746,608) | (12,090,336) |
| Corporate income tax paid | (2,513,021) | (2,369,577) | (2,393,118) |
| Cash paid to employees and management | (1,250,483) | (1,353,929) | (1,266,005) |
| Tax restitution received | 641,367 | 477,300 | 272,540 |
| (Placement in)/cash receipts from restricted cash | (58,172) | (109,099) | 108,067 |
| Interest income received | 43,928 | 70,618 | 43,744 |
| **Net cash generated from operating activities** | **2,483,017** | **1,792,900** | **1,974,634** |
| **Cash flows from investing activities:** | | | |
| Purchases of oil & gas and geothermal properties | (2,311,478) | (1,577,376) | (1,280,487) |
| Purchases of fixed assets | (1,425,198) | (729,338) | (1,084,473) |
| Payments of exploration and evaluation assets | (296,852) | (159,580) | (1,916) |
| Advance payment for business acquisition | (15,000) | (283,725) | - |
| Returns on cash advances for business acquisition | 108,783 | - | - |
| Repayment from investment in Medium Term Notes (MTN) | 91,907 | 104,650 | 113,299 |
| Proceeds from disposal of short-term investment | 30,539 | 100,022 | 71,129 |
| Proceeds from disposal of long-term investment | - | - | 1,468 |
| Placement in short-term investments | (117,309) | - | (51,894) |
| Placement in long-term investments | (34,779) | (108,834) | (76,680) |
| Interest received from investments | 82,831 | 63,859 | 74,351 |
| Proceeds from sale of fixed assets | 20,851 | 11,519 | 22,739 |
| Dividends received from associated companies | 8,728 | 725 | 3,384 |
| Acquisition of subsidiary, net of cash acquired | (1,853,548) | - | - |
| Acquistion and addition of participating interests in oil and gas properties | (293,331) | - | - |
| **Net cash used in investing activities** | **(6,003,856)** | **(2,578,078)** | **(2,209,080)** |

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOW**
**FOR THE YEARS ENDED**
**31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Proceeds from short-term loans | 18,692,983 | 11,856,432 | 11,111,987 |
| Proceeds from issue of bonds | 3,250,000 | 2,500,000 | 1,500,000 |
| Proceeds from long-term loans | 1,522,384 | 696,383 | 178,875 |
| Cash (placement)/receipts from restricted cash | (34,102) | 64,320 | 89,760 |
| Finance costs payments | (472,047) | (304,005) | (230,583) |
| Dividend payments | (754,241) | (763,697) | (662,978) |
| Long-term loans repayments | (546,582) | (1,083,757) | (519,838) |
| Short-term loans repayments | (17,541,021) | (10,955,949) | (10,330,841) |
| **Net cash generated from financing activities** | **4,117,374** | **2,009,727** | **1,136,382** |
| **Net increase in cash and cash equivalents** | **596,535** | **1,224,549** | **901,936** |
| Effect of exchange rate changes on cash and cash equivalents | (205,868) | (128,501) | (39,300) |
| **Cash and cash equivalents at the beginning of the year** | **4,295,373** | **3,199,325** | **2,336,689** |
| **Cash and cash equivalents at the end of the year** | **4,686,040** | **4,295,373** | **3,199,325** |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. GENERAL

### a. PT Pertamina (Persero) (the Company)

#### i. Company profile

PT Pertamina (Persero) (the Company) was established by Notarial Deed No. 20 dated 17 September 2003 of Lenny Janis Ishak, S.H. The establishment of the Company was based on Law No. 1 Year 1995 concerning Limited Liability Companies, Law No. 19 Year 2003 on State-Owned Enterprises, Government Regulation No. 12 Year 1998 on State Enterprises (Persero) and Government Regulation No. 45 Year 2001 regarding the Amendment to Government Regulation No. 12 Year 1998. The establishment of the Company as a limited liability entity is due to the enactment of Law No. 22 Year 2001 dated 23 November 2001 regarding Oil and Gas and Government Regulation No. 31 Year 2003 dated 18 June 2003 (PP No. 31) regarding the change in the status of Perusahaan Pertambangan Minyak dan Gas Bumi Negara (Pertamina, the former Pertamina Entity) to a State Enterprise (Persero). The deed of establishment was approved by the Minister of Justice and Human Rights through letter No. C-24025 HT.01.01.TH.2003 dated 9 October 2003 and published in State Gazette No. 93 Supplement No. 11620 dated 21 November 2003. The Company's Articles of Association have been amended several times. The latest amendment was made to adjust the capital structure of the Company, under Notarial Deed No. 1 dated 1 August 2012 of Lenny Janis Ishak, S.H., which was approved by the Minister of Law and Human Rights through Decision Letter No. AHU-43594.AH.01.02. Year 2012 dated 10 August 2012.

In accordance with PP No. 31, all rights and obligations arising from contracts and agreements entered between the former Pertamina Entity and third parties, provided these are not contrary to Law No. 22 Year 2001, were transferred to the Company. In accordance with PP No. 31, the objective of the Company is to engage in the oil and gas business in domestic and foreign markets and in other related business activities. In conducting its business, the Company's objective is to generate income and contribute to the improvement of the economy for the benefit of the Indonesian public.

At the date of establishment of the Company, all oil and gas and geothermal energy activities of the former Pertamina Entity, including joint operations with other companies, were transferred to the Company. These businesses have been transferred to the Company's subsidiaries. All employees of the former Pertamina Entity became employees of the Company.

In accordance with its Articles of Association, the Company shall conduct the following activities:

a. Operate in the crude oil and natural gas business, including activities involving petroleum products.
b. Operate in the geothermal energy business.
c. Manage the operations and marketing of Liquefied Natural Gas (LNG) and other products produced by LNG plants.
d. Operate in the new and renewable business.
e. Manage and conduct other related business activities supporting the above mentioned activities.

## 1. GENERAL (continued)

### a. PT Pertamina (Persero) (the Company) (continued)

#### i. Company profile (continued)

In accordance with Presidential Regulation No. 104 Year 2007, the Government regulated the supply, distribution, and determination of the price of Liquefied Petroleum Gas (LPG) sold in 3 kilogram cylinders (LPG 3 kg cylinders) for household and micro/small businesses to reduce the cost of subsidised fuel products (BBM) as a result of substituting LPG for kerosene (the kerosene conversion program). The Company has been assigned to supply and distribute LPG 3 kg cylinders by the Minister of Energy and Mineral Resources (the MoEMR).

Effective 1 January 2007, the Company was assigned the responsibility for the procurement and distribution of LPG 3 kg cylinders related to the kerosene conversion programe in certain territories in Indonesia. Under the terms of such assignment, the Company is entitled to reimbursement of costs and a profit margin from the Government.

#### ii. Working areas, business activities and principal address

The oil, natural gas and geothermal working areas of the Company and its subsidiaries (together the Group) located in Indonesia and other countries with the principal business activities consisting of:

- Upstream activities - exploration for and production of crude oil and natural gas

  Indonesian upstream oil and gas activities are conducted by PT Pertamina EP and subsidiaries of PT Pertamina Hulu Energi (PHE) through participation arrangements (Indonesian Participation - IP and Pertamina Participating Interests - PPI), Production Sharing Contracts (PSCs), and Joint Operating Body - PSC (a PSC jointly operated with third party).

  The Company participates in oil and natural gas joint ventures in Vietnam, Libya, Algeria and Iraq.

  PHE also participates in oil and natural gas joint ventures in Malaysia and Australia.

- Upstream activities - exploration for and production of geothermal

  Geothermal activities include exploration for and production of steam and generation of electricity. These activities are conducted by PT Pertamina Geothermal Energy (PGE).

  In addition to geothermal activities conducted directly by PGE (its own operations), PGE also entered into Joint Operating Contracts (JOCs) with third parties to develop its geothermal working areas. In accordance with the JOCs, PGE is entitled to receive Quarterly Production Allowances representing managerial compensation of between 2.66% and 4% of the JOC's net operating income.

1. **GENERAL** (continued)

a. **PT Pertamina (Persero) (the Company)** (continued)

ii. **Working areas, business activities and principal address** (continued)

- Downstream activities - processing, shipping, marketing and trading

Processing activities

Processing activities include processing of crude oil into oil products and production of LPG and petrochemicals (paraxylene and propylene) by six refinery units with installed processing capacities as follows:

| Refinery unit (RU) | Installed processing capacity of crude oil (unaudited) (barrels/day) |
|---|---|
| RU II - Dumai and Sungai Pakning, Riau | 170,000 |
| RU III - Plaju and Sungai Gerong, South Sumatera | 118,000 |
| RU IV - Cilacap, Central Java | 348,000 |
| RU V - Balikpapan, East Kalimantan | 260,000 |
| RU VI - Balongan, West Java | 125,000 |
| RU VII - Kasim, West Papua | 10,000 |

Marketing and trading activities

Domestic marketing and trading activities involve six business units for oil products, as follows:

1. **Retail Fuel**

   Business unit that handles the marketing of fuel (BBM) for the transportation and household sectors.

2. **Industrial and Marine Fuel**

   Business unit that handles the marketing of fuel (BBM) to industry and marine consumers.

3. **Lubricants**

   Business unit that handles domestic (retail and industry segments) and overseas lubricants business.

   Effective from 1 November 2013, this business has been handled by PT Pertamina Lubricants.

1. **GENERAL** (continued)

a. **PT Pertamina (Persero) (the Company)** (continued)

ii. **Working areas, business activities and principal address** (continued)

- Downstream activities - processing, shipping, marketing and trading (continued)

Marketing and trading activities (continued)

4. **Domestic Gas**

Business unit that handles all marketing activities for LPG, Compressed Natural Gas (CNG) and hydrocarbon refrigerants for household, commercial and industrial purposes.

5. **Aviation**

Business unit that handles marketing activities for aviation products and services in Indonesia and Timor Leste.

6. **Trading**

Business unit that handles export-import activities and domestic sales of bitumen (asphalt), special chemicals, bio-fuels and petrochemicals.

Shipping activities

Shipping activities among others include the transportation of crude oil, LPG and oil products between units.

- Company's principal address

The principal address of the Company's head office is Jl. Medan Merdeka Timur No. 1A, Jakarta, Indonesia.

The composition of the Board of Commissioners of the Company as at 31 December 2013, 2012 and 2011 was as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| President Commissioner | Sugiharto^ | Sugiharto^ | Sugiharto |
| Vice President Commissioner | - | - | Umar Said^ |
| Commissioners | Bambang P.S. Brodjonegoro* | Evita Herawati Legowo | Evita Herawati Legowo |
| | Mahmuddin Yasin* | Anny Ratnawati | Anny Ratnawati |
| | A. Edy Hermantoro* | Harry Susetyo** Nugroho | Triharyo Indrawan |
| | Nurdin Zainal^ | Nurdin Zainal^ | Nurdin Zainal^ |
| | - | Luluk Sumiarso^ | Luluk Sumiarso |

^ Independent Commissioner
* Effective from 2 April 2013
** Effective from 7 March 2012

(Expressed in thousands of US Dollars, unless otherwise stated)

## 1. GENERAL (continued)

### a. PT Pertamina (Persero) (the Company) (continued)

#### iii. The Company's Boards of Commissioners and Directors (continued)

The composition of the Board of Directors of the Company as at 31 December 2013, 2012 and 2011 was as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| President Director & CEO | Galaila Karen Kardinah (Karen Agustiawan) | Galaila Karen Kardinah (Karen Agustiawan) | Galaila Karen Kardinah (Karen Agustiawan) |
| Upstream Director | Muhamad Husen | Muhamad Husen | Muhamad Husen |
| Processing Director | Chrisna Damayanto | Chrisna Damayanto* | Edi Setianto |
| Marketing and Trading Director | Hanung Budya Yuktyanta | Hanung Budya* Yuktyanta | Djaelani Sutomo |
| Finance Director | Andri Trunajaya Hidayat | Andri Trunajaya Hidayat | Andri Trunajaya Hidayat |
| Investment Planning and Risk Management Director | Mohamad Afdal Bahaudin | Mohamad Afdal Bahaudin | Mohamad Afdal Bahaudin |
| General Affairs Director | Luhur Budi Djatmiko | Luhur Budi Djatmiko* | Waluyo |
| Human Resources Director | Evita Maryanti Tagor | Evita Maryanti* Tagor | Rukmi Hadihartini |
| Gas Director | Hari Karyuliarto | Hari Karyuliarto* | - |

* Effective from 18 April 2012

#### iv. Number of employees

As of 31 December 2013, 2012 and 2011, the Group had 24,781; 24,784 and 24,181 permanent employees, respectively (unaudited).

#### v. SKK MIGAS

Based on the Constitutional Court's decision No. 36/PUU-X/2012 dated 13 November 2012, effective from 13 November 2012 BPMIGAS was annulled and therefore, its duties and functions are assigned to the Government of Indonesia until the issue of new laws or regulations.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 1. GENERAL (continued)

### a. PT Pertamina (Persero) (the Company) (continued)

#### v. SKK MIGAS (continued)

Based on Presidential Regulation No. 95/2012 dated 13 November 2012, effective from 13 November 2012 the duties, function and organisation of BPMIGAS have been assigned to the MoEMR. All PSCs signed between BPMIGAS and business entities remain in effect.

The MoEMR, based on Ministerial Decision No. 3135 K/08/MEM/2012 and Ministerial Decision No. 3136 K/73/MEM 2012, established the Temporary Task Force for Upstream Oil and Gas Activities (SKSP MIGAS) effective from 13 November 2012 which assumes the duties, functions and organisation of BPMIGAS.

Based on Presidential Regulation No. 9/2013 dated 10 January 2013, the Special Task Force for on Upstream Oil and Gas Activities (SKK MIGAS) was established to replace the SKSP MIGAS.

### b. Subsidiaries and Associates

#### i. Subsidiaries

As at 31 December 2013, 2012 and 2011, the Group has ownership interests of more than 50%, directly or indirectly, in the following subsidiaries:

| | | Percentage of ownership | | | | | |
|---|---|---|---|---|---|---|---|
| | | Effective | | | Total assets before elimination | | |
| Subsidiaries | Year of establishment | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| **Oil and gas exploration and production** | | | | | | | |
| 1. PT Pertamina Hulu Energi | 1990 | 100.00% | 100.00% | 100.00% | 4,742,900 | 3,231,395 | 2,261,127 |
| 2. PT Pertamina EP | 2005 | 100.00% | 99.99% | 99.99% | 12,924,340 | 10,920,492 | 9,908,356 |
| 3. PT Pertamina EP Cepu | 2005 | 100.00% | 99.00% | 99.00% | 1,168,572 | 779,612 | 593,532 |
| 4. Pertamina E&P Libya Limited | 2005 | 100.00% | 100.00% | 100.00% | 154 | 154 | 154 |
| 5. PT Pertamina East Natuna | 2012 | 100.00% | 100.00% | - | 129 | 129 | - |
| 6. PT Pertamina EP Cepu Alas Dara dan Kemuning | 2013 | 100.00% | - | - | 21 | - | - |
| 7. PT Pertamina Internasional Eksplorasi dan Produksi | 2013 | 100.00% | - | - | 282,143 | - | - |
| 8. ConocoPhillips Algeria Limited | 2013 | 100.00% | - | - | 1,726,011 | - | - |
| **Geothermal exploration and production** | | | | | | | |
| 9. PT Pertamina Geothermal Energy | 2006 | 100.00% | 100.00% | 100.00% | 1,039,900 | 972,606 | 986,496 |
| **Oil and gas trading, gas transportation, processing, distribution and storage** | | | | | | | |
| 10. PT Pertamina Gas | 2007 | 100.00% | 100.00% | 100.00% | 1,322,337 | 727,417 | 601,731 |

(Expressed in thousands of US Dollars, unless otherwise stated)

# 1. GENERAL (continued)

## b. Subsidiaries and Associates (continued)

### i. Subsidiaries (continued)

| Subsidiaries | Year of establishment | Percentage of ownership: Effective 2013 | 2012 | 2011 | Total assets before elimination 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|
| **Oil and gas drilling services** | | | | | | | |
| 11. PT Pertamina Drilling Services Indonesia | 2008 | 100.00% | 100.00% | 100.00% | 645,442 | 515,792 | 401,701 |
| 12. PT Usayana | 1979 | - | 95.00% | 95.00% | - | 31,307 | 36,834 |
| **Trading of crude oil and gas products** | | | | | | | |
| 13. Pertamina Energy Trading Limited, Hong Kong | 1976 | 100.00% | 100.00% | 100.00% | 3,478,112 | 3,556,858 | 2,744,813 |
| **Services trading and industrial activities** | | | | | | | |
| 14. PT Pertamina Patra Niaga | 1997 | 100.00% | 100.00% | 100.00% | 615,213 | 481,251 | 419,583 |
| **Public fuel filling stations business** | | | | | | | |
| 15. PT Pertamina Retail | 1997 | 100.00% | 100.00% | 100.00% | 54,850 | 38,730 | 22,979 |
| **Lubricant processing and marketing** | | | | | | | |
| 16. PT Pertamina Lubricants | 2013 | 100.00% | - | - | 412,537 | - | - |
| **Shipping** | | | | | | | |
| 17. PT Pertamina Trans Kontinental | 1969 | 100.00% | 100.00% | 100.00% | 183,795 | 149,238 | 127,096 |
| **Insurance services** | | | | | | | |
| 18. PT Tugu Pratama Indonesia | 1981 | 65.00% | 65.00% | 65.00% | 703,800 | 621,774 | 679,608 |
| **Air transportation services** | | | | | | | |
| 19. PT Pelita Air Service | 1970 | 100.00% | 100.00% | 100.00% | 83,832 | 70,407 | 58,659 |
| **Investment management** | | | | | | | |
| 20. PT Pertamina Dana Ventura | 2002 | 100.00% | 100.00% | 100.00% | 136,755 | 155,735 | 152,858 |
| **Human resources development services** | | | | | | | |
| 21. PT Pertamina Training & Consulting | 1999 | 100.00% | 100.00% | 100.00% | 18,370 | 13,249 | 10,734 |
| **Offices and house rental and hotel operations** | | | | | | | |
| 22. PT Patra Jasa | 1975 | 100.00% | 100.00% | 100.00% | 44,728 | 51,744 | 45,064 |
| **Health services and hospital operations** | | | | | | | |
| 23. PT Pertamina Bina Medika | 1997 | 100.00% | 100.00% | 100.00% | 90,392 | 107,910 | 111,364 |

## 1. GENERAL (continued)

### b. Subsidiaries and Associates (continued)

#### ii. Associates

The directly owned associates are as follows:

| Associates | Percentage of ownership | Nature of business |
|---|---|---|
| 1. Pacific Petroleum & Trading Co. Ltd., Japan | 50.00% | Marketing services |
| 2. Korea Indonesia Petroleum Co. Ltd., Labuan, Malaysia | 45.00% | Marketing services |
| 3. PT Elnusa Tbk. | 41.10% | Processing and sale of oil and gas products, construction and oilfield services, information technology and telecommunications |

The indirectly owned associates are as follows:

| Associates | Effective percentage of ownership | Nature of business |
|---|---|---|
| 1. PT Donggi Senoro LNG | 29.00% | LNG processing |
| 2. PT Tugu Reasuransi Indonesia | 25.00% | Reinsurance |
| 3. PT Asuransi Samsung Tugu | 19.50% | Insurance |
| 4. PT Patra Bumi Lerep Permai* | 23.60% | Plantation |

* Sold in July 2012

#### iii. Joint Venture Entities

The directly owned joint venture entity is as follows:

| Joint venture entity | Percentage of ownership | Nature of business |
|---|---|---|
| 1. PT Nusantara Regas | 60.00% | LNG regasification |

**1. GENERAL** (continued)

**b. Subsidiaries and Associates** (continued)

**iii. Joint Venture Entities** (continued)

The indirectly owned joint venture entities are as follows:

| Joint venture entity | Percentage of ownership | Nature of business |
|---|---|---|
| 1. PT Patra SK | 35.00% | LBO processing |
| 2. PT Perta-Samtan Gas | 66.00% | LNG processing |
| 3. PT Perta Daya Gas | 65.00% | LNG regasification |
| 4. Natuna 2 B.V. | 50.00% | Exploration and production |

The Group considered the existence of substantive participating rights held by the non-controlling shareholders of PT Nusantara Regas, PT Perta-Samtan Gas and PT Perta Daya Gas which provide such shareholders with a veto right over the significant financial and operating policies. With respect to non-controlling rights, the Group does not have control over the financial and operating policies of PT Nusantara Regas, PT Perta-Samtan Gas and PT Perta Daya Gas even though the Group has over 50% of share ownership.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Group were prepared by the Board of Directors and finalised on 7 March 2014.

The accounting and financial reporting policies adopted by the Group conform to the Indonesian financial accounting standards, which are based on Indonesian Statements of Financial Accounting Standards (SFAS). The accounting policies were applied consistently in the preparation of the consolidated financial statements for the periods ended 31 December 2013, 2012 and 2011 by the Group.

**a. Basis of preparation of the consolidated financial statements**

The consolidated financial statements have been prepared on the basis of historical cost, except for available-for-sale financial assets and financial assets and financial liabilities which are measured at fair value through profit or loss.

The consolidated statements of cash flows have been prepared based on the direct method by classifying the cash flows on the basis of operating, investing and financing activities.

The consolidated financial statements are presented in thousands of US Dollars (US$), unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b. Changes in accounting policies and disclosures

#### i. New and amended standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning on 1 January 2013.

- SFAS 38 Business Combinations on Entity Under Common Control (Revised 2012)

  This standard provides guidance for business transfer transactions which are performed in the context of reorganisation of entities within the same group, not constituting a change of ownership in terms of economic substance, so that the transactions do not result in a gain or loss for the business group as a whole or the individual entity.

  This standard applies for an entity that receive a business and an entity that transfer a business.

  Business combination of entities under common control is recorded using the carrying amount based on the pooling of interest method. The difference between the consideration received/transferred and the carrying amount is recorded in equity as an additional paid-in capital.

  Additional paid-in capital as at 1 January 2013 is the impact of application of SFAS 38 Business Combinations on Entity Under Common Control (Revised 2012) to recognise the difference between the consideration received/transferred and the amount recorded.

- SFAS 60 Financial Instrument: Disclosure (Revised 2012)

  The revised SFAS 60 is effective for the financial reporting period starting 1 January 2013; however, early adoption is permitted. The improvements mainly relate to the disclosure of financial assets, including the removal of the requirement to disclose:

  (i) the fair value of collateral held as security; and
  (ii) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

This revision has no impact to the Group's financial statements.

#### ii. The withdrawals of these standards and interpretations did not result in significant changes to the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial period:

- SFAS 51 Accounting for Quasi-Reorganisations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b. Changes in accounting policies and disclosures (continued)

#### iii. New standards, amendments and interpretations issued but not yet effective

New standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 January 2013 are as follows:

- IFAS 27 Transfer Assets from Customer
- IFAS 28 Extinguishing Financial Liabilities with Equity Instrument
- IFAS 29 Stripping Cost in the Production Phase of Surface Mine
- SFAS 65 Consolidated Financial Statements *)
- SFAS 66 Joint Arrangements *)
- SFAS 67 Disclosure of Interests in Other Entities *)
- SFAS 68 Fair Value Measurement *)
- SFAS 1 (Revised 2013) Presentation of Financial Statements *)
- SFAS 4 (Revised 2013) Separate Financial Statements *)
- SFAS 15 (Revised 2013) Investment in Associates and Joint Ventures *)
- SFAS 24 (Revised 2013) Employee Benefits *)

IFAS 27, 28, and 29 will become effective for annual period beginning 1 January 2014 while the other new and revised standards will become effective for the annual period beginning 1 January 2015.

As at the issuance date of this consolidated of financial statements, the Group is still evaluating the potential impact of these new and revised standards.

*) Early adoption of these new and revised standards prior to 1 January 2015 is not permitted.

### c. Principles of consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of an entity is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

The Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### c. Principles of consolidation (continued)

The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the entity acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss. Goodwill will be tested annually for impairment and carried at cost less impairment.

Intercompany transactions, balances and unrealised gains/losses on transactions between Group companies are eliminated.

Non-controlling interest represents the proportion of the results and net assets of subsidiaries which are not attributable to the Group.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statements of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income.

Dilution gains and losses arising from investments in associates are recognised in the profit or loss.

The Company classifies its investments in PT Arun Natural Gas Liquefaction and PT Badak Natural Gas Liquefaction as available for sale at cost because the Company, in substance, does not control those companies and its operations are controlled by the natural gas producers.

### d. Related party transactions

The Company enters into transactions with related parties as defined in SFAS 7 Related Party Disclosures. All significant transactions and balances with related parties are disclosed in the notes to these consolidated financial statements

### e. Cash and cash equivalents

Cash and cash equivalents are cash on hand, cash in banks and time deposits with maturity periods of three months or less at the time of placement and which are not used as collateral or are not restricted.

For the purpose of the statements of cash flows, cash and cash equivalents are presented net of overdrafts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### e. Cash and cash equivalents (continued)

Cash and cash equivalents which are restricted for repayment of currently maturing obligations are presented as Restricted Cash under the Current Assets section of the consolidated balance sheets. Cash and cash equivalents which are restricted to repay obligations maturing after one year from the consolidated balance sheet date are presented as part of Other Assets under the Non-Current Assets section of the consolidated balance sheets.

### f. Financial assets

#### I. Classification

The Group classifies its financial assets into the categories of: (i) financial assets at fair value through profit or loss, (ii) loans and receivables and (iii) available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, transaction costs are expensed in the profit or loss and subsequently carried at fair value. Gains or losses arising from changes in fair value of the financial assets are presented in the profit or loss in the period they arise.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determined payments and not quoted in an active market. These financial assets are included in current assets, except where expected to mature more than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognised at fair value including directly attributable transaction costs and subsequently carried at amortised cost using the effective interest rate method.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### f. Financial assets (continued)

#### I. Classification (continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non derivative financial assets that are designated as available-for-sale or that are not classified in any other category. These financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, including directly attributable transaction costs. Subsequently, the financial assets are carried at fair value. Changes in the fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains or losses, which are recognised in the profit or loss. If the available-for-sale financial assets are impaired, the cummulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

#### II. Offsetting financial instruments

Financial assets and liabilitites are offset and the net amount reported in the consolidated statements of financial position (balance sheet). When there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### g. Impairment of financial assets

#### I. Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### g. Impairment of financial assets (continued)

#### I. Assets carried at amortised cost (continued)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- default or delinquency in payments by the debtor;
- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lenders, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lenders would not otherwise consider;
- the probability that the debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be traced to the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; and
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

If there is an objective evidence that an impairment loss has occured, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of a provision account. The amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss will be reversed either directly or by adjusting the provision account. The reversal amount is recognised in the profit or loss and the amount cannot exceed what the amortised cost would have been had the impairment not been recognised at the date the impairment was reversed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### g. Impairment of financial assets (continued)

#### II. Assets classified as available for sale

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the assets are impaired, the cummulative loss that had been recognised in equity will be reclassified from equity to the profit or loss even though the financial asset has not been derecognised. The amount of the cummulative loss that is reclassified from equity to the profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss.

The impairment losses recognised in the profit or loss on equity instrument can not be reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occuring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

### h. Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If more, they are presented as non-current assets.

### i. Inventories

Crude oil and oil product inventories are recognised at the lower of cost and net realisable value.

Cost is determined based on the average method and comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

The net realisable value of subsidised fuel products (BBM) is the Mean of Platts Singapore (MOPS) price plus distribution costs and a margin (alpha), less the estimated costs of completion and the estimated costs necessary to make the sale.

The net realisable value of LPG 3 kg cylinders is the Aramco LPG contract price plus distribution costs and a margin (alpha), less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### i. Inventories (continued)

Materials such as spare parts, chemicals and others are stated at average cost. Materials exclude obsolete, unusable and slow-moving materials which are recorded as part of the Other Assets under the Non-Curent Assets selection.

A provision for obsolete, unusable and slow-moving materials is provided based on management's analysis of the condition of such materials at the end of the year.

### j. Prepayments and advances

Prepayments are amortised on a straight-line basis over the estimated beneficial periods of the prepayments.

### k. Long-term investments

(i) Investments in associates

See Note 2c for complete accounting policy on associates.

(ii) Investment property - long-term investments

Investment property consists of land and buildings held by the Group to earn rental income or for capital appreciation, or both, rather than for use in the production or supply of goods or services, administrative purposes or sale in the ordinary course of business.

An investment property is measured using the cost model, that is stated at cost including transaction costs less accumulated depreciation and impairment losses, if any, except for land which is not depreciated. Such cost includes the cost of replacing part of the investment property, if the recognition criteria are satisfied, and excludes operating expenses involving the use of such property.

Building depreciation is computed using the straight-line method over the estimated useful lives of buildings ranging from 4 to 40 years.

An investment property is derecognised upon disposal or when such investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the derecognition or disposal of investment property are recognised in the consolidated statements of comprehensive income in the year such derecognition or disposal occurs.

Transfers to investment property are made when there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. Transfers from investment property are made when there is a change in use, evidenced by the commencement of owner-occupation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### k. Long-term investments (continued)

(ii) Investment property - long-term investments (continued)

For a transfer from investment property to owner-occupied property, the Company uses the cost method at the date the change occurs. If an owner-occupied property becomes an investment property, the Company records the investment property in accordance with the fixed assets policies up to the date of change in use.

### l. Fixed assets

Direct ownership

Land is recognised at cost and not depreciated. Fixed assets are initially recognised at cost and subsequently, except for land, carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The Group recognised significant repair and maintenance costs as fixed assets. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Initial legal costs incurred to obtain legal rights are recognised as part of the acquisition cost of the land, and these costs are not depreciated. Costs related to renewal of land rights are recognised as intangible assets and amortised during the period of the land rights.

Fixed assets, except land, are depreciated using the straight-line method over their estimated useful lives as follows:

| | Years |
|---|---|
| Tanks, pipeline installations and other equipments | 5 - 25 |
| Refineries | 10 - 20 |
| Buildings | 5 - 25 |
| Ships and aircrafts | 6 - 25 |
| Moveable assets | 5 - 20 |
| Major repairs and maintanance | 3 |

At each financial year end, the residual values, useful lives and methods of depreciation of assets are reviewed and adjusted prospectively, as appropriate.

When assets are retired or otherwise disposed of, their carrying values are eliminated from the consolidated financial statements, and the resulting gains and losses on the disposal of fixed assets are recognised in the profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### l. Fixed assets (continued)

Assets under construction

Assets under construction represent costs for the construction and acquisition of fixed assets and other costs. These costs are transferred to the relevant asset account when the construction is complete. Depreciation is charged from the date the assets are ready for use.

### m. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

Leases of fixed assets where the Group substantially has all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property of the present value of the minimum lease payments.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If an arrangement contains a lease, the Group will assess whether such a lease is a finance or operating lease. If an arrangement contains a lease, a lease that transfers substantially to the lessee all of the risks and rewards incidental to ownership of the leased item is classified as a finance lease; otherwise it is classified as an operating lease.

For finance leases, each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the outstanding finance balance. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Fixed assets acquired under finance leases are depreciated similarly to owned assets. If there is no reasonable certainty that the Group will hold the ownership by the end of the lease term, the asset is depreciated over the shorter of the useful life of the asset and the lease term.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n. Oil & gas and geothermal properties

#### 1. Exploration and evaluation assets

Oil and natural gas, as well as geothermal exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field by field basis.

Geological and geophysical costs are expensed as incurred.

Costs to acquire rights to explore for and produce oil and gas are recorded as unproved property acquisition costs for properties where proved reserves have not yet been discovered, or proved property acquisition costs if proved reserves have been discovered. Proved property acquisition costs are amortised from the date of commercial production based on total estimated units of proved reserves.

The costs of drilling exploratory wells and the costs of drilling exploratory-type stratigraphic test wells are capitalised as part of assets under construction - exploratory and evaluation wells, within oil and gas properties pending determination of whether the wells have found proved reserves. If the wells have found proved reserves, the capitalised costs of drilling the wells are tested for impairment and transferred to assets under construction - development wells (even though the well may not be completed as a production well). If the well has not found proved reserves, the capitalised costs of drilling the well are then charged to the profit and loss as a dry hole.

Exploration and evaluation assets are reclassified from exploration and evaluation when evaluation procedures have been completed. Exploration and evaluation assets for which commercially-viable reserves have been identified are reclassified to development assets. Exploration and evaluation assets are tested for impairment immediately prior to reclassification out of exploration and evaluation.

#### 2. Development assets

The costs of drilling development wells including the costs of drilling unsuccessful development wells and development-type stratigraphic wells are capitalised as part of assets under construction of development wells until drilling is completed. When the development well is completed on a specific field, it is transferred to the production wells.

The costs of successful exploration wells and development wells (production wells) are depleted using a units of production method on the basis of proved reserves, from the date of commercial production of the respective field.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n. Oil & gas and geothermal properties (continued)

#### 3. Production assets

Production assets are aggregated exploration and evaluation assets and development expenditures associated with the producing wells. Production assets are depleted using a unit-of-production method on the basis of proved reserves, from the date of commercial production of the respective field.

#### 4. Other oil & gas and geothermal assets

Other oil & gas and geothermal properties are depreciated using the straight-line method over the lesser of their estimated useful lives or the term of the relevant PSCs as follows:

| | Years |
|---|---|
| Installations | 3 - 30 |
| LPG plants | 10 - 20 |
| Buildings | 5 - 30 |
| Moveable assets | 2 - 27 |
| Geothermal wells | 10 - 20 |

Land and landrights are stated at cost and are not amortised.

The useful lives and methods of depreciation of assets are reviewed, and adjusted prospectively if appropriate, at least at each financial year end. The effects of any revisions are recognised in profit or loss when the changes arise.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

The accumulated costs of the construction, installation or completion of buildings, plant and infrastructure facilities such as platforms and pipelines are capitalised as assets under construction. These costs are reclassified to the relevant fixed asset accounts when the construction or installation is ready for use. Depreciation is charged from that date.

#### 5. Ownership interest in unitisation operation

A joint asset is an asset to which each party has rights, and often has joint ownership. Each party has exclusive rights to a share of the asset and the economic benefits generated from that asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n. Oil & gas and geothermal properties (continued)

#### 5. Ownership interest in unitisation operation (continued)

In a unitisation, all the operating and non-operating participants pool their assets in a producing field to form a single unit and in return receive an undivided interest in that unit. As such, a unitisation operation is a jointly controlled asset arrangement. Under this arrangement, the Group records its share of the joint asset, any liabilities it incurs, its share of any liabilities incurred jointly with the other parties relating to the joint arrangement, any revenue from the sale or use of its share of the output of the joint asset and any expenses it incurs in respect of its interest in the joint arrangement. If the Group is the operator, the Group recognises receivables from the other parties (representing the other parties' share of expenses and capital expenditure borne by the operator); otherwise, the Group recognises payables to the operator.

### o. Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### p. Provision for decommissioning and site restoration

The provision for decommissioning and site restoration provides for the legal obligations associated with the retirement of oil and gas properties including the production facilities that result from the acquisition, construction or development and/or normal operation of such assets. The retirement of such assets, other than temporary removal from service, includes sale, abandonment, recycling or disposal in some other manner.

These obligations are recognised as liabilities when a constructive obligation with respect to the retirement of an asset is incurred. An asset retirement cost equivalent to these liabilities is capitalised as part of the related asset's carrying value and is subsequently depreciated or depleted over the asset's useful life. These obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### p. Provision for decommissioning and site restoration (continued)

The changes in the measurement of these obligations that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate will be added to or deducted from the cost of the related asset in the current period. The amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated statements of comprehensive income. If the adjustment results in an addition to the cost of an asset, the Group will consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the Group will test the asset for impairment by estimating its recoverable amount, and will account for any impairment loss incurred.

Provisions for environmental issues that may not involve the retirement of an asset, where the Group is a responsible party, are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Asset retirement obligations for downstream facilities generally become firm at the time the facilities are permanently shutdown and dismantled. However, these sites have indeterminate lives based on plans for continued operations, and as such, the fair value of the conditional legal obligations can not be measured, since it is impossible to estimate the future settlement dates of such obligation. The Group performs periodic reviews of its downstream assets for any changes in facts and circumstances that might require recognition of asset retirement obligations.

### q. Revenue and expense recognition

(i) Revenue

Revenues from the production of crude oil and natural gas are recognised on the basis of the provisional entitlements method at the point of lifting. Differences between the Company's actual liftings of crude oil and natural gas result in a receivable when final entitlements exceed liftings of crude oil and gas (underlifting position) and in a payable when lifting of crude oil and gas exceed final entitlements (overlifting position). Underlifting and overlifting volumes are valued based on the annual weighted average Indonesian Crude Price (ICP) (for crude) and price as determined in the respective Sale and Purchase Contract (for gas).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### q. Revenue and expense recognition (continued)

(i) Revenue (continued)

The Company recognises subsidy revenue as it sells the subsidised products and when the Company becomes entitle to subsidy.

Revenue from sales of goods and services is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer and when such services are performed, respectively.

Penalty income from overdue receivables from BBM sales is recognised when the Company and its customers agree on the amount of the penalties and there is evidence that the customers have committed to pay the penalties.

The cost and revenue involving sales of electricity among PGE, geothermal contractors and PT Perusahaan Listrik Negara (Persero) (PLN) are recorded based on Energy Sales Contracts (ESCs) under a Joint Operating Contracts (JOCs). The contracts stipulate that the sale of electricity from the JOC contractors to PLN is to be made through PGE in the same amount of the purchase costs as the electricity from the JOCs.

(ii) Expenses

Expenses are recognised when incurred on an accrual basis.

### r. Pension plan and employee benefits

(i) Pension obligations

Companies within the Group operate various pension schemes. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee the benefits relating to employee service in the current and prior years.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, a defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group is required to provide a minimum amount of pension benefit in accordance with Labour Law No. 13/2003 or the Group's Collective Labour Agreement (the CLA), whichever is higher. Since the Labour Law or the CLA sets the formula for determining the minimum amount of benefits, in substance pension plans under the Labour Law or the CLA represent defined benefit plans.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### r. Pension plan and employee benefits (continued)

(i) Pension obligations (continued)

The liability recognised in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating the terms of the related pension obligations. If there is no deep market for such bonds, the market rates on government bonds are used.

Expenses charged to the profit or loss includes current service costs, interest expense, amortisation of past service costs and actuarial gains and losses.

Past-service costs are recognised immediately in the profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, when exceeding 10% of the present value of the defined benefit obligation (before deducting any plan assets) or 10% of the fair value of any plan assets at the end of the reporting period, are charged or credited to profit or loss over the average remaining service lives of the employees participating in the plan.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the curtailment or settlement occurs.

Termination benefits are payable when an employee's employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises the termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees who are expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### r. Pension plan and employee benefits (continued)

(ii) Other post-employment obligations

Companies within the Group provide post-retirement healthcare benefits to their retired employee. This benefit is eligible for the employee that remains working up to retirement age and approaching a minimum service period. The expected cost of this benefit is accrued over the period of employment using projected unit credit method. This obligation is valued annually by independent qualified actuaries.

### s. Transactions and balances in non-US Dollar denomination

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in US Dollar, which is the Company's functional currency. Presentation currency of the Company and subsidiaries, except for PT Patra Jasa, PT Pertamina Trans Kontinental, PT Pertamina Bina Medika, PT Pertamina Dana Ventura, PT Pertamina Lubricants, PT Pertamina Retail and PT Pertamina Training & Consulting which maintain accounting records in Rupiah denomination, their functional currency.

Non-US Dollar currency transactions are translated into US Dollar using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in non-US Dollar currency are translated into US Dollar using the closing exchange rate. The exchange rate used as a benchmark is the rate which is issued by Bank Indonesia. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

For domestic and foreign subsidiaries that are not integral to the Company's operations and for which the functional currency is not US Dollar, the assets and liabilities are translated into US Dollar at the exchange rates prevailing at the balance sheet date. The equity is translated at historical exchange rates. The revenue and expenses are translated at average exchange rates for the period.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### s. Transactions and balances in non-US Dollar denomination (continued)

The exchange rates used as of 31 December 2013, 2012 and 2011 were as follows (full amount):

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| 1,000 Rupiah/US Dollar | 0.08 | 0.10 | 0.11 |
| Singapore Dollar/US Dollar | 0.79 | 0.82 | 0.77 |
| 100 Japanese Yen/US Dollar | 0.95 | 1.16 | 1.29 |
| Hong Kong Dollar/US Dollar | 0.13 | 0.13 | 0.13 |
| Euro/US Dollar | 1.38 | 1.32 | 1.29 |

### t. Income tax

The balance sheet liability method is applied to determine income tax expense. Under this method, current tax expense is provided based on the estimated taxable income for the year. Deferred tax assets and liabilities are recognised for temporary differences between commercial assets and liabilities and the tax bases at each reporting date.

Deferred tax assets and liabilities involving activities other than PSCs activities are measured at the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities involving PSC activities are measured at the tax rates in effect at the effective dates of the PSCs or extensions or amendments of such PSCs. Changes in deferred tax assets and liabilities as a result of amendments of tax rates are recognised in the current year, except for transactions previously charged or credited directly to equity.

Deferred tax assets relating to the carry forward of unused tax losses and unrecovered PSCs costs are recognised to the extent that it is probable that in the future, taxable income will be available against which the unused tax losses and unrecovered PSCs costs can be utilised.

The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Where appropriate, it establishes provisions based on the amounts expected to be paid to the tax authorities.

Amendments to taxation obligations are recorded when an assessment is received or, for assessment amounts appealed against by the Group, when: (1) the result of the appeal is determined, unless there is significant uncertainty as to the outcome of such an appeal, in which event the impact of the amendment of tax obligations based on an assessment is recognised at the time of making such appeal, or (2) at the time based on knowledge of developments in similar cases involving matters appealed, in rulings by the Tax Court or the Supreme Court, where a positive appeal outcome is adjudged to be significantly uncertain, in which event the impact of an amendment of tax obligations is recognised based on the assessment amounts appealed.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### u. Segment information

An operating segment is a component of an enterprise:

a. that engages in business activities from which it may earn revenues and incur expenses (including revenue and expenses related to the transactions with different components within the same entity);

b. whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its perfomance; and

c. for which discrete financial information is available.

### v. Impairment of non-financial assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready for use - are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

### w. Bonds issuance costs

Bonds issuance costs are presented as deduction from bond payables as part of non-current liabilities in the consolidated statements of financial position.

The difference between net proceeds and nominal value represents a discount which is amortised using the effective interest method over the term of the bonds.

### x. Joint venture

The Group‘s interests in jointly controlled entities are accounted for based on proportionate consolidation. The Group combines its share of the joint venture‘s individual income and expenses, asset and liabilities, and cash flows on a line-by-line basis with similar items in the Group‘s consolidated financial statements. The Group recognises the portion of gains and losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profit or losses from the joint venture that result from the Group‘s purchase of assets from the joint venture until it resells the assets to the independent party. However, a loss on the transactions is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### x. Joint venture (continued)

Gains or losses from non-monetary contributions to a jointly controlled entity is recognised in the consolidated statement of comprehensive income to the extent of the other venturer's interest. Any unrealised gains or losses from non-monetary contribution assets are eliminated against the underlying assets.

Jointly controlled operations are contractual arrangements whereby two or more parties undertake an economic activity which is subject to Joint Operating Contract (JOC). Joint control exists when there are joint financial and operational decisions made by the involved parties.

Under JOC, the rights to use and ownership of the jointly controlled assets are under co-operative arrangements between the respective parties. Revenues, expenses, assets and liabilities involving JOC assets are presented in the consolidated financial statements in accordance with the Group's participating interests in the JOC.

### y. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### z. Dividends

Dividend distribution to the shareholders is recognised as a liability in the Group consolidated financial statements in the period in which the dividends are declared.

### aa. Borrowing costs

Borrowing costs are interest and exchange differences on foreign currency denominated borrowings and other costs (amortisation of discounts/premiums on borrowings, etc.) incurred in connection with the borrowing of funds.

Borrowing costs which directly attributable to the acquisition, construction, or production of qualifying assets which should be capitalised as part of the acquisition cost of the qualifying assets. Other borrowing costs are recognised as expense in the period in which they are incurred.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the entity determines the amount of borrowing costs eligible for capitalisation as the actual borrowing cost incurred on that borrowing during the year less any investment income on the temporary investment of those borrowings.

The Group suspends capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### aa. Borrowing costs (continued)

The Group ceases capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

## 3. MANAGEMENT USE OF ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described in Note 2 to the consolidated financial statements, management is required to make estimates, judgements and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and assumptions are based on historical experience and other factors that are considered to be relevant.

Management believes that the following represent a summary of the significant estimates, judgements and assumptions made that affected certain reported amounts and disclosures in the consolidated financial statements:

### a. Judgements

The following judgements, made by management in the process of applying the Group's accounting policies, have the most significant effects on the amounts recognised in the consolidated financial statements:

(i) Provision for the impairment of loans and receivables

Provision for the impairment of receivables is maintained at a level considered adequate to provide for potentially uncollectible receivables. The Group assesses specifically at each balance sheet date whether there is objective evidence that a financial asset is impaired (uncollectible).

The level of provision is based on past collection experience and other factors that may affect collectability such as the probability of insolvency or significant financial difficulties of the debtor or significant delay in payments.

If there is objective evidence of impairment, timing and collectible amounts are estimated based on historical loss data. Provision for impairment is provided on accounts specifically identified as impaired. Loans and receivables written off are based on management's decisions that the financial assets are uncollectible or cannot be realised regardless of actions taken. Evaluation of receivables to determine the total allowance to be provided is performed periodically during the year. Therefore, the timing and amount of provision for doubtful accounts recorded in each period might differ based on the judgements and estimates that have been used.

## 3. MANAGEMENT USE OF ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

### a. Judgements (continued)

(ii) Oil and gas properties

The Group follows the principles of the successful efforts method of accounting for its oil and natural gas exploration and evaluation activities.

For exploration and exploratory-type stratigraphic test wells, costs directly associated with the drilling of those wells are initially capitalised as assets under construction within oil and gas properties, pending determination of whether potentially economically viable oil and gas reserves have been discovered by the drilling effort. The determination is usually made within one year after well completion, but can take longer, depending on the complexity of the geological structure. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Such estimates and assumptions may change as new information becomes available. If the well does not discover potentially economically viable oil and gas quantities, the well costs are expensed as a dry hole and are reported in exploration expense.

### b. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are disclosed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes on circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur:

(i) Impairment of non-financial assets

In accordance with the Group's accounting policy, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit of a group of assets is measured at the higher of fair value less costs to sell and value in use.

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment.

Proven oil and gas properties are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is determined as the greater of an asset's fair value less cost to sell and value in use.

## 3. MANAGEMENT USE OF ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

### b. Estimates and assumptions (continued)

(i) Impairment of non-financial assets (continued)

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves (see Reserve Estimates below), operating costs, decommissioning and site restoration cost, and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired, or the impairment charge reduced, with the impact recorded in the profit or loss.

(ii) Reserve estimates

The amounts recorded for depletion, depreciation and amortisation as well as the recovery of the carrying value of oil and gas properties and fixed assets involving production of oil and gas depend on estimates of oil and gas reserves. The primary factors affecting these estimates are technical engineering assessments of producible quantities of oil and gas reserves in place and economic constraints such as the availability of commercial markets for natural gas production as well as assumptions related to anticipated commodity prices and the costs of development and production of the reserves.

The economic assumptions used to estimate reserves change from period to period, and additional geological data is generated during the course of operations, therefore estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depreciation and amortisation charged in the consolidated statements of comprehensive income may change where such charges are determined on a units of production basis, or where the useful economic lives of assets change.
- Decommissioning, site restoration, and environmental provision may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
- The carrying value of deferred tax assets/liabilities may change due to changes in estimates of the likely recovery of the tax benefits.

## 3. MANAGEMENT USE OF ESTIMATES, JUDGEMENTS AND ASSUMPTIONS (continued)

### b. Estimates and assumptions (continued)

(iii) Due from the Government

The Group recognises due from the Government for cost subsidies for certain fuel (BBM) products, kerosene conversion to the LPG program and marketing fees in relation to the Government's share of crude oil, natural gas and LNG. The Group makes an estimation of the amount due from the Government based on historical information. The amount is subject to audit and approval by the Audit Board of the Republic of Indonesia (BPK). The actual results may be different to the amounts recognised.

(iv) Accrual for bonuses

The accrual for bonuses represents expenses from payment of employee benefits which consist of tantiem, bonuses and employee incentives. The accrual is based on a formula that was agreed by management which depends on financial and non-financial performance measurement. Management estimates the amount based on the existing supporting information at the balance sheet date. The amount may be changed if the actual financial and non-financial measurement of performance is finalised.

(v) Depreciation, estimate of residual values and useful lives of fixed assets

The useful lives of the Group's investment properties and fixed assets are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluations and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of investment properties and fixed assets would increase the recorded depreciation and decrease the carrying values of fixed assets.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 4. ACQUISITION AND ADDITION OF PARTICIPATING INTEREST

During 2013 and 2011, the Group had several acquisition transactions through increase in participating interest (farm-in) and acquisition of shares. These acquisition transaction were made in connection with the Group's strategy to develop its upstream business, i.e. to increase oil and gas production and reserves as well as expanding to overseas. A summary of the Group's acquisition is as follows:

### a. Share acquisition of Burlington Resources International Holding LLC

Effective from 27 November 2013 the Company acquired 100% of the shares of ConocoPhillips Algeria Ltd. (COPAL) from Burlington Resources International Holdings LLC (100%).

COPAL, a corporation domiciled in the Cayman Islands, holds a 65% participating interest in Block 405a Algeria. COPAL activities include acting as an operator in the MLN area and a partner in the Ourhoud and EMK units.

Fair values of the assets and liabilities, provisionally determined, arising from this acquisition are as follows:

| | 2013 |
|---|---|
| Cash and cash equivalents | 17,443 |
| Receivables | 20,031 |
| Other receivables | 11,342 |
| Inventories | 22,129 |
| Deferred charges and prepayments | 288 |
| Deferred tax assets | 19,582 |
| Oil and gas property - net | 632,196 |
| Payables | (42,373) |
| Other payable | (36,172) |
| Deferred tax liabilities | (75,062) |
| Book value of net assets | 569,404 |
| Excess of fair value over net book value allocated to oil and gas property (net of tax) | 543,785 |
| Fair value of net assets | 1,113,189 |
| Interest acquired | 100% |
| Fair value of net assets acquired | 1,113,189 |
| Goodwill | 556,703 |
| Purchase consideration through cash payment | 1,669,892 |
| Cash and cash equivalents | (17,443) |
| Net cash outflow on acquisition | 1,652,449 |

## 4. ACQUISITION AND ADDITION OF PARTICIPATING INTEREST (continued)

### a. Share acquisition of Burlington Resources International Holding LLC (continued)

The fair value adjustments principally relate to the recognition of the reserves and resources acquired. The goodwill balance is mainly the result of the requirement to recognised a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases.

The amounts of revenue and profit or loss of COPAL since 27 November 2013 included in the Group's consolidated profit or loss.

If COPAL is consolidated from 1 January 2013, the consolidated profit or loss would show proforma revenue of US$71,437,274 and a proforma profit of US$3,201,927.

### b. Acquisition of participating interest on West Qurna-1 Block

Effective from 29 November 2013 the Company acquired a 10% participating interest in West Qurna-1 Block in Iraq through PT Pertamina Irak Eksplorasi Produksi (PIREP). Other participating interests were held by ExxonMobil Iraq Limited as lead contractor (25%), Shell West Qurna B.V. (15%), Oil Exploration Company of Iraqi Ministry of Oil (25%) and Petrochina International Iraq FZE (25%). Acquisition of this participating interest was recorded as oil and gas properties.

### c. Share acquisition of Natuna 2 B.V.

Effective from 6 December 2013, PHE Oil and Gas and PTTEP Netherlands Holding Cooperatie U.A. acquired 23% participating interest in Natuna Sea Block A through the acquisition of 100% (50% each) shares in Natuna 2 B.V from Hess (Luxembourg) Exploration and Production Holding S.A R.L. The cash outflow for this acquisition by the Group was US$328,072.

### d. Acquisition of Anadarko Ambalat Limited, Anadarko Bukat Limited and Anadarko Indonesia Nunukan Company

Effective from 15 February 2013, the Group acquired 100% of the shares of Anadarko Ambalat Limited (currently Pertamina Hulu Energi Ambalat Limited), Anadarko Bukat Limited (currently Pertamina Hulu Energi Bukat Limited) and Anadarko Indonesia Nunukan Company (currently Pertamina Hulu Energi Nunukan Company) for US$55,226 from Anadarko Offshore Holding Company LLC (100%). Anadarko Ambalat Limited holds a 33.75% participating interest in the Ambalat PSC. Anadarko Bukat Limited holds a 33.75% participating interest in the Bukat PSC. Anadarko Indonesia Nunukan Company holds a 35% participating interest in the Nunukan PSC.

### e. Addition of PT PHE ONWJ's 5.0295% participating interest in ONWJ Block

Effective from 2 May 2013, PT PHE ONWJ acquired a 5.0295% participating interest in ONWJ Block held by Talisman Resources ONWJ Ltd. The acquisition increased PT PHE ONWJ's participating interest in ONWJ block to 58.2795%. The remaining participating interests were held by Energi Mega Persada ONWJ Ltd. 36.7205% and Risco Energy ONWJ Ltd. 5%.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 4. ACQUISITION AND ADDITION OF PARTICIPATING INTEREST (continued)

### f. Addition of PT PHE West Madura's 30% participating interest in WMO Block

Effective from 7 May 2011, PT PHE West Madura acquired a 30% participating interest in WMO Block held by China Natural Offshore Oil Cooperation (CNOOC) and Kodeco Energy Limited (Kodeco). The acquisition increased PT PHE West Madura's participating interest in WMO block to 80%. The remaining participating interests was held by Kodeco 20%.

## 5. CASH AND CASH EQUIVALENTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash on hand | 6,573 | 7,881 | 4,839 |
| Cash in banks | 2,317,427 | 1,927,115 | 2,320,663 |
| Time deposits | 2,362,040 | 2,360,377 | 873,823 |
| **Total** | **4,686,040** | **4,295,373** | **3,199,325** |

The details of cash and cash equivalents based on currency and by individual bank are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Cash on hand:** | | | |
| Rupiah | 4,432 | 6,211 | 3,797 |
| US Dollar | 2,105 | 492 | 935 |
| Others | 36 | 1,178 | 107 |
| **Total cash on hand** | **6,573** | **7,881** | **4,839** |
| **Cash in banks** | | | |
| **US Dollar:** | | | |
| Government-related entities | | | |
| - PT Bank Negara Indonesia (Persero) Tbk. (BNI) | 781,745 | 394,304 | 264,947 |
| - PT Bank Mandiri (Persero) Tbk. (Bank Mandiri) | 438,374 | 250,591 | 107,798 |
| - PT Bank Rakyat Indonesia (Persero) Tbk. (BRI) | 175,239 | 70,268 | 128,229 |
| Third parties | | | |
| - Citibank, N.A. | 21,182 | 22,207 | 24,342 |
| - Bank of America | 10,667 | - | - |
| - Other banks (each below US$10,000) | 67,345 | 58,153 | 32,253 |
| Total US Dollar accounts | 1,494,552 | 795,523 | 557,569 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 5. CASH AND CASH EQUIVALENTS (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Rupiah:** | | | |
| Government-related entities | | | |
| - BRI | 657,113 | 189,513 | 692,585 |
| - BNI | 68,261 | 150,189 | 891,916 |
| - Bank Mandiri | 63,754 | 137,971 | 123,444 |
| Third parties | | | |
| - PT Bank Central Asia Tbk. (BCA) | 10,736 | 25,262 | 16,106 |
| - Other banks (each below US$10,000) | 9,472 | 38,113 | 22,821 |
| Total Rupiah accounts | 809,336 | 541,048 | 1,746,872 |
| Cash in banks - other currency accounts (each below US$10,000) | 13,539 | 590,544 | 16,222 |
| **Total cash in banks** | **2,317,427** | **1,927,115** | **2,320,663** |
| **Time deposits with original maturities of three months or less** | | | |
| **US Dollar accounts:** | | | |
| Government-related entities | | | |
| - BRI | 1,031,887 | 818,652 | 21,632 |
| - Bank Mandiri | 666,242 | 379,557 | 359,217 |
| - BNI | 51,825 | 356,542 | 71,669 |
| Third parties | | | |
| - Calyon Credit Agricole CIB (Calyon) | 75,120 | 120,200 | 98,500 |
| - Sumitomo Mitsui Banking Corporation | 127 | 893 | 24,000 |
| - Other banks (each below US$10,000) | 52,549 | 106,851 | 7,081 |
| Total time deposits - US Dollar accounts | 1,877,750 | 1,782,695 | 582,099 |
| **Rupiah accounts:** | | | |
| Government-related entities | | | |
| - BRI | 341,082 | 260,061 | 68,649 |
| - Bank Mandiri | 61,081 | 65,192 | 117,598 |
| - BNI | 8,947 | 31,054 | 88,448 |
| Third parties | | | |
| - Other banks (each below US$10,000) | 63,562 | 33,457 | 15,528 |
| Total time deposits - Rupiah accounts | 474,672 | 389,764 | 290,223 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 5. CASH AND CASH EQUIVALENTS (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Euro accounts:** | | | |
| Government-related entities | | | |
| - BNI | - | 163,256 | 140 |
| - BRI | - | 19,871 | 728 |
| Total time deposits - Euro accounts | - | 183,127 | 868 |
| Time deposits – other currencies accounts | 9,618 | 4,791 | 633 |
| **Total time deposits** | **2,362,040** | **2,360,377** | **873,823** |
| **Total cash and cash equivalents** | **4,686,040** | **4,295,373** | **3,199,325** |

Annual interest rates on time deposits during 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Rupiah | 3.50% - 7.00% | 5.00% - 7.25% | 5.00% - 7.25% |
| US Dollar | 0.50% - 1.50% | 0.20% - 2.00% | 0.50% - 2.00% |
| Hong Kong Dollar | 0.05% - 1.88% | 0.70% - 1.20% | 0.50% - 1.30% |
| Euro | - | 0.01% - 0.25% | 0.10% - 0.25% |
| Singapore Dollar | - | - | 0.05% - 0.10% |

## 6. RESTRICTED CASH

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **US Dollar accounts:** | | | |
| Government-related entities | | | |
| - BNI | 75,263 | 64,804 | 33,530 |
| - BRI | 59,133 | 1,792 | - |
| - Bank Mandiri | 3,666 | 1,945 | 1,656 |
| Third parties | | | |
| - BCA | - | 45,508 | - |
| - BNP Paribas | - | - | 55,000 |
| - Other banks (each below US$10,000) | 5,051 | 38,553 | 23,265 |
| **Rupiah accounts:** | | | |
| Government-related entities | | | |
| - BRI | 64,523 | 14,709 | 9,031 |
| - BNI | 2,107 | 4,382 | 2,956 |
| - Bank Mandiri | 1,884 | 1,095 | 2,571 |
| Third parties | | | |
| - PT Bank CIMB Niaga Tbk (CIMB Niaga) | 1,231 | - | - |
| | 212,858 | 172,788 | 128,009 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 6. RESTRICTED CASH (continued)

Annual interest rates on restricted cash during 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Rupiah | 5.50% - 7.00% | 5.71% - 6.67% | 5.00% - 7.25% |
| US Dollar | 1.00% - 1.50% | 0.31% - 2.15% | 0.50% - 2.00% |

**US Dollar accounts**

The escrow accounts were related to letters of credit (L/C) issued for the procurement of crude oil and other petroleum products as well as bank guarantees.

**Rupiah accounts**

The escrow accounts are time deposits used as collateral for bank guarantees and performance bonds.

## 7. TRADE RECEIVABLES - THIRD PARTIES

### a. Trade receivables:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Trade receivables | 2,099,003 | 1,719,398 | 1,486,747 |
| Provision for impairment | (121,073) | (110,132) | (116,974) |
| **Total** | **1,977,930** | **1,609,266** | **1,369,773** |

### b. Movements in the provision for impairment of trade receivables:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | (110,132) | (116,974) | (111,365) |
| Impairment during the year | (36,419) | - | (61,192) |
| Reversal of impairment on the recovered receivables - net | 17,108 | - | 48,893 |
| Foreign exchange difference | 8,370 | 6,842 | 6,690 |
| **Ending balance** | **(121,073)** | **(110,132)** | **(116,974)** |

The management of the Group has provided a provision for the impairment of receivables on an individual basis.

Based on management's review of the collectability of each balance of trade receivables as at the dates of 31 December 2013, 2012 and 2011, management believes that the provision for impairment is adequate to cover the potential losses as a result of uncollected trade receivables from third parties.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 7. TRADE RECEIVABLES - THIRD PARTIES (continued)

### b. Movements in the provision for impairment of trade receivables: (continued)

Management believes that there are no significant concentrations of credit risk involving third party trade receivables.

### c. The currencies of trade receivables:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| US Dollar | 1,759,878 | 1,422,625 | 1,263,405 |
| Rupiah | 339,125 | 296,773 | 223,342 |
| **Total** | **2,099,003** | **1,719,398** | **1,486,747** |

## 8. DUE FROM THE GOVERNMENT

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **The Company:** | | | |
| Receivables for reimbursement of subsidy costs for certain fuel (BBM) products | 2,757,919 | 2,084,986 | 736,577 |
| Receivables for reimbursement of subsidy costs for LPG 3 kg cylinders | 808,720 | 222,659 | 136,878 |
| Receivables for marketing fees | 371,004 | 264,265 | 301,684 |
| Receivables for reimbursement of costs for kerosene conversion to LPG program | 202,429 | 277,218 | 287,903 |
| State revenue in relation to upstream activity | - | - | 15,918 |
| Others | - | 130 | 138 |
| **Total - the Company** | **4,140,072** | **2,849,258** | **1,479,098** |
| **Subsidiaries:** | **173,332** | **140,878** | **696,227** |
| **Total Consolidated** | **4,313,404** | **2,990,136** | **2,175,325** |
| Provision for impairment | (22,450) | (275,610) | (269,447) |
| | 4,290,954 | 2,714,526 | 1,905,878 |
| **Less: current portion** | **(4,290,954)** | **(2,714,526)** | **(1,828,857)** |
| **Non-current portion** | **-** | **-** | **77,021** |

Due from the Government which is scheduled for settlement within one year after the balance sheet date is categorised as current receivable.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 8. DUE FROM THE GOVERNMENT (continued)

Movements in the provision for impairment of due from the Government are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | (275,610) | (269,447) | (27,716) |
| Impairment during the year | (16,819) | (31,580) | (241,967) |
| Reversal of impairment of recovered receivables | 214,185 | 9,217 | - |
| Foreign exchange gain | 55,794 | 16,200 | 236 |
| **Ending balance** | **(22,450)** | **(275,610)** | **(269,447)** |

### a. Receivables for reimbursement of the subsidy costs for certain fuel (BBM) products

The Company's receivables for reimbursement of the subsidy costs for certain BBM products are billings for the BBM subsidy provided to the public.

The Public Service Obligation (PSO) mandate to the Company from the Government is based on an annual contract with BPH Migas. The sales price of the subsidised BBM products is based on MoEMR's Decision Letter.

Relating to that assignment from the Government, the Company is entitled to receive compensation as stipulated in Minister of Finance regulation no. 65/PMK.02/2012 dated 30 April 2012 regarding the amendment of Minister of Finance Regulation No. 217/PMK.02/2012 regarding Procedures of Budget Provision, Calculation, Payment and Accountability for the Subsidy on Certain BBM Products.

The mechanism for the subsidy payment is based on the amount decided in the State Budget (APBN) and Amended State Budget (APBN-P). There was a budget shortage in the 2013 subsidy due to the distribution of certain BBM products which exceeded the amount decided in the APBN and APBN-P year 2013.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 2,084,986 | 736,577 | 431,684 |
| Reclassification | - | 3,177 | - |
| Add: | | | |
| Reimbursement of subsidy costs for certain BBM products for current year (Note 27) | 16,795,944 | 18,756,863 | 15,442,938 |
| Correction from BPK for reimbursements of subsidy costs for certain BBM products for year 2012, 2011 and 2010 (Note 27) | 26,061 | (7,758) | 5,119 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 8. DUE FROM THE GOVERNMENT (continued)

### a. Receivables for reimbursement of the subsidy costs for certain fuel (BBM) products (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Less: | | | |
| Cash received | (15,413,327) | (17,135,995) | (12,682,666) |
| Offset of receivable amount against balance due to the Government | - | - | (2,336,154) |
| Foreign exchange loss | (735,745) | (267,878) | (124,344) |
| **Ending balance** | **2,757,919** | **2,084,986** | **736,577** |

Corrections on billings for subsidy cost reimbursements are based on BPK's audit reports and recorded in the period in which the audit was completed.

### b. Receivables for reimbursements of costs for kerosene conversion to LPG program

These receivables represent amounts due from the Government to the Company for the reimbursement of costs involving initial supply and distribution of LPG 3 kg cylinders, stoves and accessories based on the letter from the MoEMR No. 3175K/10/MEM/2007 dated 27 December 2007 as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 277,218 | 287,903 | 244,078 |
| Distribution of LPG cylinders stove and accessories | 27,279 | 7,461 | 186,845 |
| Audit correction | (17,498) | - | - |
| Cash received | (27,279) | - | (139,439) |
| Foreign exchange loss | (57,291) | (18,146) | (3,581) |
| | **202,429** | **277,218** | **287,903** |
| Less: provision for impairment | - | (269,979) | (260,230) |
| **Ending balance** | **202,429** | **7,239** | **27,673** |

The Company has proposed an additional budget allocation for the settlement of the underpayment of these reimbursement costs to the Government.

On 28 June 2013 through letter No. S-1438/AG/2013, the Directorate General of Budget requested that the Finance and Development Supervisory Agency (BPKP) conduct an audit of the receivables for cost reimbursements for the above kerosene conversion program. BPKP has completed its audit and issued its verification report No. LAP-237/D102/2013 dated 20 December 2013 with amounts approved for reimbursement of Rp2,714,150 million (including tax). The difference between BPKP's verification report and the Company's record of Rp213,285 million (equivalent to US$17,498) was expensed in the current year profit or loss.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 8. DUE FROM THE GOVERNMENT (continued)

### b. Receivables for reimbursements of costs for kerosene conversion to LPG program (continued)

Based on the report above, the Directorate General of Oil and Gas at MoEMR had sent a letter No. 410/12/DJM.O/2014 to the Directorate General of Budget Ministry of Finance containing a proposal of payment which would be settled through APBN-P in the year 2014. Based on letter No. S-96/AG/2014 dated 22 January 2014, Ministry of Finance cq. the Directorate General of Budget stated that Ministry of Finance would seek to settle the receivables in 2014.

Based on the considerations mentioned above, the Company reversed the impairment for receivables for reimbursement of costs for kerosene conversion in 2013. The balance of provision for impairment as at 31 December 2013, 2012 and 2011 was US$Nil, US$269,979 and US$260,230, respectively.

### c. Receivables for marketing fees

These receivables represent amounts due from the Government to the Company for fees from marketing activities in relation to the Government's crude oil, natural gas and LNG.

The details of marketing fees are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Marketing fees: | | | |
| 2013 | 105,856 | - | - |
| 2012 | 127,763 | 126,880 | - |
| 2011 | 137,385 | 137,385 | 150,627 |
| 2010 | - | - | 151,057 |
| | **371,004** | **264,265** | **301,684** |
| Less: provision for impairment | (22,450) | (5,631) | - |
| **Ending balance** | **348,554** | **258,634** | **301,684** |

### d. Receivables for reimbursement of subsidy costs for LPG 3 kg cylinders

The Company's receivables from the reimbursement of subsidy costs for LPG 3 kg cylinders is a collection of the subsidy for LPG 3 kg cylinders distributed to the public. The Government assignment is in the form of a Public Service Obligation (PSO) and its pricing is set based on a yearly contract with MoEMR.

Subsidy payments by the Government are based on budget availability as set out in the APBN. For subsidy of LPG 3 kg cylinders for year 2013, there was a budget shortfall due to the distributions of LPG 3 kg exceeded the volume quota and budget in APBN-P 2013.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 8. DUE FROM THE GOVERNMENT (continued)

### d. Receivables for reimbursement of subsidy costs for LPG 3 kg cylinders (continued)

The receivables balance for the LPG 3 kg subsidy will be settled via the mechanism of the 2014 APBN.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 222,659 | 136,878 | 144,992 |
| Reclassification | - | (3,177) | - |
| Add: | | | |
| LPG subsidy costs reimbursement for the current year (Note 27) | 3,480,344 | 3,175,539 | 2,413,501 |
| Corrections from estimation for reimbursement of subsidy costs for LPG 3 kg cylinders for the year 2012 (Note 27) | 1,385 | - | - |
| Corrections from BPK for reimbursement of subsidy costs for LPG 3 kg cylinders for the year 2012, 2011 and 2010 (Note 27) | - | (686) | - (1,064) |
| Less: | | | |
| Cash collections | (2,657,724) | (3,042,145) | (1,715,256) |
| Foreign exchange loss | (237,944) | (43,750) | (22,284) |
| Offset of receivable amount against conversion account balance | - | - | (683,011) |
| **Ending balance** | **808,720** | **222,659** | **136,878** |

### e. Subsidiaries' receivables

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Subsidiaries:** | | | |
| PT Pertamina EP | | | |
| - Domestic Market Obligation (DMO) fees | 71,513 | 83,403 | 460,189 |
| - Underlifting | - | 20,170 | 28,190 |
| PT Pertamina Hulu Energi: | | | |
| - DMO fees | 64,794 | 24,750 | 203,762 |
| - Underlifting | 37,025 | 12,555 | 4,086 |
| **Total - subsidiaries** | **173,332** | **140,878** | **696,227** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 8. DUE FROM THE GOVERNMENT (continued)

### e. Subsidiaries' receivables (continued)

DMO fees represent amounts due from the Government in relation to PT Pertamina EP and PT Pertamina PHE's obligation to supply crude oil to meet the domestic market demand for fuel products in accordance with the PSCs.

The underlifting receivables represent PT Pertamina EP and PT Pertamina PHE's receivables from SKK MIGAS as a result of SKK MIGAS actual lifting of crude oil and gas being higher than its entitlement for the respective year.

Based on management's review of the collectability of each balance due from the Government at the dates of 31 December 2013, 2012 and 2011, management believes that its provision for impairment has been adequate to cover the potential losses as a result of uncollected amounts due from the Government.

## 9. INVENTORIES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Crude oil: | | | |
| Domestic production | 1,202,090 | 1,539,349 | 1,442,302 |
| Imported | 1,148,559 | 1,292,628 | 1,025,610 |
| Subtotal for crude oil | 2,350,649 | 2,831,977 | 2,467,912 |
| Oil products: | | | |
| Automotive Diesel Oil (ADO) | 1,700,874 | 1,924,668 | 1,451,915 |
| Premium gasoline | 1,096,013 | 1,047,285 | 903,131 |
| Products in process of production | 491,058 | 355,624 | 342,795 |
| Avtur and Avigas | 331,456 | 312,198 | 287,003 |
| Industrial/Marine fuel oil (IFO/MFO) | 215,476 | 262,702 | 277,620 |
| Kerosene | 204,725 | 247,159 | 294,557 |
| Pertamax, Pertamax Plus (gasoline) and Pertadex (diesel oil) | 132,246 | 94,960 | 124,383 |
| Industrial Diesel Oil (IDO) | 31,870 | 49,719 | 45,436 |
| LPG, petrochemicals, lubricants and others | 2,082,229 | 1,437,912 | 1,228,195 |
| Subtotal for oil products | 6,285,947 | 5,732,227 | 4,955,035 |
| Subtotal for crude oil and oil products | 8,636,596 | 8,564,204 | 7,422,947 |
| Less: | | | |
| Provision for decline in value of inventories (Note 30) | (57,672) | (32,384) | (41,861) |
| | 8,578,924 | 8,531,820 | 7,381,086 |
| Materials | 525,563 | 429,391 | 397,026 |
| **Total** | **9,104,487** | **8,961,211** | **7,778,112** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 9. INVENTORIES (continued)

Movements in the provision for decline in value of inventories are follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | (32,384) | (41,861) | (22,494) |
| (Provision)/reversal during the year | (25,288) | 9,477 | (19,367) |
| **Ending balance** | **(57,672)** | **(32,384)** | **(41,861)** |

Management believes that the provision for the decline in the value of inventories is adequate to cover possible losses that may arise from the decline in the realisable value of inventories.

Based on the review of the physical condition of material inventories at the end of the year, management believes that no provision for a decline in the value of material inventories is required.

As at 31 December 2013, 2012 and 2011 inventories were insured against fire and other risks (Note 11). Management believes that the insurance coverage amount is adequate to cover any possible losses that may arise in relation to the insured inventories.

Inventories amounting to US$96,644, US$60,268 and US$89,759 at 31 December 2013, 2012 and 2011, respectively, have been used as collateral for certain long-term loans by subsidiaries (Note 18.a.i).

## 10. LONG-TERM INVESTMENTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Investments in Medium Term Notes | - | 103,413 | 220,556 |
| Investments measured at cost | 17,222 | 26,399 | 27,538 |
| Investments in associates | 342,810 | 310,773 | 234,900 |
| Property investments | 271,253 | 198,101 | 195,521 |
| Other financial assets | 53,987 | 115,220 | 57,043 |
| **Total** | **685,272** | **753,906** | **735,558** |
| **Current portion** | **-** | **(103,413)** | **(110,278)** |
| **Non-current portion** | **685,272** | **650,493** | **625,280** |

### (i) Investments in Medium Term Notes (MTN)

The investments in MTNs represent investment arising from the restructuring of a portion of PLN's debt to the Company for fuel purchasing from 2006 to April 2007. Based on the Amended and Restated Debt Restructuring Agreement, on 15 December 2008, PLN issued MTNs of Rp5,000,000 million to the Company divided into ten series of Jumbo certificates with a nominal value of Rp500,000 million each with a maturity every six month period. All MTNs had been fully repaid on 15 December 2013.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 10. LONG-TERM INVESTMENTS (continued)

### (ii) Investments measured at cost

| | Percentage of effective ownership | | | Balance | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| **The Company** | | | | | | |
| - PT Seamless Pipe Indonesia Jaya | 10.4% | 10.4% | 10.4% | 25,026 | 25,026 | 25,026 |
| - PT Usayana [a)] | 95% | - | - | 3,035 | - | - |
| - PT Patra Dok Dumai [a)] | 100% | 100% | 100% | 1,156 | 11,712 | 11,712 |
| - PT Badak NGL[c)] | 55% | 55% | 55% | 149 | 149 | 149 |
| - PT Arun NGL [c)] | 55% | 55% | 55% | 110 | 110 | 110 |
| - PT Trans Pacific Petrochemical Indotama | 15% | 15% | 15% | 57 | 57 | 57 |
| - PT Pertamit Processing [d)] | - | 20% | 20% | - | 2,400 | 2,400 |
| - Korea Indonesia Petroleum Co. Ltd.,Hong Kong [b)] | 45% | 45% | 45% | - | - | - |
| - PT Karuna [e)] | - | - | 8.8% | - | - | 135 |
| | | | | 29,533 | 39,454 | 39,589 |
| Impairment of financial assets | | | | (21,150) | (21,150) | (21,150) |
| Total - the Company | | | | 8,383 | 18,304 | 18,439 |
| **Subsidiaries** | | | | | | |
| - PT Asuransi Jiwa Tugu Mandiri | 11.2% | 11.2% | 11.2% | 6,733 | 6,438 | 6,733 |
| - PT Trans Java Gas Pipeline | 10% | 10% | 10% | 754 | 951 | 1,014 |
| - PT Staco Jasapratama Indonesia | 4.5% | 4.5% | 6.4% | 751 | 179 | 751 |
| - PT Asuransi Maipark Indonesia | 7.4% | 7.4% | 7.4% | 601 | 527 | 601 |
| - PT Patra Bumi Lerep Permai | - | - | 23.6% | - | - | - |
| - PT Elnusa Rekabina [b)] | 98.8% | 98.8% | 98.8% | - | - | - |
| Total - subsidiaries | | | | 8,839 | 8,095 | 9,099 |
| **Total** | | | | **17,222** | **26,399** | **27,538** |

a) In liquidation process
b) Inactive
c) Refer to Note 2c
d) Has been liquidated
e) Has been sold

(Expressed in thousands of US Dollars, unless otherwise stated)

## 10. LONG-TERM INVESTMENTS (continued)

### (iii) Investments in associates

The movement of investments in associates are as follows:

| | 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Percentage of effective ownership | Beginning balance | Additional investment | Net asset transfers to associates, disposals and others | Share in net income/ (loss) | Dividends | Differences arising from translation of foreign currency financial statements | Ending balance |
| **The Company:** | | | | | | | | |
| - PT Elnusa Tbk. | 41.1% | 86,131 | - | 187 | 8,552 | (533) | (19,157) | 75,180 |
| - Pacific Petroleum & Trading Co. Ltd | 50% | 44,479 | - | 1,319 | 1,782 | (615) | (10,203) | 36,762 |
| - Korea Indonesia Petroleum Co. Ltd.,Labuan | 45% | 12,514 | - | - | (612) | (7,378) | - | 4,524 |
| | | 143,124 | - | 1,506 | 9,722 | (8,526) | (29,360) | 116,466 |
| **Indirect investments in shares of associates** | | | | | | | | |
| - PT Donggi Senoro LNG | 29% | 148,035 | 69,862 | - | (13,342) | - | - | 204,555 |
| - PT Tugu Reasuransi Indonesia | 25% | 12,024 | - | - | 2,165 | (72) | 1,346 | 15,463 |
| - PT Asuransi Samsung Tugu | 19.5% | 7,590 | - | - | 480 | (130) | (1,614) | 6,326 |
| | | 167,649 | 69,862 | - | (10,697) | (202) | (268) | 226,344 |
| **Total - investments in associates** | | 310,773 | 69,862 | 1,506 | (975) | (8,728) | (29,628) | 342,810 |

| | 31 December 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Percentage of effective ownership | Beginning balance | Additional investment | Net asset transfers (from)/to associates, disposals and others | Share in net income/ (loss) | Dividends | Differences arising from translation of foreign currency financial statements | Ending balance |
| **The Company:** | | | | | | | | |
| - PT Elnusa Tbk. | 41.1% | 85,441 | - | 350 | 5,891 | - | (5,551) | 86,131 |
| - Pacific Petroleum & Trading Co. Ltd | 50% | 41,673 | - | - | 1,109 | (876) | 2,573 | 44,479 |
| - Korea Indonesia Petroleum Co. Ltd.,Labuan | 45% | 13,294 | - | 358 | (238) | (900) | - | 12,514 |
| | | 140,408 | - | 708 | 6,762 | (1,776) | (2,978) | 143,124 |
| **Indirect investments in shares of associates** | | | | | | | | |
| - PT Donggi Senoro LNG | 29% | 77,969 | 80,243 | - | (10,177) | - | - | 148,035 |
| - PT Tugu Reasuransi Indonesia | 25% | 10,977 | - | 398 | 1,185 | (536) | - | 12,024 |
| - PT Asuransi Samsung Tugu | 19.5% | 5,340 | 635 | 857 | 537 | - | 221 | 7,590 |
| - PT Patra Bumi Lerep Permai [a)] | 23.6% | 206 | - | (206) | - | - | - | - |
| | | 94,492 | 80,878 | 1,049 | (8,455) | (536) | 221 | 167,649 |
| **Total - investments in associates** | | 234,900 | 80,878 | 1,757 | (1,693) | (2,312) | (2,757) | 310,773 |

a) Has been sold in July 2012

(Expressed in thousands of US Dollars, unless otherwise stated)

## 10. LONG-TERM INVESTMENTS (continued)

### (iii) Investments in associates (continued)

| | 31 December 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Percentage of effective ownership | Beginning balance | Additional investment | Net asset transfers (from)/to associates, disposals and others | Share in net income/ (loss) | Dividends | Differences arising from translation of foreign currency financial statements | Ending balance |
| **The Company:** | | | | | | | | |
| - PT Elnusa Tbk. | 41.1% | 88,583 | - | - | (2,276) | (934) | 68 | 85,441 |
| - Pacific Petroleum & Trading Co. Ltd. | 50% | 42,650 | - | - | 408 | (966) | (419) | 41,673 |
| - Korea Indonesia Petroleum Co. Ltd., Labuan | 45% | 14,446 | - | - | 198 | (1,350) | - | 13,294 |
| - PT Patra Dok Dumai [a)] | 100% | 11,712 | - | (11,712) | - | - | - | - |
| - Nusantara Gas Services Company Inc.[b)] | 49% | 2,120 | - | (2,120) | - | - | - | - |
| | | 159,511 | - | (13,832) | (1,670) | (3,250) | (351) | 140,408 |
| **Indirect investments in shares of associates** | | | | | | | | |
| - PT Donggi Senoro LNG | 29% | 7,543 | 76,837 | - | (6,411) | - | - | 77,969 |
| - PT Tugu Reasuransi Indonesia | 25% | 8,197 | 1,508 | 207 | 1,133 | (68) | - | 10,977 |
| - PT Asuransi Samsung Tugu | 19.5% | 4,797 | - | (34) | 628 | (51) | - | 5,340 |
| - PT Yekapepe Usaha Nusa [b)] | 0% | 145 | - | (145) | - | - | - | - |
| - PT Patra Bumi Lerep Permai | 23.6% | - | 195 | 11 | - | - | - | 206 |
| | | 20,682 | 78,540 | 39 | (4,650) | (119) | - | 94,492 |
| **Total - investments in associates** | | 180,193 | 78,540 | (13,793) | (6,320) | (3,369) | (351) | 234,900 |

a) In liquidation process
b) Has been liquidated

(Expressed in thousands of US Dollars, unless otherwise stated)

## 10. LONG-TERM INVESTMENTS (continued)

### (iii) Investments in associates (continued)

Based on the Group's management review, there were no events or changes in circumstances which indicated an impairment in the value of investments in associate as at 31 December 2013, 2012 and 2011.

Associates' financial information are as follows:

| Year | Country of incorporation | Assets | Liabilities | Revenues | Profit/ (loss) | % Effective ownership |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| - PT Elnusa Tbk. | Indonesia | 371,837 | (185,980) | 388,240 | 20,808 | 41.1% |
| - Pacific Petroleum & Trading Co. Ltd. | Japan | 129,067 | (60,503) | 745,237 | 3,565 | 50% |
| - Korea Indonesia Petroleum Co. Ltd., Labuan | Malaysia | 26,527 | (16,474) | 344,687 | (882) | 45% |
| - PT Donggi Senoro LNG | Indonesia | 2,056,289 | (1,352,826) | - | (47,906) | 29% |
| - PT Tugu Reasuransi Indonesia | Indonesia | 123,891 | (99,865) | 13,050 | 6,293 | 25% |
| - PT Asuransi Samsung Tugu | Indonesia | 56,410 | (44,778) | 7,212 | 1,175 | 19.5% |
| **31 December 2012** | | | | | | |
| - PT Elnusa Tbk. | Indonesia | 447,611 | (236,150) | 512,604 | 13,110 | 41.1% |
| - Pacific Petroleum & Trading Co. Ltd. | Japan | 164,128 | (75,168) | 680,174 | 2,219 | 50% |
| - Korea Indonesia Petroleum Co. Ltd., Labuan | Malaysia | 98,148 | (70,340) | 70,351 | (530) | 45% |
| - PT Donggi Senoro LNG | Indonesia | 1,507,926 | (997,458) | - | (34,613) | 29% |
| - PT Tugu Reasuransi Indonesia | Indonesia | 98,836 | (74,637) | 63,435 | 4,881 | 25% |
| - PT Asuransi Samsung Tugu | Indonesia | 34,030 | (19,786) | 8,962 | 1,790 | 19.5% |
| **31 December 2011** | | | | | | |
| - PT Elnusa Tbk. | Indonesia | 475,111 | (266,287) | 523,850 | (5,463) | 41.1% |
| - Pacific Petroleum & Trading Co. Ltd. | Japan | 138,420 | (50,042) | 775,977 | 817 | 50% |
| - Korea Indonesia Petroleum Co. Ltd., Labuan | Malaysia | 101,430 | (71,087) | 645,344 | 225 | 45% |
| - PT Donggi Senoro LNG | Indonesia | 770,621 | (501,761) | - | (21,629) | 29% |
| - PT Tugu Reasuransi Indonesia | Indonesia | 61,549 | (42,862) | 47,882 | 4,230 | 25% |
| - PT Asuransi Samsung Tugu | Indonesia | 23,843 | (10,670) | 6,260 | 1,987 | 19.5% |
| - PT Yekapepe Usaha Nusa [a)] | Indonesia | 353 | (37) | - | (151) | 38% |
| - PT Patra Bumi Lerep Permai [b)] | Indonesia | 891 | (22) | 16 | (78) | 23.6% |

a) Has been liquidated
b) Has been sold in July 2012

(Expressed in thousands of US Dollars, unless otherwise stated)

## 10. LONG-TERM INVESTMENTS (continued)

### (iv) Investments in property

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassifications | Ending balance |
| **Historical cost** | | | | | |
| Land and land rights | 188,757 | 35,355 | (17,979) | 48,091 | 254,224 |
| Buildings | 24,261 | 6 | (99) | 10,708 | 34,876 |
| Total historical cost | 213,018 | 35,361 | (18,078) | 58,799 | 289,100 |
| **Accumulated depreciation** | | | | | |
| Buildings | (14,917) | (426) | 54 | (2,558) | (17,847) |
| **Net book value** | 198,101 | | | | 271,253 |

| | 31 December 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassifications | Ending balance |
| **Historical cost** | | | | | |
| Land and land rights | 185,686 | - | (516) | 3,587 | 188,757 |
| Buildings | 23,704 | - | (48) | 605 | 24,261 |
| Total historical cost | 209,390 | - | (564) | 4,192 | 213,018 |
| **Accumulated depreciation** | | | | | |
| Buildings | (13,869) | (389) | 44 | (703) | (14,917) |
| **Net book value** | 195,521 | | | | 198,101 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 10. LONG-TERM INVESTMENTS (continued)

### (iv) Investments in property (continued)

| | 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassifications | Ending balance |
| **Historical cost** | | | | | |
| Land and land rights | 185,686 | - | - | - | 185,686 |
| Buildings | 23,803 | - | - | (99) | 23,704 |
| Total historical cost | 209,489 | - | - | (99) | 209,390 |
| **Accumulated depreciation** | | | | | |
| Buildings | (12,548) | (909) | - | (412) | (13,869) |
| **Net book value** | **196,941** | | | | **195,521** |

Depreciation expense for 2013, 2012 and 2011 with respect to such property investments amounted to US$426, US$389 and US$909, respectively (Note 35).

As at 31 December 2013, 2012 and 2011 all of the Group's property investments, except land and land rights, were insured against fire and other possible risks (Note 11).

The fair value of property investments is calculated based on their tax object sale value (NJOP), which as at 31 December 2013, 2012 and 2011 amounted to US$793,444, US$555,455 and US$510,329, respectively.

Rental income from property investments recognised in 2013, 2012 and 2011 amounted to US$8,288, US$10,072 and US$10,665, respectively.

Based on the Group's management review, there were no events or changes in circumstances which indicate an impairment in the value of investments in property as at 31 December 2013, 2012 and 2011.

Land and buildings owned by a subsidiary located in Kebon Sirih, Jakarta, were used as collateral for bank loan by a subsidiary.

### (v) Other financial assets

As at 31 December 2013, 2012 and 2011 other financial assets represented bond securities owned by PT Tugu Pratama Indonesia.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 11. FIXED ASSETS

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassi- fications | Translation | Ending balance |
| **Acquisition cost:** | | | | | | |
| Land and land rights | 1,218,498 | 10,766 | (12,220) | (35,335) | (8,422) | 1,173,287 |
| Tanks, pipeline installations and other equipments | 3,806,378 | 68,249 | (7,430) | 532,304 | (771) | 4,398,730 |
| Refineries | 3,148,859 | 257,251 | (505) | 135,605 | (34) | 3,541,176 |
| Buildings | 594,330 | 31,557 | (3,798) | (2,730) | (15,267) | 604,092 |
| Ships and aircrafts | 1,347,652 | 155,485 | (1,306) | 56,128 | (19,581) | 1,538,378 |
| Moveable assets | 797,196 | 41,982 | (8,004) | 26,943 | (21,354) | 836,763 |
| Assets under construction | 1,381,335 | 1,319,790 | (6,802) | (787,733) | (5,161) | 1,901,429 |
| | 12,294,248 | 1,885,080 | (40,065) | (74,818) | (70,590) | 13,993,855 |
| **Finance lease assets:** | | | | | | |
| Land rights | 36,917 | 5,284 | - | - | - | 42,201 |
| Tanks, pipeline installations and other equipments | 253,423 | 6,698 | (306) | - | - | 259,815 |
| Buildings | 72,952 | 5,026 | - | - | - | 77,978 |
| Moveable assets | 280,355 | 22,800 | (2,636) | 2,325 | (1) | 302,843 |
| | 643,647 | 39,808 | (2,942) | 2,325 | (1) | 682,837 |
| **Total acquisition cost** | **12,937,895** | **1,924,888** | **(43,007)** | **(72,493)** | **(70,591)** | **14,676,692** |
| **Accumulated depreciation:** | | | | | | |
| Land rights | (177) | (19) | - | - | 39 | (157) |
| Tanks, pipeline installations and other equipments | (2,090,532) | (181,719) | 2,227 | - | 272 | (2,269,752) |
| Refineries | (1,410,834) | (185,801) | 446 | 2,670 | 30 | (1,593,489) |
| Buildings | (288,349) | (24,132) | 2,190 | 12,516 | 9,918 | (287,857) |
| Ships and aircrafts | (453,123) | (61,758) | 1,202 | 1,061 | 3,895 | (508,723) |
| Moveable assets | (442,870) | (70,838) | 6,874 | - | 14,046 | (492,788) |
| | (4,685,885) | (524,267) | 12,939 | 16,247 | 28,200 | (5,152,766) |
| **Finance lease assets:** | | | | | | |
| Land rights | (14,229) | (264) | - | - | - | (14,493) |
| Tanks, pipeline installations and other equipments | (74,499) | (2,138) | 441 | - | - | (76,196) |
| Buildings | (22,564) | (251) | - | - | - | (22,815) |
| Moveable assets | (128,448) | (55,907) | 895 | 5 | 77 | (183,378) |
| | (239,740) | (58,560) | 1,336 | 5 | 77 | (296,882) |
| **Total accumulated depreciation** | **(4,925,625)** | **(582,827)** | **14,275** | **16,252** | **28,277** | **(5,449,648)** |
| Provision for impairment | (39,677) | - | - | - | - | (39,677) |
| **Net book value** | **7,972,593** | | | | | **9,187,367** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 11. FIXED ASSETS (continued)

| | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassi- fications | Translation | Ending balance |
| **Acquisition cost:** | | | | | | |
| Land and land rights | 1,216,176 | 4,612 | (3,504) | 6,179 | (4,965) | 1,218,498 |
| Tanks, pipeline installations and other equipments | 3,689,510 | 55,240 | (246) | 61,874 | - | 3,806,378 |
| Refineries | 3,168,532 | 6,909 | (33,364) | 6,812 | (30) | 3,148,859 |
| Buildings | 569,884 | 9,510 | (32) | 20,752 | (5,784) | 594,330 |
| Ships and aircrafts | 1,152,493 | 13,501 | (51,633) | 236,854 | (3,563) | 1,347,652 |
| Moveable assets | 645,305 | 109,276 | (6,952) | 50,588 | (1,021) | 797,196 |
| Assets under construction | 1,203,344 | 650,528 | (13,210) | (458,253) | (1,074) | 1,381,335 |
| | 11,645,244 | 849,576 | (108,941) | (75,194) | (16,437) | 12,294,248 |
| **Finance lease assets:** | | | | | | |
| Land rights | 33,413 | 3,210 | - | - | 294 | 36,917 |
| Tanks, pipeline installations and other equipments | 238,395 | 15,028 | - | - | - | 253,423 |
| Buildings | 67,628 | 5,324 | - | - | - | 72,952 |
| Ships and aircrafts | 6,052 | - | - | (6,052) | - | - |
| Moveable assets | 263,089 | 20,227 | (25) | (3,323) | 387 | 280,355 |
| | 608,577 | 43,789 | (25) | (9,375) | 681 | 643,647 |
| **Total acquisition cost** | **12,253,821** | **893,365** | **(108,966)** | **(84,569)** | **(15,756)** | **12,937,895** |
| **Accumulated depreciation:** | | | | | | |
| Land rights | (167) | (48) | - | 38 | - | (177) |
| Tanks, pipeline installations and other equipments | (1,935,439) | (177,204) | 139 | 21,972 | - | (2,090,532) |
| Refineries | (1,255,925) | (181,509) | 20,254 | 6,346 | - | (1,410,834) |
| Buildings | (263,580) | (30,079) | 23 | 2,504 | 2,783 | (288,349) |
| Ships and aircrafts | (462,965) | (46,473) | 47,395 | 8,044 | 876 | (453,123) |
| Moveable assets | (364,734) | (54,034) | 3,143 | (28,095) | 850 | (442,870) |
| | (4,282,810) | (489,347) | 70,954 | 10,809 | 4,509 | (4,685,885) |
| **Finance lease assets:** | | | | | | |
| Land rights | (8,360) | (5,869) | - | - | - | (14,229) |
| Tanks, pipeline installations and other equipments | (56,495) | (18,004) | - | - | - | (74,499) |
| Buildings | (12,389) | (10,175) | - | - | - | (22,564) |
| Ships and aircrafts | (2,118) | - | - | 2,118 | - | - |
| Moveable assets | (99,979) | (29,595) | - | 1,265 | (139) | (128,448) |
| | (179,341) | (63,643) | - | 3,383 | (139) | (239,740) |
| **Total accumulated depreciation** | **(4,462,151)** | **(552,990)** | **70,954** | **14,192** | **4,370** | **(4,925,625)** |
| Provision for impairment | (61,527) | - | - | 21,850 | - | (39,677) |
| **Net book value** | **7,730,143** | | | | | **7,972,593** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 11. FIXED ASSETS (continued)

| | 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassi- fications | Translation | Ending balance |
| **Acquisition cost:** | | | | | | |
| Land and land rights | 1,146,964 | 69,820 | (4,046) | 3,775 | (337) | 1,216,176 |
| Tanks, pipeline installations and other equipments | 3,615,057 | 83,679 | (750) | 55,367 | (63,843) | 3,689,510 |
| Refineries | 3,097,250 | 65,291 | - | 6,499 | (508) | 3,168,532 |
| Buildings | 537,554 | 31,099 | (298) | 4,859 | (3,330) | 569,884 |
| Ships and aircrafts | 672,183 | 55,469 | (1,396) | 421,207 | 5,030 | 1,152,493 |
| Moveable assets | 493,316 | 90,537 | (6,630) | (163) | 68,245 | 645,305 |
| Assets under construction | 1,192,211 | 578,214 | (32,807) | (533,916) | (358) | 1,203,344 |
| | 10,754,535 | 974,109 | (45,927) | (42,372) | 4,899 | 11,645,244 |
| **Finance lease assets:** | | | | | | |
| Land rights | 27,317 | 6,390 | - | - | (294) | 33,413 |
| Tanks, pipeline installations and other equipments | 195,443 | 42,952 | - | - | - | 238,395 |
| Buildings | 54,808 | 12,820 | - | - | - | 67,628 |
| Ships and aircrafts | 6,052 | - | - | - | - | 6,052 |
| Moveable assets | 216,493 | 48,203 | - | (1,519) | (88) | 263,089 |
| | 500,113 | 110,365 | - | (1,519) | (382) | 608,577 |
| **Total acquisition cost** | **11,254,648** | **1,084,474** | **(45,927)** | **(43,891)** | **4,517** | **12,253,821** |
| **Accumulated depreciation:** | | | | | | |
| Land rights | (130) | (20) | - | - | (17) | (167) |
| Tanks, pipeline installations and other equipments | (1,817,593) | (179,700) | 509 | 7,718 | 53,627 | (1,935,439) |
| Refineries | (1,065,710) | (193,011) | - | 2,796 | - | (1,255,925) |
| Buildings | (236,643) | (30,175) | 190 | 304 | 2,744 | (263,580) |
| Ships and aircrafts | (418,956) | (39,556) | 671 | 121 | (5,245) | (462,965) |
| Moveable assets | (276,579) | (47,093) | 5,577 | 10,467 | (57,106) | (364,734) |
| | (3,815,611) | (489,555) | 6,947 | 21,406 | (5,997) | (4,282,810) |
| **Finance lease assets:** | | | | | | |
| Land rights | (5,689) | (2,671) | - | - | - | (8,360) |
| Tanks, pipeline installations and other equipments | (39,334) | (17,161) | - | - | - | (56,495) |
| Buildings | (8,431) | (3,958) | - | - | - | (12,389) |
| Ships and aircrafts | (1,513) | (605) | - | - | - | (2,118) |
| Moveable assets | (68,207) | (32,597) | - | 605 | 220 | (99,979) |
| | (123,174) | (56,992) | - | 605 | 220 | (179,341) |
| **Total accumulated depreciation** | **(3,938,785)** | **(546,547)** | **6,947** | **22,011** | **(5,777)** | **(4,462,151)** |
| Provision for impairment | (66,791) | - | - | 5,264 | - | (61,527) |
| **Net book value** | **7,249,072** | | | | | **7,730,143** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 11. FIXED ASSETS (continued)

The allocation of depreciation expense is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cost of goods sold (Note 30) | 368,049 | 319,065 | 324,083 |
| Expenses in relation to other operating activities (Note 33) | 56,976 | 38,541 | 60,179 |
| Selling and marketing expenses (Note 34) | 148,272 | 158,920 | 147,521 |
| General and administrative expenses (Note 35) | 9,530 | 36,464 | 14,764 |
| **Total** | **582,827** | **552,990** | **546,547** |

As at 31 December 2013, the Group owned parcels of land at various locations in Indonesia with Building Use Rights (HGB) ranging from 20 to 30 years. Some of the HGBs have expired or are near their expiration dates. Management believes that those HGB certificates can be extended upon their expiration.

As at 31 December 2013, 2012 and 2011, the Group's inventories, property investments, fixed assets, and oil and gas and geothermal properties, except for land and land rights, are insured against fire and other possible risks for a total insurance coverage of US$42,436,154, US$30,408,507 and US$31,696,455, respectively.

Management believes that the insurance coverage is adequate to cover any possible losses that may arise in relation to the insured assets.

Certain fixed assets are pledged as collateral for Subsidiaries' long-term loans (Note 18.a.(i).

Interest capitalised as part of the fixed assets amounted to US$21,759, US$21,269 and US$16,076 in 2013, 2012 and 2011, respectively. The average capitalisation rate for the period ended 31 December 2013, 2012 and 2011 was 3.55%, 4.69% and 3.74%, respectively.

Management believes that the provision of impairment in the value of fixed assets as at 31 December 2013, 2012 and 2011 is adequate to cover any possible losses on from impairment of fixed assets.

Assets under construction at 31 December 2013 consist of refinery, installation and moveable assets under constructions in Indonesia and vessels in overseas locations.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 12. OIL & GAS AND GEOTHERMAL PROPERTIES

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions | Transfers/ Reclassi- fications | Ending balance |
| **Acquisition cost:** | | | | | |
| Land and land rights | 12,190 | 19 | - | - | 12,209 |
| Oil and gas wells | 6,342,007 | 2,090,551 | (287,708) | 949,763 | 9,094,613 |
| Geothermal wells | 226,218 | - | - | - | 226,218 |
| Installations | 1,453,383 | 27,722 | (22,059) | 650,898 | 2,109,944 |
| LPG plants | 16,878 | - | - | - | 16,878 |
| Buildings | 59,355 | 3,063 | - | 872 | 63,290 |
| Moveable assets | 127,525 | 9,400 | - | 17,829 | 154,754 |
| Subtotal | 8,237,556 | 2,130,755 | (309,767) | 1,619,362 | 11,677,906 |
| **Assets under construction:** | | | | | |
| Exploratory and evaluation wells | 681,379 | 296,852 | (65) | (148,231) | 829,935 |
| Development wells | 1,177,428 | 2,263,093 | (34,741) | (1,502,406) | 1,903,374 |
| Subtotal | 1,858,807 | 2,559,945 | (34,806) | (1,650,637) | 2,733,309 |
| **Finance lease assets:** | | | | | |
| Installations | 311,511 | - | - | - | 311,511 |
| LPG plants | 44,675 | - | - | - | 44,675 |
| Buildings | 59,364 | - | - | - | 59,364 |
| Moveable assets | 17,572 | - | - | - | 17,572 |
| Subtotal | 433,122 | - | - | - | 433,122 |
| **Total acquisition cost** | **10,529,485** | **4,690,700** | **(344,573)** | **(31,275)** | **14,844,337** |
| **Accumulated depreciation, depletion and amortisation:** | | | | | |
| Oil and gas wells | (1,845,450) | (548,951) | - | 31,275 | (2,363,126) |
| Geothermal wells | (72,322) | (13,204) | - | - | (85,526) |
| Installations | (769,579) | (96,303) | - | (9,967) | (875,849) |
| LPG plants | (5,205) | (695) | - | - | (5,900) |
| Buildings | (14,599) | (4,042) | - | - | (18,641) |
| Moveable assets | (56,128) | (12,846) | - | 9,967 | (59,007) |
| Subtotal | (2,763,283) | (676,041) | - | 31,275 | (3,408,049) |
| **Finance lease assets:** | | | | | |
| Installations | (242,143) | (8,611) | (11,256) | - | (262,010) |
| LPG plants | (61,241) | (3,515) | 24,973 | - | (39,783) |
| Buildings | (53,883) | (876) | - | - | (54,759) |
| Moveable assets | (13,605) | (502) | 194 | - | (13,913) |
| Subtotal | (370,872) | (13,504) | 13,911 | - | (370,465) |
| **Total accumulated depreciation, depletion and amortisation** | **(3,134,155)** | **(689,545)** | **13,911** | **31,275** | **(3,778,514)** |
| Provision for impairment | (3,836) | - | - | - | (3,836) |
| **Net book value** | **7,391,494** | | | | **11,061,987** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 12. OIL & GAS AND GEOTHERMAL PROPERTIES (continued)

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Deductions[a)] | Transfers/ Reclassi-fications | Ending balance |
| **Acquisition cost:** | | | | | |
| Land and land rights | 8,692 | 2,450 | - | 1,048 | 12,190 |
| Oil and gas wells | 4,847,721 | 803,616 | (5,835) | 696,505 | 6,342,007 |
| Geothermal wells | 115,795 | - | - | 110,423 | 226,218 |
| Installations | 1,152,786 | 29,897 | - | 270,700 | 1,453,383 |
| LPG plants | 16,878 | - | - | - | 16,878 |
| Buildings | 38,497 | 366 | - | 20,492 | 59,355 |
| Moveable assets | 96,340 | - | - | 31,185 | 127,525 |
| Subtotal | 6,276,709 | 836,329 | (5,835) | 1,130,353 | 8,237,556 |
| **Assets under construction:** | | | | | |
| Exploratory and evaluation wells | 840,109 | 356,695 | (131,376) | (384,049) | 681,379 |
| Development wells | 644,680 | 1,370,722 | (54,815) | (783,159) | 1,177,428 |
| Subtotal | 1,484,789 | 1,727,417 | (186,191) | (1,167,208) | 1,858,807 |
| **Finance lease assets:** | | | | | |
| Installations | 311,511 | - | - | - | 311,511 |
| LPG plants | 44,675 | - | - | - | 44,675 |
| Buildings | 59,364 | - | - | - | 59,364 |
| Moveable assets | 17,572 | - | - | - | 17,572 |
| Subtotal | 433,122 | - | - | - | 433,122 |
| **Total acquisition cost** | **8,194,620** | **2,563,746** | **(192,026)** | **(36,855)** | **10,529,485** |
| **Accumulated depreciation, depletion and amortisation:** | | | | | |
| Oil and gas wells | (1,489,210) | (374,080) | (39,791) | 57,631 | (1,845,450) |
| Geothermal wells | (61,624) | (10,698) | - | - | (72,322) |
| Installations | (672,486) | (97,093) | - | - | (769,579) |
| LPG plants | (4,510) | (695) | - | - | (5,205) |
| Buildings | (11,153) | (3,446) | - | - | (14,599) |
| Moveable assets | (52,104) | (4,024) | - | - | (56,128) |
| Subtotal | (2,291,087) | (490,036) | (39,791) | 57,631 | (2,763,283) |
| **Finance lease assets:** | | | | | |
| Installations | (236,894) | (5,249) | - | - | (242,143) |
| LPG plants | (39,879) | (21,362) | - | - | (61,241) |
| Buildings | (52,805) | (1,078) | - | - | (53,883) |
| Moveable assets | (12,972) | (633) | - | - | (13,605) |
| Subtotal | (342,550) | (28,322) | - | - | (370,872) |
| **Total accumulated depreciation, depletion and amortisation** | **(2,633,637)** | **(518,358)** | **(39,791)** | **57,631** | **(3,134,155)** |
| Provision for impairment | (188,990) | - | 185,154 | - | (3,836) |
| **Net book value** | **5,371,993** | | | | **7,391,494** |

a) The deductions include the reversal of provision for SK 305 block amounting to US$108,760 (Provision amounting to US$185,154 includes dryhole and depreciation, depletion and amortisation amounting US$76,394).

(Expressed in thousands of US Dollars, unless otherwise stated)

## 12. OIL & GAS AND GEOTHERMAL PROPERTIES (continued)

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions[b)] | Deductions | Transfers/ Reclassi-fications | Ending balance |
| **Acquisition cost:** | | | | | |
| Land and land rights | 7,417 | 436 | - | 839 | 8,692 |
| Oil and gas wells | 3,952,912 | 301,546 | - | 593,263 | 4,847,721 |
| Geothermal wells | 87,210 | - | - | 28,585 | 115,795 |
| Installations | 978,208 | 2,583 | - | 171,995 | 1,152,786 |
| LPG plants | 16,878 | - | - | - | 16,878 |
| Buildings | 28,770 | 1,700 | - | 8,027 | 38,497 |
| Moveable assets | 70,158 | 12,664 | - | 13,518 | 96,340 |
| Subtotal | 5,141,553 | 318,929 | - | 816,227 | 6,276,709 |
| **Assets under construction:** | | | | | |
| Exploratory and evaluation wells | 838,193 | 490,530 | (140,518) | (348,096) | 840,109 |
| Development wells | 348,943 | 673,761 | 102,402 | (480,426) | 644,680 |
| Subtotal | 1,187,136 | 1,164,291 | (38,116) | (828,522) | 1,484,789 |
| **Finance lease assets:** | | | | | |
| Installations | 311,511 | - | - | - | 311,511 |
| LPG plants | 44,675 | - | - | - | 44,675 |
| Buildings | 59,364 | - | - | - | 59,364 |
| Moveable assets | 17,572 | - | - | - | 17,572 |
| Subtotal | 433,122 | - | - | - | 433,122 |
| **Total acquisition cost** | **6,761,811** | **1,483,220** | **(38,116)** | **(12,295)** | **8,194,620** |
| **Accumulated depreciation, depletion and amortisation:** | | | | | |
| Oil and gas wells | (1,240,728) | (248,482) | - | - | (1,489,210) |
| Geothermal wells | (55,153) | (6,471) | - | - | (61,624) |
| Installations | (588,872) | (83,614) | - | - | (672,486) |
| LPG plants | (3,815) | (695) | - | - | (4,510) |
| Buildings | (8,139) | (3,014) | - | - | (11,153) |
| Moveable assets | (42,232) | (9,872) | - | - | (52,104) |
| Subtotal | (1,938,939) | (352,148) | - | - | (2,291,087) |
| **Finance lease assets:** | | | | | |
| Installations | (230,738) | (6,156) | - | - | (236,894) |
| LPG plants | (29,093) | (10,786) | - | - | (39,879) |
| Buildings | (51,559) | (1,246) | - | - | (52,805) |
| Moveable assets | (12,014) | (958) | - | - | (12,972) |
| Subtotal | (323,404) | (19,146) | - | - | (342,550) |
| **Total accumulated depreciation, depletion and amortisation** | **(2,262,343)** | **(371,294)** | **-** | **-** | **(2,633,637)** |
| Provision for impairment | - | (188,990) | - | - | (188,990) |
| **Net book value** | **4,499,468** | | | | **5,371,993** |

b) The additions include the increase of PT PHE West Madura's net asset in West Madura Offshore Block, which proportionally with the increase of its participating interest, involving an acquisition cost and accumulated depreciation amounting to US$77,549 and US$54,498, respectively.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 12. OIL & GAS AND GEOTHERMAL PROPERTIES (continued)

**Impairment oil and gas properties in year 2011**

Management performed impairment testing in 2011 due to indication of impairment in certain PSC blocks and overseas oil and gas blocks. The impairment charge arose in SK-305 block (Malaysia) and South Jambi PSC block following management technical and commercial evaluations based on the result of recent exploaration

| | Recoverable value | Book value | Impairment charge |
|---|---|---|---|
| PHE South Jambi | - | 3,630 | 3,630 |
| SK 305 | - | 185,360 | 185,360 |
| **Total** | **-** | **188,990** | **188,990** |

The recoverable amount of those oil and gas blocks are determined based on value-in-use calculation which provides a higher value than the fair value less cost to sell calculation. Those calculation use pre-tax cash flow projections based on financial budgets approved by management covering the oil and gas reserves owned by the Subsidiaries.

Key assumptions used for value-in-use calculation as the basis of impairment test in 2011 are as follows

| | Oil price per barrel US$ (full amount) | Gas price per bcf (US$) (full amount) | Discount rate (%) |
|---|---|---|---|
| PHE South Jambi | 90 | 12 | 9.89 |
| SK 305 | 90 | 0.63 | 11.58 |

**Reversal of impairment oil and gas properties in year 2012**

During 2012, the Group negotiated a gas sales price for SK-305 block (Malaysia). The gas price offered by Petronas as the regulator in Malaysia was 0.16xHSFO (High Sulfur Fuel Oil). Based on this information, management reversed the provision for impairment.

Key assumptions used for the fair value less cost to sales calculation as the basis of reversal of impairment tested in 2012:

| | Oil price per barrel US$ (full amount) | Gas price per bcf (US$) (full amount) | Discount rate (%) |
|---|---|---|---|
| SK 305 | 100 | 2.89 | 7.40 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 12. OIL & GAS AND GEOTHERMAL PROPERTIES (continued)

**Reversal of impairment oil and gas properties in year 2012** (continued)

In 2013, all asumptions used were still considered relevant and reflected the actual business conditions.

The allocation of depreciation, depletion and amortisation expenses is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Upstream production and lifting costs (Note 31) | 677,761 | 517,807 | 349,979 |
| General and administrative expenses (Note 35) | 11,784 | 551 | 21,315 |
| **Total** | 689,545 | 518,358 | 371,294 |

As at 31 December 2013, 2012 and 2011, all of the Company's, PT Pertamina EP's and PGE's oil & gas and geothermal properties, except land and land rights, were insured against fire and other possible risks.

Management believes that the insurance coverage amount is adequate to cover any possible losses that may arise in relation to the insured oil & gas and geothermal properties.

Interest capitalised as part of the oil & gas and geothermal properties amounted to US$39,306, US$27,325 and US$9,780 in 2013, 2012 and 2011, respectively. The average capitalisation rates for the years ended 31 December 2013, 2012 and 2011 were 6.75%, 4.69% and 3.74%, respectively.

## 13. OTHER ASSETS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Goodwill | 617,345 | 57,875 | 57,875 |
| Other receivables - related parties (Note 39b) | 262,422 | 71,195 | 163,630 |
| Restricted cash | 151,853 | 99,649 | 80,612 |
| Deferred charges | 73,648 | 14,090 | 19,537 |
| Long-term employee receivables | 47,214 | 32,548 | 29,608 |
| Trade receivables - related parties (Note 39a) | 35,216 | - | - |
| Non-free and non-clear assets | 26,162 | 26,162 | 26,156 |
| Others | 55,087 | 57,440 | 64,436 |
| **Total** | 1,268,947 | 358,959 | 441,854 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 13. OTHER ASSETS (continued)

### a. Goodwill

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| COPAL | 556,703 | - | - |
| ONWJ | 53,337 | 53,337 | 53,337 |
| PHE Tuban | 4,538 | 4,538 | 4,538 |
| Others | 2,767 | - | - |
| **Total** | **617,345** | **57,875** | **57,875** |

The balance of goodwill arose primarily from the Group's acquisitions of COPAL in 2013, PT PHE ONWJ (formerly BP West Java Ltd.) in 2009, and PT PHE Tuban (formerly PT Medco E&P Tuban) in 2008.

The goodwill is allocated to the Company's Cash Generating Unit (CGU) identified according to PSC blocks.

The recoverable amounts of those oil and gas blocks are determined based on the fair value less cost to sale calculation, which provides higher values than the value-in use calculation.

Key assumptions used for the fair value less cost to sell calculation as the basis of the impairment test for goodwill in 2013 are as follows:

| | Oil price (US$) | Gas price (US$) | Discount rate (%) |
|---|---|---|---|
| ONWJ | 106 | 11.7 | 7.58 |
| PHE Tuban | 106 | 1.45 | 7.58 |
| COPAL | 112 | - | 11.00 |

Management determined the oil price based on its expectations of market development, and the gas price based on the gas sales contract. The discount rate used reflects risk relating to the relevant oil and gas industry. In addition, management believes that these PSCs will be extended by the Government.

Management believes based on impairment test, no impairment on goodwill is necessary.

### b. Non-free and non-clear assets - net

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Non-free and non-clear assets | 151,552 | 151,552 | 151,546 |
| Provision for impairment | (125,390) | (125,390) | (125,390) |
| **Total** | **26,162** | **26,162** | **26,156** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 13. OTHER ASSETS (continued)

### b. Non-free and non-clear assets – net (continued)

Non-free and non-clear assets represent land located in Plumpang, Jakarta and certain assets located in other areas where, as at 31 December 2013, the documentation and rights of the Company are still subject to completion of the legal and settlement processes to allow the Company to fully utilise such assets.

The Company has recognised a provision for impairment to reduce the value of such assets to their recoverable amount. Management believes that the provision for impairment is adequate.

### c. Restricted cash

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| US Dollar accounts: | | | |
| Joint account for decommissioning and site restoration | | | |
| - BRI | 122,818 | 76,281 | 66,656 |
| Government-related entities | | | |
| - Bank Mandiri | 29,035 | 14,535 | 7,800 |
| - BNI | - | 7,179 | 4,956 |
| - BRI | - | 1,654 | - |
| | 151,853 | 99,649 | 79,412 |
| Rupiah accounts: | | | |
| Government-related entities | | | |
| - BNI | - | - | 1,200 |
| | - | - | 1,200 |
| Total | **151,853** | **99,649** | **80,612** |

In accordance with SKK Migas instructions, PT Pertamina EP has deposited US$122, 818 (2012: US$76,281, 2011: US$66,656) to be used for decommissioning, site restoration and other related activities in a joint bank account held by SKK Migas and PT Pertamina EP.

Restricted cash at Bank Mandiri, BNI and BRI represents time deposits which are used as bank guarantees for time charter parties, the purchase of LNG, land and offshore drilling contract units, aircraft charter, financing of vessel construction and the work program to be carried out by PT Nusantara Regas, PT Pertamina Drilling Service Indonesia and PT PHE West Madura.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 14. SHORT-TERM LOANS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Government-related entities | | | |
| - Bank Mandiri | 683,256 | 585,610 | 302,843 |
| - BNI | 657,025 | 654,284 | 639,072 |
| - BRI | 609,737 | 855,337 | 621,531 |
| - Lembaga Pembiayaan Ekspor Indonesia | - | - | 77,069 |
| Third parties | | | |
| - BNP Paribas | 965,358 | 578,033 | 208,987 |
| - Calyon | 353,351 | 100,761 | 7,512 |
| - PT ANZ Panin Bank | 278,276 | 129,551 | 50,844 |
| - The Bank of Tokyo Mitsubishi UFJ, Ltd. (BOT) | 199,432 | 199,478 | 199,898 |
| - Sumitomo Mitsui Banking Corporation | 198,385 | 83,838 | 72,105 |
| - PT Bank DBS Indonesia | 159,647 | 100,188 | 74,866 |
| - Citibank, N.A | 159,571 | 109,236 | 61,594 |
| - Natixis Bank | 156,681 | 69,439 | - |
| - HSBC | 123,346 | 14,570 | - |
| - Royal Bank of Scotland (RBS) | 107,057 | 99,808 | - |
| - PT Bank Sumitomo Mitsui Indonesia | 88,816 | 108,276 | 49,534 |
| - Standard Chartered Bank | 79,150 | - | - |
| - PT Bank Mizuho Indonesia | 73,487 | 99,338 | - |
| - Arab Bank Plc. | 49,837 | 47,114 | 30,373 |
| - PT Bank UOB Indonesia | 27,029 | 7,460 | - |
| - Deutsche Bank AG | 24,699 | - | - |
| - BCA | 824 | - | 429,870 |
| - CIMB Niaga | - | 681 | 21,284 |
| - PT Bank Bukopin Tbk. | - | - | 75,714 |
| **Total** | **4,994,964** | **3,843,002** | **2,923,096** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 14. SHORT-TERM LOANS (continued)

Other informations relating to the Group's short-term bank loan facilities as at 31 December 2013 were as follows:

| Lenders | Expiration date |
|---|---|
| Bank Mandiri | 11 March 2014 |
| BNI | In process of renewal |
| BRI | 24 March 2014 |
| BNP Paribas | Withdrawn as agreed |
| Calyon | Withdrawn as agreed |
| PT ANZ Panin Bank | 31 May 2014 |
| BOT | 21 April 2014 |
| Sumitomo Mitsui Banking Corporation | Withdrawn as agreed |
| PT Bank DBS Indonesia | 23 May 2014 |
| Citibank, N.A | 8 November 2014 |
| Natixis Bank | 22 July 2014 |
| HSBC | 31 August 2014 |
| RBS | Withdrawn as agreed |
| PT Bank Sumitomo Mitsui Indonesia | 30 April 2014 |
| Standard Chartered Bank | 31 August 2014 |
| PT Bank Mizuho Indonesia | 10 January 2015 |
| Arab Bank Plc. | 23 March 2014 |
| PT Bank UOB Indonesia | In process of renewal |
| Deutsche Bank AG | 25 February 2015 |
| BCA | 8 February 2015 |

Interest rates charged are based on market rates (e.g. Singapore Interbank Offered Rate (SIBOR) or London Interbank Offered Rate (LIBOR)) plus certain percentages depending on negotiation at drawdown.

Annual interest rates on short-term loans during 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| US Dollar | 1.32% - 1.85% | 1.38% - 1.85% | 1.28% - 1.50% |
| Rupiah | - | - | 8.75% - 9.50% |

The funds received from short-term loans are to be used for working capital purposes and the Group is required to comply with certain covenants.

At 31 December 2013, 2012 and 2011, the Group met the covenants as required by the loan agreements.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 15. TRADE PAYABLES - THIRD PARTIES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| US Dollar | 4,220,367 | 4,462,601 | 3,350,327 |
| Rupiah | 766,066 | 131,637 | 632,365 |
| Others | 7,290 | 3,111 | 6,471 |
| **Total** | **4,993,723** | **4,597,349** | **3,989,163** |

The Group's trade payables mainly related to purchase of crude oil, natural gas and petroleum products and are denominated in US Dollar.

## 16. DUE TO THE GOVERNMENT

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **The Company:** | | | |
| Conversion account (amount due to the Government for its share of Indonesian crude oil production supplied to the Company's refineries) | 1,688,227 | 1,453,497 | 1,497,601 |
| The Government's share of export of Indonesian crude oil production | 263,053 | 58,536 | 76,030 |
| The Government's share of domestic natural gas sales including its share of Indonesian gas production | 36,852 | 47,966 | 281,412 |
| Payable for purchase of the Government's share of LPG production | 19,317 | 22,872 | 17,700 |
| Ngurah Rai Airport refuelling facility (DPPU) construction project loan | 8,692 | 11,521 | 13,884 |
| Lumut Balai geothermal project loan | 3,070 | 2,157 | - |
| State revenue in relation to upstream activities | - | 139,653 | - |
| Due to BPH Migas for retribution fee from distribution of non subsidised fuels | - | - | 22,779 |
| **Total - the Company** | **2,019,211** | **1,736,202** | **1,909,406** |
| **Subsidiaries:** | | | |
| **PT Pertamina EP:** | | | |
| Government's share of income in relation to upstream activities | 687 | 72,043 | 197,819 |
| Overlifting payables | 42,878 | - | - |
| Finance lease liability - state-owned assets | 394,340 | 467,484 | 466,824 |
| | 437,905 | 539,527 | 664,643 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 16. DUE TO THE GOVERNMENT (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **PT Pertamina Hulu Energi:** | | | |
| Government's share of income in relation to upstream activities | - | 22,328 | 57,407 |
| Overlifting payables | 115,900 | 64,738 | 46,068 |
| | 115,900 | 87,066 | 103,475 |
| **Total - Subsidiaries** | **553,805** | **626,593** | **768,118** |
| **Total Consolidated** | **2,573,016** | **2,362,795** | **2,677,524** |
| **Current portion** | **(2,417,590)** | **(2,166,793)** | **(2,468,155)** |
| **Non-current portion** | **155,426** | **196,002** | **209,369** |

### a. Conversion account

The conversion account represents the Company's liability to the Government in relation to the shipment of the Government's share of Indonesian crude oil production to the Company's refineries for processing to meet the domestic demand for fuel products. The Government's share of Indonesian crude oil production is derived from PT Pertamina EP's, PHE's and other PSC's working areas.

The movements in the conversion account are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 1,453,497 | 1,497,601 | 1,168,520 |
| Add: | | | |
| Government share of Indonesian crude oil production delivered to the Company's refineries (Note 39f) | 14,892,249 | 17,622,208 | 17,640,337 |
| Offset by: | | | |
| Receivables from the Indonesian Armed Forces/Ministry of Defence involving fuel sales | (175,088) | (216,148) | (223,557) |
| Receivables from PLN | - | - | (2,686,892) |
| Receivables for reimbursements of subsidy costs for certain fuels | - | - | (2,336,154) |
| Receivables for reimbursements of subsidy costs for LPG 3 kg cylinders | - | - | (683,011) |
| Cash settlements | (13,712,467) | (17,184,534) | (11,261,364) |
| Foreign exchange gain | (769,964) | (265,630) | (120,278) |
| **Ending balance** | **1,688,227** | **1,453,497** | **1,497,601** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 16. DUE TO THE GOVERNMENT (continued)

### b. State revenue in relation to upstream activities

State revenue involving upstream activities represents the Government's share of income from PT Pertamina EP's PSC activities, as well as the Government's share of Pertamina Participating Interests (PPI).

The movements in state revenue involving upstream activities during 2013, 2012 and 2011 are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **The Company:** | | | |
| Beginning balance | 139,653 | (15,918) | 25,030 |
| Audit corrections of BPKP for state revenue in relation to upstream activities 2006-2007 | - | 88,771 | (1,215) |
| Audit corrections of BPKP for state revenue in relation to upstream activities 2003-2005 | - | 10,381 | (39,521) |
| Offsetting overpayment PNBP with the Government share of domestic natural gas | - | 56,419 | - |
| Cash settlements | (139,653) | - | - |
| Foreign exchange (gain)/loss | - | - | (212) |
| **Ending balance due to/(due from) - the Company** | **-** | **139,653** | **(15,918)** |
| **Subsidiaries:** | | | |
| State revenue in relation to upstream activities | | | |
| - PT Pertamina EP | 687 | 72,043 | 197,819 |
| - PT Pertamina Hulu Energi | - | 22,328 | 57,407 |
| **Ending balance due to - subsidiaries** | **687** | **94,371** | **255,226** |
| **Total consolidated** | **687** | **234,024** | **239,308** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 16. DUE TO THE GOVERNMENT (continued)

### c. The Government's share of export of Indonesian crude oil production

The movements in the Government's share of export of Indonesian crude oil production during 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 58,536 | 76,030 | 255,084 |
| Additions during the year | 675,984 | 532,560 | 473,593 |
| Settlement: | | | |
| - Offsetting with DMO fees of PT Pertamina EP and PHE | (187,019) | (126,656) | (200,007) |
| - Cash | (284,448) | (423,398) | (452,640) |
| **Ending balance** | **263,053** | **58,536** | **76,030** |

### d. Ngurah Rai Airport Refuelling Facility (DPPU) Construction Project Loan

On 7 May 2007, the Government channelled a loan amounting to ¥1,172,872,837 (full amount) obtained from the Overseas Economic Cooperation Fund (OECF) Japan to the Company in relation to the construction of the Ngurah Rai Airport refuelling facility in accordance with a loan agreement dated 29 November 1994.

The loan is repayable in 36 semi-annual installments commencing in May 2007 through November 2024, and is subject to interest at the rate of 3.1% per annum. Outstanding loan balance as at 31 December 2013 amounted to ¥912,070,194 (full amount) or equal to US$8,692.

### e. Lumut Balai Geothermal Project Loan

For the implementation of Lumut Balai Geothermal Power Plant Project, the Company has obtained loans from the Japan International Cooperation Agency (JICA) as part of the Government to Government Loan (G to G) scheme.

On 29 March 2011, Loan Agreement IP-557 was signed by the Government of Indonesia, represented by the Director General of Debt Management, Ministry of Finance, and JICA, represented by the Chief Representative of JICA, with the Company as Executing Agency and PGE as Implementing Agency, amounting to ¥26,966,000,000 (full amount) for a period of withdrawal of the loan as long as eight years from the effective date.

Repayment of the loan principal is on a semi annual basis, due on every 20 March and 20 September, starting from March 2021 until March 2051. The outstanding loan balance as at 31 December 2013 amounted to ¥322,146,259 (full amount) or equal to US$3,070.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 16. DUE TO THE GOVERNMENT (continued)

### f. Finance Lease Liability involving State-Owned Assets Utilised by PT Pertamina EP

According to Minister of Finance Decree No. 92/KMK.06/2008 dated 2 May 2008, assets previously owned by the former Pertamina Entity which have not been recognised in the opening balance sheet of the Company, as stipulated by Minister of Finance Decision Letter No. 23/KMK.06/2008, represent state-owned assets (BMN), the control over which is exercised by the Directorate General of State Assets (DJKN).

These amounts due to the Government represent the finance lease payables for State-Owned Assets. The State-Owned Assets represent installations, buildings and moveable equipment utilised in the PT Pertamina EP's oil and gas operations.

| Lessor | Type of assets | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| The Ministry of Finance | Installation assets, buildings and moveable assets | 394,340 | 467,484 | 466,824 |
| Less: amount due within one year | | (249,886) | (284,201) | (270,271) |
| **Non-current portion** | | **144,454** | **183,283** | **196,553** |

Future lease payments as of 31 December 2013, 2012 and 2011 are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Payable not later than one year | 273,220 | 313,781 | 301,967 |
| Payable later than one year and not later than five years | 121,431 | 153,064 | 163,225 |
| Payable later than five years | 382,509 | 512,763 | 579,449 |
| Total | 777,160 | 979,608 | 1,044,641 |
| Less: interest portion | (559,903) | (705,756) | (752,609) |
| Net | 217,257 | 273,852 | 292,032 |
| Current portion | (72,803) | (90,569) | (95,479) |
| **Non-current portion** | **144,454** | **183,283** | **196,553** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 16. DUE TO THE GOVERNMENT (continued)

### f. Finance Lease Liability involving State-Owned Assets Utilised by PT Pertamina EP (continued)

Details of amounts due within one year as of 31 December 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Principal: | | | |
| - 2003 - 2010 | 69,717 | 87,878 | 93,711 |
| - 2011 | 609 | 767 | 818 |
| - 2012 | 706 | 891 | 950 |
| - 2013 | 820 | 1,033 | - |
| - 2014 | 951 | - | - |
| Sub-total | 72,803 | 90,569 | 95,479 |
| Interest: | | | |
| - 2003 - 2010 | 106,359 | 134,065 | 142,965 |
| - 2011 | 23,678 | 29,845 | 31,827 |
| - 2012 | 23,580 | 29,722 | - |
| - 2013 | 23,466 | - | - |
| Sub-total | 177,083 | 193,632 | 174,792 |
| **Total amount due within one year** | **249,886** | **284,201** | **270,271** |

## 17. ACCRUED EXPENSES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Suppliers and contractors | 1,071,714 | 960,332 | 697,054 |
| Bonuses, incentives and salaries | 238,415 | 247,825 | 223,352 |
| Estimated retention claim | 241,544 | 247,453 | 319,456 |
| Employee benefits liabilities due within one year (Note 20) | 157,355 | 183,189 | 178,778 |
| Interest on loan | 58,361 | 37,153 | 16,032 |
| Others | 82,542 | 76,520 | 117,633 |
| **Total** | **1,849,931** | **1,752,472** | **1,552,305** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 18. LONG-TERM LIABILITIES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Bank loans** | | | |
| Government related entities | 312,246 | 569,572 | 914,523 |
| Third parties | 2,210,439 | 916,678 | 1,026,294 |
| | 2,522,685 | 1,486,250 | 1,940,817 |
| Issuance cost | (13,737) | - | - |
| Total Bank loan-net | 2,508,948 | 1,486,250 | 1,940,817 |
| Finance lease | 275,974 | 387,013 | 473,990 |
| **Total long-term liabilities** | **2,784,922** | **1,873,263** | **2,414,807** |
| **Current portion** | **(746,397)** | **(489,347)** | **(673,203)** |
| **Non-current portion** | **2,038,525** | **1,383,916** | **1,741,604** |

Annual interest rates on long-term loans during 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Rupiah | 5.75% - 12.50% | 5.98% - 12.50% | 8.23% - 9.62% |
| US Dollar | 1.69% - 3.01% | 2.57% - 3.81% | 1.07% - 3.16% |

### a. Bank loans

Details of the Group's syndicated loans and bank loans as of 31 December 2013, 2012 and 2011 were as follows:

| | 31 December 2013 | | |
|---|---|---|---|
| | Total | Current | Non-current |
| Government related entities | | | |
| Bank Mandiri | 180,803 | 178,500 | 2,303 |
| BRI | 114,750 | 114,750 | - |
| Lembaga Penjaminan Ekspor Indonesia | 16,053 | 2,939 | 13,114 |
| Bank Mutiara | 640 | 640 | - |
| Third parties | | | |
| BNP Paribas Investment Partners (Syndicated loan) | 1,137,000 | 125,070 | 1,011,930 |
| Mizuho Corporate Bank, Ltd. (Syndicated loan) | 858,850 | 212,300 | 646,550 |
| BOT (Syndicated loan) | 133,333 | 53,333 | 80,000 |
| Korea Development Bank | 19,634 | 4,874 | 14,760 |
| PT Bank Sumitomo Mitsui Indonesia | 16,408 | - | 16,408 |
| BCA | 14,666 | 2,059 | 12,607 |
| Others (each below US$10,000) | 30,548 | 2,348 | 28,200 |
| **Total** | **2,522,685** | **696,813** | **1,825,872** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 18. LONG-TERM LIABILITIES (continued)

### a. Bank loans (continued)

| | 31 December 2012 | | |
|---|---|---|---|
| | Total | Current | Non-current |
| Government related entities | | | |
| Bank Mandiri | 309,221 | 128,000 | 181,221 |
| BRI | 202,750 | 88,000 | 114,750 |
| BNI | 30,973 | 30,973 | - |
| Lembaga Penjaminan Ekspor Indonesia | 26,628 | 8,456 | 18,172 |
| Third parties | | | |
| Mizuho Corporate Bank, Ltd. (Syndicated loan) | 602,000 | 66,220 | 535,780 |
| BOT (Syndicated loan) | 186,666 | 53,333 | 133,333 |
| BCA | 76,182 | 37,854 | 38,328 |
| PT Bank Sumitomo Mitsui Indonesia | 25,500 | - | 25,500 |
| Korea Development Bank | 24,701 | 5,064 | 19,637 |
| Others (each below US$10,000) | 1,629 | 1,629 | - |
| **Total** | 1,486,250 | 419,529 | 1,066,721 |

| | 31 December 2011 | | |
|---|---|---|---|
| | Total | Current | Non-current |
| Government related entities | | | |
| Bank Mandiri | 415,500 | 109,000 | 306,500 |
| BRI | 284,250 | 81,500 | 202,750 |
| Bank Mandiri (Syndicated loan) | 99,250[a)] | 99,250[a)] | - |
| BNI | 92,920 | 61,947 | 30,973 |
| Lembaga Penjaminan Ekspor Indonesia | 22,603 | 5,830 | 16,773 |
| Third parties | | | |
| BNP Paribas (Syndicated loan) | 651,000 | 105,000 | 546,000 |
| BOT (Syndicated loan) | 240,000 | 53,333 | 186,667 |
| BCA | 86,726 | 57,817 | 28,909 |
| Korea Development Bank | 30,369 | 5,670 | 24,699 |
| Others (each below US$10,000) | 18,199 | 4,903 | 13,296 |
| **Total** | 1,940,817 | 584,250 | 1,356,567 |

a) Represent bank loan at the amount of Rp900 billion

(Expressed in thousands of US Dollars, unless otherwise stated)

## 18. LONG-TERM LIABILITIES (continued)

### a. Bank loans (continued)

Other information relating to the Group's syndicated loans and long-term loans as at 31 December 2013 is as follows:

| Lenders | Repayment schedule |
|---|---|
| **The Company** | |
| Bank Mandiri | Several installments (2014-2014) |
| BRI | Several installments (2014-2014) |
| BNP Paribas (Syndicated loan) | Several installments (2014-2018) |
| Mizuho Corporate Bank, Ltd. (Syndicated loan) | Several installments (2014-2017) |
| BOT (Syndicated loan) | Several installments (2014-2016) |
| **Subsidiaries** | |
| Lembaga Penjaminan Ekspor Indonesia PT Pertamina Trans Kontinental | Several installments (2014-2016) |
| BCA PT Pertamina Trans Kontinental | Several installments (2014-2017) |
| Korea Development Bank PT Pertamina Patra Niaga | Several installments (2014-2017) |
| PT Bank Sumitomo Mitsui Indonesia PT Pertamina Patra Niaga | Several installments (2014-2018) |

Interest rates charged are based on market rates (e.g. SIBOR or LIBOR) plus certain percentages.

Bank loans are taken to finance the capital expenditures of the Company and Subsidiaries' projects, general activities and certain costs relating to the agreement.

As specified by the loan agreements, the borrowers are required to comply with certain covenants, such as financial ratio covenants, no substantial change in the general business of the Company and/or Subsidiaries and not entering into mergers.

The Subsidiaries' long-term bank loans are collateralised by certain Subsidiaries' assets such as receivables, inventories, fixed assets and other assets.

At 31 December 2013, 2012 and 2011, the Group met the covenants as required by the loan agreements.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 18. LONG-TERM LIABILITIES (continued)

### b. Finance lease

This account represents the Group's future minimum lease payments from finance lease transactions for the LPG Filling and Transport Stations (SPPBEs), landing craft transports (LCT), BBM and LPG truck tankers, computer servers, gas pipeline installations and LPG plants.

Future minimum lease as at payments as of 31 December 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Payable not later than one year | 56,239 | 91,274 | 119,829 |
| Payable later than one year and not later than five years | 194,297 | 258,099 | 292,170 |
| Payable later than five years | 60,661 | 128,070 | 175,108 |
| Total | 311,197 | 477,443 | 587,107 |
| Less: amounts representing interest | (35,223) | (90,430) | (113,117) |
| **Net** | **275,974** | **387,013** | **473,990** |
| **Current portion** | **(49,584)** | **(69,818)** | **(88,953)** |
| **Non-current portion** | **226,390** | **317,195** | **385,037** |

## 19. BOND PAYABLES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Senior Notes - US$** | | | |
| Issued in 2011 - I | 1,000,000 | 1,000,000 | 1,000,000 |
| Issued in 2011 - II | 500,000 | 500,000 | 500,000 |
| Issued in 2012 - I | 1,250,000 | 1,250,000 | - |
| Issued in 2012 - II | 1,250,000 | 1,250,000 | - |
| Issued in 2013 - I | 1,625,000 | - | - |
| Issued in 2013 - II | 1,625,000 | - | - |
| Total | 7,250,000 | 4,000,000 | 1,500,000 |
| Discount | (51,568) | (51,568) | (27,130) |
| Issue cost | (18,505) | (14,497) | (8,370) |
| Amortisation of discount and issue cost | 5,598 | 4,000 | 1,211 |
| **Total bond payables - net** | **7,185,525** | **3,937,935** | **1,465,711** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 19. BOND PAYABLES (continued)

**Details of bond payables:**

| | Principal | Issuing price | Maturity date | Interest rate |
|---|---|---|---|---|
| Issued in 2011 | | | | |
| Due in 2021 | 1,000,000 | 98.097% | 23 May 2021 | 5.25% |
| Due in 2041 | 500,000 | 98.380% | 27 May 2041 | 6.50% |
| Issued in 2012 | | | | |
| Due in 2022 | 1,250,000 | 99.414% | 03 May 2022 | 4.88% |
| Due in 2042 | 1,250,000 | 98.631% | 03 May 2042 | 6.00% |
| Issued in 2013 | | | | |
| Due in 2023 | 1,625,000 | 100.000% | 20 May 2023 | 4.30% |
| Due in 2043 | 1,625,000 | 100.000% | 20 May 2043 | 5.63% |
| **Total** | 7,250,000 | | | |

### a) Issued in 2011 - I

On 23 May 2011, Pertamina issued senior notes amounting to US$1,000,000 with HSBC Bank USA, N.A. acting as the Trustee. The interest is payable semi-annually starting from 23 November 2011 until the maturity date.

### b) Issued in 2011 - II

On 27 May 2011, Pertamina issued senior notes amounting to US$500,000 with HSBC Bank USA, N.A. acting as the Trustee. The interest is payable semi-annually starting from 27 November 2011 until the maturity date.

### c) Issued in 2012 - I

On 3 May 2012, Pertamina issued senior notes amounting to US$1,250,000 with HSBC Bank USA, N.A. acting as the Trustee. The interest is payable semi-annually starting from 3 November 2012 until the maturity date.

### d) Issued in 2012 - II

On 3 May 2012, Pertamina issued senior notes amounting to US$1,250,000 with HSBC Bank USA, N.A. acting as the Trustee. The interest is payable semi-annually starting from 3 November 2012 until the maturity date.

### e) Issued in 2013 - I

On 20 May 2013, Pertamina issued senior notes amounting to US$1,625,000 with The Bank of New York Mellon acting as the Trustee. The interest is payable semi-annually starting from 20 November 2013 until the maturity date.

### f) Issued in 2013 - II

On 20 May 2013, Pertamina issued senior notes amounting to US$1,625,000 with The Bank of New York Mellon acting as the Trustee. The interest is payable semi-annually starting from 20 November 2013 until the maturity date.

## 19. BOND PAYABLES (continued)

As at 31 December 2013, these bond payables were rated as Baa3 with a stable outlook by Moody's Investors Service, BBB- with a stable outlook by FitchRatings and BB+ with a stable outlook by Standard & Poor's.

The Indenture is governed that:

- No later than 30 days following the occurrence in an event in which the Government of Indonesia ceases to own, directly or indirectly, more than 50% of the voting securities of the Company (Change of Control Triggering Event), the Company may be required to make an offer to repurchase all senior notes outstanding at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the date of repurchase. The senior notes are subject to redemption in whole, at 100% of their principal amount, together with any accrued interest, at the option of the Company at a certain time in the event of certain changes affecting Indonesian taxes.
- Certain covenants, including amongst others: repurchase of Senior Notes upon a change of control, limitation of liens, limitation on sale and lease back transactions and provision of financial statements and other reports.
- The Company complies with the restrictions specified within the agreements with the acting Trustee.
- The proceeds from senior notes issuance were used to partially fund the capital expenditure requirements in acquisition of new blocks, development of existing blocks, rig purchase and tanker building.

## 20. EMPLOYEE BENEFITS LIABILITIES

### a. Post-employment benefit plans and other long-term employee benefits

The Company and certain Subsidiaries have post-employment benefits plans and provide other long-term employee benefits as follows:

#### 1. Post-employment benefit plans

##### (i) Defined Benefit Plan administered under the Pertamina Pension Plan

The Defined Benefit Plans (PPMP) covers employees who were hired before 2005 and managed by Dana Pensiun Pertamina.

##### (ii) Post-retirement healthcare benefits

The post-retirement healthcare benefits involve the Company's retired employees, and their spouses, from the date of the employees' retirement until death.

##### (iii) Severance and service pay (PAP)

PAP benefits consist of additional benefits for employees to which they are entitled when they enter the pension period, and in the event of permanent disability, death, or voluntary resignation.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### a. Post-employment benefit plans and other long-term employee benefits (continued)

#### 2. Other long-term employee benefits

The Company provides other long-term employee benefits in the form of pre-retirement benefits (MPPK), repatriation costs, annual leave, the Mandiri Guna I Insurance Program, and service anniversaries except for the insurance program benefit.

#### 3. Employees' Saving Plan

The Company and certain Subsidiaries (together Participants) operate an Employees' Saving Plan (TP) in the form of a defined contribution plan where all contributions made are managed by PT Pertamina Dana Ventura, a subsidiary of the Company and the saving will be received by employees at the end of their service period.

### b. Employee benefits liabilities

Employee benefits liabilities of the Subsidiaries was also determined by independent actuaries. The table below presents a summary of the employee benefits obligations reported in the consolidated statement of financial positions:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **The Company:** | | | |
| Pension and other post employment benefits: | | | |
| - PPMP | 51,090 | 64,472 | 54,559 |
| - Post-retirement healthcare benefits | 1,767,186 | 2,184,679 | 2,248,970 |
| - PAP | 736,683 | 906,463 | 943,712 |
| - Repatriation costs | 23,897 | 28,682 | 28,918 |
| Subtotal | 2,578,856 | 3,184,296 | 3,276,159 |
| Other long-term employee benefits | | | |
| - MPPK | 117,227 | 168,932 | 165,706 |
| - Annual leave and services anniversary | 12,060 | 16,540 | 19,503 |
| Subtotal | 129,287 | 185,472 | 185,209 |
| **Total - the Company** | **2,708,143** | **3,369,768** | **3,461,368** |
| **Subsidiaries:** | | | |
| Pension and other post-employment benefits: | 135,101 | 115,951 | 96,281 |
| **Total - Consolidated** | **2,843,244** | **3,485,719** | **3,557,649** |
| **Current portion (Note 17)** | **(157,355)** | **(183,189)** | **(178,778)** |
| **Non-current portion** | **2,685,889** | **3,302,530** | **3,378,871** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### b. Employee benefits liabilities (continued)

The details of estimated post-employment benefit obligations and other long-term employment benefits for each of the programs operated by the Company as at 31 December 2013, 2012 and 2011 were as follows:

#### (i) Post-employment benefit obligations

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
| Present value of the defined benefit obligations | 644,997 | 719,545 | 953,666 | 11,875 | 2,330,083 |
| Fair value of plan assets | (586,438) | - | - | - | (586,438) |
| Unfunded status | 58,559 | 719,545 | 953,666 | 11,875 | 1,743,645 |
| Unrecognised past service cost - non-vested | 637 | - | (22,832) | 830 | (21,365) |
| Unrecognised actuarial gains/(losses) | (8,106) | 1,047,641 | (194,151) | 11,192 | 856,576 |
| **Total - the Company** | **51,090** | **1,767,186** | **736,683** | **23,897** | **2,578,856** |

| | 31 December 2012 | | | | |
|---|---|---|---|---|---|
| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
| Present value of the defined benefit obligations | 1,029,744 | 1,529,801 | 1,400,967 | 21,263 | 3,981,775 |
| Fair value of plan assets | (835,018) | - | - | - | (835,018) |
| Unfunded status | 194,726 | 1,529,801 | 1,400,967 | 21,263 | 3,146,757 |
| Unrecognised past service cost - non-vested | 1,148 | - | 17,453 | 1,229 | 19,830 |
| Unrecognised actuarial gains/(losses) | (131,402) | 654,878 | (511,957) | 6,190 | 17,709 |
| **Total - the Company** | **64,472** | **2,184,679** | **906,463** | **28,682** | **3,184,296** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### b. Employee benefits liabilities (continued)

#### (i) Post-employment benefits obligations (continued)

| | 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
| Present value of the defined benefit obligations | 953,110 | 1,762,400 | 1,386,464 | 22,110 | 4,124,084 |
| Fair value of plan assets | (851,780) | - | - | - | (851,780) |
| Unfunded status | 101,330 | 1,762,400 | 1,386,464 | 22,110 | 3,272,304 |
| Unrecognised past service cost - non-vested | 1,593 | - | 21,022 | 1,114 | 23,729 |
| Unrecognised actuarial (losses)/gains | (48,364) | 486,570 | (463,774) | 5,694 | (19,874) |
| **Total - the Company** | **54,559** | **2,248,970** | **943,712** | **28,918** | **3,276,159** |

The movement in the fair value of plan assets of the year is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 835,018 | 851,780 | 831,641 |
| Expected return on plan assets | 66,951 | 79,423 | 82,044 |
| Actuarial (losses)/gains | (103,897) | 19,138 | 3,330 |
| Company contributions | 5,690 | 6,615 | 7,358 |
| Employee contributions | 2,299 | 2,667 | 2,968 |
| Benefits paid | (59,690) | (70,458) | (67,604) |
| Foreign exchange loss | (159,933) | (54,147) | (7,957) |
| **Ending balance** | **586,438** | **835,018** | **851,780** |

The composition of plan assets of PPMP at 31 December 2013 was 32% equity securities, 58% debt securities and 10% others; and at 31 December 2012 was 29% equity securities, 60% debt securities and 11% others; and at 31 December 2011 was 28% equity securities, 58% debt securities and 14% others.

(Loss)/gain of the actual return on plan assets as at 31 December 2013 was (US$36,946) (2012: US$98,561; 2011: US$85,374).

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### b. Employee benefits liabilities (continued)

#### (ii) Other long-term employee benefit obligations

| | MPPK | Annual leave and service anniversary | Total |
|---|---|---|---|
| Present value of employee benefits obligations – the Company | | | |
| 31 December 2013 | 117,227 | 12,060 | 129,287 |
| 31 December 2012 | 168,932 | 16,540 | 185,472 |
| 31 December 2011 | 165,706 | 19,503 | 185,209 |

### c. Employee benefits expense

The Company recognised net employee benefits expense for the years ended 31 December 2013, 2012 and 2011 were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Pension and other post-employment benefits: | | | |
| - PPMP | 5,622 | 20,336 | (2,837) |
| - Post-retirement healthcare benefits | 73,851 | 113,542 | 26,143 |
| - PAP | 168,954 | 175,637 | 160,002 |
| - Repatriation costs | 2,079 | 2,653 | 2,597 |
| Subtotal | 250,506 | 312,168 | 185,905 |
| Other long-term employee benefits: | | | |
| - MPPK | 1,340 | 39,399 | 41,940 |
| - Annual leave and services anniversary | 3,134 | 8,598 | 12,537 |
| Subtotal | 4,474 | 47,997 | 54,477 |
| **Total - the Company** | **254,980** | **360,165** | **240,382** |

Details of the net employee benefit expense for each of the post-employment benefit program and other long-term employment benefits provided by the Company for the years ended 31 December 2013, 2012 and 2011 were as follows:

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### c. Employee benefits expense (continued)

#### (i) Post-employment benefits expense - net

For the year ended 31 December 2013:

| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
|---|---|---|---|---|---|
| Current service costs | 9,912 | 20,144 | 68,719 | 1,483 | 100,258 |
| Interest costs | 58,884 | 89,453 | 73,969 | 1,064 | 223,370 |
| Return on pension plan assets | (66,951) | - | - | - | (66,951) |
| Amortisation of unrecognised actuarial (gains)/losses | 4,097 | (35,746) | 26,485 | (299) | (5,463) |
| Amortisation of past service cost - non-vested | (320) | - | (2,091) | (169) | (2,580) |
| Recognition of past service cost - vested | - | - | 1,872 | - | 1,872 |
| **Total - the Company** | **5,622** | **73,851** | **168,954** | **2,079** | **250,506** |

For the year ended 31 December 2012:

| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
|---|---|---|---|---|---|
| Current service costs | 9,426 | 16,251 | 71,183 | 1,501 | 98,361 |
| Interest costs | 64,347 | 121,982 | 80,916 | 1,252 | 268,497 |
| Return on pension plan assets | (79,423) | - | - | - | (79,423) |
| Amortisation of unrecognised actuarial losses/(gains) | - | (24,691) | 25,869 | (289) | 889 |
| Amortisation of past service cost - non-vested | (356) | - | (2,331) | 189 | (2,498) |
| Recognition of past service cost - vested | 26,342 | - | - | - | 26,342 |
| **Total - the Company** | **20,336** | **113,542** | **175,637** | **2,653** | **312,168** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### c. Employee benefits expense (continued)

#### (i) Post-employment benefits expense - net (continued)

For the year ended 31 December 2011:

| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
|---|---|---|---|---|---|
| Current service costs | 6,612 | 7,269 | 58,520 | 1,286 | 73,687 |
| Interest costs | 74,478 | 108,511 | 91,894 | 1,514 | 276,397 |
| Return on pension plan assets | (82,044) | - | - | - | (82,044) |
| Amortisation of unrecognised actuarial (gains)/losses | (1,502) | (89,637) | 12,078 | (442) | (79,503) |
| Amortisation of past service cost - non-vested | (381) | - | (2,490) | 239 | (2,632) |
| Recognition of past service cost - vested | - | - | - | - | - |
| **Total - the Company** | **(2,837)** | **26,143** | **160,002** | **2,597** | **185,905** |

#### (ii) Other long-term employment benefit expense - net

For the year ended 31 December 2013:

| | MPPK | Annual leave and service anniversary | Total |
|---|---|---|---|
| Current service costs | 9,038 | 8,381 | 17,419 |
| Interest costs | 8,798 | 585 | 9,383 |
| Amortisation of unrecognised actuarial gain | (22,470) | (6,354) | (28,824) |
| Recognition of past service cost - vested | 5,974 | 522 | 6,496 |
| **Total - the Company** | **1,340** | **3,134** | **4,474** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### c. Employee benefits expense (continued)

#### (ii) Other long-term employment benefit expense - net (continued)

For the year ended 31 December 2012:

| | MPPK | Annual leave and service anniversary | Total |
|---|---|---|---|
| Current service costs | 8,994 | 9,176 | 18,170 |
| Interest costs | 9,370 | 780 | 10,150 |
| Amortisation of unrecognised actuarial loss/(gain) | 21,035 | (1,358) | 19,677 |
| **Total - the Company** | **39,399** | **8,598** | **47,997** |

For the year ended 31 December 2011:

| | MPPK | Annual leave and service anniversary | Total |
|---|---|---|---|
| Current service costs | 7,563 | 8,423 | 15,986 |
| Interest costs | 10,879 | 664 | 11,543 |
| Amortisation of unrecognised actuarial loss/(gain) | 23,498 | (2,234) | 21,264 |
| Immediate recognition of past service cost - vested | - | 5,684 | 5,684 |
| **Total - the Company** | **41,940** | **12,537** | **54,477** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### d. Changes in employee benefits obligations

Changes in the post-employment benefit obligations of the Company for the years ended 31 December 2013, 2012 and 2011 were as follows:

#### (i) Changes in post-employment benefits obligations

| | 31 December 2013 | | | | |
|---|---|---|---|---|---|
| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
| Beginning balance | 64,472 | 2,184,679 | 906,463 | 28,682 | 3,184,296 |
| Employee benefits expense, net | 5,622 | 73,851 | 168,954 | 2,079 | 250,506 |
| Payments | (5,690) | (34,205) | (148,486) | (746) | (189,127) |
| Foreign exchange gain | (13,314) | (457,139) | (190,248) | (6,118) | (666,819) |
| **Ending balance - the Company** | **51,090** | **1,767,186** | **736,683** | **23,897** | **2,578,856** |

| | 31 December 2012 | | | | |
|---|---|---|---|---|---|
| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
| Beginning balance | 54,559 | 2,248,970 | 943,712 | 28,918 | 3,276,159 |
| Employee benefits expense, net | 20,336 | 113,542 | 175,637 | 2,653 | 312,168 |
| Payments | (6,615) | (35,487) | (153,472) | (1,041) | (196,615) |
| Foreign exchange gain | (3,808) | (142,346) | (59,414) | (1,848) | (207,416) |
| **Ending balance - the Company** | **64,472** | **2,184,679** | **906,463** | **28,682** | **3,184,296** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### d. Changes in employee benefits obligations (continued)

#### (i) Changes in post-employment benefits obligations (continued)

| | 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | PPMP | Post-retirement healthcare benefits | PAP | Repatriation costs | Total |
| Beginning balance | 64,982 | 2,282,526 | 932,067 | 27,751 | 3,307,326 |
| Employee benefits expense, net | (2,837) | 26,143 | 160,002 | 2,597 | 185,905 |
| Payments | (7,358) | (40,783) | (139,800) | (1,149) | (189,090) |
| Foreign exchange gain | (228) | (18,916) | (8,557) | (281) | (27,982) |
| **Ending balance - the Company** | **54,559** | **2,248,970** | **943,712** | **28,918** | **3,276,159** |

#### (ii) Changes in other long-term employee benefit obligations

| | 31 December 2013 | | |
|---|---|---|---|
| | MPPK | Annual leave and service anniversary | Total |
| Beginning balance | 168,932 | 16,540 | 185,472 |
| Employee benefits expense, net | 1,340 | 3,134 | 4,474 |
| Payments | (20,924) | (4,372) | (25,296) |
| Foreign exchange gain | (32,121) | (3,242) | (35,363) |
| **Ending balance - the Company** | **117,227** | **12,060** | **129,287** |

| | 31 December 2012 | | |
|---|---|---|---|
| | MPPK | Annual leave and service anniversary | Total |
| Beginning balance | 165,706 | 19,503 | 185,209 |
| Employee benefits expense, net | 39,399 | 8,598 | 47,997 |
| Payments | (25,438) | (10,400) | (35,838) |
| Foreign exchange gain | (10,735) | (1,161) | (11,896) |
| **Ending balance - the Company** | **168,932** | **16,540** | **185,472** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### d. Changes in employee benefits obligations (continued)

#### (ii) Changes in other long-term employee benefit obligations (continued)

| | 31 December 2011 | | |
|---|---|---|---|
| | MPPK | Annual leave and service anniversary | Total |
| Beginning balance | 141,955 | 12,541 | 154,496 |
| Employee benefits expense, net | 41,940 | 12,537 | 54,477 |
| Payments | (16,164) | (5,236) | (21,400) |
| Foreign exchange gain | (2,025) | (339) | (2,364) |
| **Ending balance - the Company** | **165,706** | **19,503** | **185,209** |

### e. Actuarial assumptions

Significant actuarial assumptions applied in the calculation of post-employment benefit obligations and other long-term employment benefits for the Company are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Discount rate: | | | |
| - Mandiri Guna I Insurance Program, PAP, repatriation costs, MPPK, service anniversary | 8.8% per annum | 5.75% per annum | 6.25% per annum |
| - Annual leave | 7.8% per annum | 4.5% per annum | 5.25% per annum |
| - Defined benefits plan administered by Dana Pensiun Pertamina, post-retirement healthcare benefits | 9.1% per annum | 6.4% per annum | 7.25% per annum |
| Inflation rate | 6% per annum | 4.3% per annum | 3.8% per annum |
| Return on plan assets | | | |
| - Pension plan | 9.9% per annum | 9% per annum | 10% per annum |
| Salary increases: | 9.5% per annum | 9.5% per annum | 9.5% per annum |
| Annual medical expense trend | 8% per annum afterward | 8% per annum afterward | 9% per annum afterward |
| Demographic factors: | | | |
| - Mortality | Group Annuity Mortality 1971 (GAM 71) | Group Annuity Mortality 1971 (GAM 71) | Group Annuity Mortality 1971 (GAM 71) |
| - Disability | 0.75% of mortality rate | 0.75% of mortality rate | 0.75% of mortality rate |
| - Resignation | 1% at age 20 and linearly decreasing by 0.028% per annum until 55 years of age | 1% at age 20 and linearly decreasing by 0.028% per annum until 55 years of age | 1% at age 20 and linearly decreasing by 0.028% per annum until 55 years of age |
| - Pension | 100% at normal retirement age | 100% at normal retirement age | 100% at normal retirement age |
| Normal retirement age | 56 years | 56 years | 56 years |
| Operational costs of the pension plan | 8% of service cost and 3.5% of benefit payments | 8% of service cost and 3.5% of benefit payments | 8% of service cost and 3.5% of benefit payments |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 20. EMPLOYEE BENEFITS LIABILITIES (continued)

### e. Actuarial assumptions (continued)

The overall expected rate of return on assets, in the long-term is 9.0 – 10.0%. This expected rate of return is based on the portfolio as a whole instead of the sum of individual asset categories returns. The return is exclusively based on historical returns, without any adjustments.

Assumptions regarding the expected return on plan assets are set based on the historical data and management future expectation of the investment development.

An assumption has been made that healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. One percent of change in the assumption of healthcare cost trend rates will have the following impact:

| | Increase 1% | Decrease 1% |
|---|---|---|
| Effect on the aggregate service and interest cost | 17,294 | 11,767 |
| Effect on defined benefit obligation | 121,256 | 94,930 |

Management believes that the estimated liabilities of employee benefits from all of the Group's pension programs, based on the estimated calculation provided by the actuaries, exceeds the minimum liabilitiy that is stated by Labor Law No.13/2003.

## 21. PROVISION FOR DECOMMISSIONING AND SITE RESTORATION

The movements in the provision for decommissioning and site restoration are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 1,440,567 | 815,929 | 678,424 |
| (Deduction)/addition during the year | (268,350) | 609,841 | 157,370 |
| Accretion expense (Note 36) | 46,346 | 31,953 | 71,164 |
| Adjustments (Note 37) | - | (17,156) | (91,029) |
| **Ending balance** | **1,218,563** | **1,440,567** | **815,929** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 22. NON-CONTROLLING INTERESTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| - PT Tugu Pratama Indonesia and subsidiaries | 76,063 | 72,898 | 70,892 |
| - PT Pertamina Patra Niaga and subsidiaries | 15 | 470 | 526 |
| - PT Pertamina Trans Kontinental and subsidiaries | 1 | 1 | 1 |
| - PT Pertamina EP Cepu | - | 1,465 | 1,186 |
| - PT Usayana and subsidiaries | - | 1,345 | 1,466 |
| - PT Pertamina EP | - | 726 | 695 |
| - PT Pertamina Dana Ventura and subsidiaries | - | 133 | 103 |
| - PT Pertamina Training and Consulting | - | 3 | 3 |
| - PT Pelita Air Service and subsidiary | - | 2 | 2 |
| **Total** | **76,079** | **77,043** | **74,874** |

## 23. SHARE CAPITAL

In accordance with Notarial Deed No. 20 dated 17 September 2003 of Lenny Janis Ishak, S.H., and the Minister of Finance's Decision Letter No. 408/KMK.02/2003 (KMK 408) dated 16 September 2003, the Company's authorised capital amounts to Rp200,000,000 million, which consists of 200,000,000 ordinary shares with a par value of Rp1,000,000 per share of which Rp100,000,000 million has been subscribed and paid by the Government of the Republic of Indonesia through the transfer of identified net assets of the former Pertamina Entity, including its subsidiaries and joint ventures.

Based on the Minister of Finance's decision letter No. 23/KMK.06/2008 dated 30 January 2008 regarding the Determination of the Opening Balance Sheet of PT Pertamina (Persero) as at 17 September 2003, the total amount of the Government's equity ownership in the Company is Rp82,569,779 million. This amount consists of all of the former Pertamina Entity's net assets and net liabilities excluding LNG plants operated by PT Badak Natural Gas Liquefaction and PT Arun Natural Gas Liquefaction, former upstream assets currently operated by PT Pertamina EP and certain land and building assets.

The changes in the Company's issued and paid-up share capital from Rp100,000,000 million to Rp82,569,779 million (equivalent to US$9,809,882) were approved at a General Shareholder's Meeting held on 15 June 2009 and are documented in Notarial Deed No. 11 of Lenny Janis Ishak, S.H. The amendment was documented by Notarial Deed No. 4 dated 14 July 2009 of Lenny Janis Ishak, S.H. and approved by the Minister of Law and Human Rights of the Republic of Indonesia in Decision Letter No. AHU-45429.AH.01.02. Year 2009 dated 14 September 2009. The reduction in the Company's issued and paid-up share capital is effective retrospectively as at 17 September 2003.

As at 1 August 2012, there were additional share capital contributions documented in Notarial Deed No. 1 of Lenny Janis Ishak, S.H. in the amount of Rp520,918 million (equivalent to US$55,019) and based on Government Regulation No. 13 Year 2012 regarding the Addition to the Government's Capital Contribution to Share Capital of State Enterprise (Persero) PT Pertamina.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 23. SHARE CAPITAL (continued)

As at 31 December 2013, 2012 and 2011, the Company's issued and paid-up share capital position is as follows:

| Shareholder | Number of issued and paid-up shares | Percentage of ownership | Issued and paid-up share capital |
|---|---|---|---|
| **31 December 2013 and 2012** | | | |
| The Government of the Republic of Indonesia | 83,090,697 | 100% | 9,864,901 |
| **31 December 2011** | | | |
| The Government of the Republic of Indonesia | 82,569,779 | 100% | 9,809,882 |

## 24. EQUITY ADJUSTMENTS AND GOVERNMENT CONTRIBUTED ASSETS PENDING FINAL CLARIFICATION OF STATUS

### i. Equity adjustments

This account comprises:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Deferred employee benefits costs | (2,993,767) | (2,993,767) | (2,993,767) |
| Provision for decommissioning and site restoration | (150,417) | (150,417) | (150,417) |
| Adjustment of revenue recognised by the former Pertamina Entity in relation to the Tengah PSC | (51,856) | (51,856) | (51,856) |
| Transfer of a BAE RJ-85 aircraft to the Secretary of State | (10,275) | (10,275) | (10,275) |
| Deferred tax in relation to the provision for ARO | 60,919 | 60,919 | 60,919 |
| Adjustment to the employee benefits liabilities | 66,944 | 66,944 | 66,944 |
| Deferred tax in relation to the employee benefits liabilities | 430,786 | 430,786 | 430,786 |
| **Total** | **(2,647,666)** | **(2,647,666)** | **(2,647,666)** |

A detailed explanation of equity adjustments is as follows:

a. Adjustment of employee benefits liabilities and the related deferred tax liability adjustment

Employee benefits liabilities of US$2,993,767 were recognised in the Company's opening consolidated balance sheet as at 17 September 2003. The Company recognised the provision against the equity adjustment account.

## 24. EQUITY ADJUSTMENTS AND GOVERNMENT CONTRIBUTED ASSETS PENDING FINAL CLARIFICATION OF STATUS (continued)

### i. Equity adjustments (continued)

a. Adjustment of employee benefits liabilities and the related deferred tax liability adjustment (continued)

The adjustment to the employee benefits liabilities of US$66,944 as at 17 September 2003 was based on the report of an independent actuary, PT Dayamandiri Dharmakonsilindo, dated 30 December 2008.

The Company recognised deferred tax of US$430,786 in relation to the above equity adjustments.

b. Adjustment for provision for ARO and the related deferred tax liability

The Company recognised as an adjustment to the equity the cost of restoration liabilities involving unused well assets and production facilities dating to prior to the Company's establishment.

The total equity adjustment recognised in the amount of US$89,498 represents the effect of the recognition of ARO liability for wells and related production facilities that had ceased operation before 17 September 2003 in the amount of US$150,417, net of the related deferred tax adjustment of US$60,919.

c. Transfer of a BAE RJ-85 aircraft to the Secretary of State

The Company recognised an equity adjustment in relation to the transfer of a Group's BAE RJ-85 aircraft for an amount of US$10,275 to the Secretary of State, which had not been recognised in equity in the Company's opening consolidated balance sheet.

d. Adjustment for incorrect recognition of revenue from the Tengah PSC

The Company recognised an equity adjustment in respect of the inappropriate recognition of revenue in relation to the Tengah PSC by the former Pertamina Entity for the period from 1991 through 16 September 2003 of US$51,856. Such amount represents a deferred income amount as at 16 September 2003.

### ii. Goverment contributed assets pending final clarification of status

a. Aircraft Filling Depots ("DPPUs") - DPPU Juanda, DPPU Ketaping, DPPU SMB II, DPPU Sepinggan, DPPU Ngurah Rai, and DPPU Pattimura

Based on Minutes of Operational Acceptance Certificates ("MOACs") from the Department of Transportation, the Company obtained management and operation rights of DPPU assets at certain airports in Indonesia including: Soekarno Hatta-Jakarta (Phase 1 and Phase 2), Juanda-Surabaya, Ketaping-Padang, Sultan Mahmud Badaruddin II-Palembang, Sepinggan-Balikpapan, and Ngurah Rai-Bali. However, there were various communications between the Minister of State-Owned Enterprises, Minister of Finance and Minister of Transportation which challenged the DPPU assets whether they belong to PT Angkasa Pura I (Persero), PT Angkasa Pura II (Persero).

## 24. EQUITY ADJUSTMENTS AND GOVERNMENT CONTRIBUTED ASSETS PENDING FINAL CLARIFICATION OF STATUS (continued)

### ii. Goverment contributed assets pending final clarification of status (continued)

a. Aircraft Filling Depots (“DPPUs”) - DPPU Juanda, DPPU Ketaping, DPPU SMB II, DPPU Sepinggan, DPPU Ngurah Rai, and DPPU Pattimura (continued)

Based on Government Regulation No. 13 Year 2012 dated 25 January 2012, the Government contributed the above DPPU assets to the Company as capital contribution in the amount of Rp520,918 million. The capital contribution was documented in Notarial Deed No. 1 of Lenny Janis Ishak, S.H.

b. Refuelling Apron Installation DPPU Sultan Hasanuddin and Fuel Hydrant Facilities DPPU Juanda

Based on MOACs from Minister of Transportation issued in 2012, the Company obtained management and operation rights of Refuelling Apron Installation at Sultan Hasanuddin Airport-Makassar and Fuel Hydrant Facilities at Juanda Airport-Surabaya, resulting in additios of Rp12,453 million (equivalent to US$1,361) into this account.

## 25. RETAINED EARNINGS

### I. General Meeting of Shareholders (GMS) for the year 2013

On 26 February 2014, the Company held a GMS for the year 2013. Based on the minutes of meeting, the shareholder approved, among others, utilisation of 2013 net income as follows:

- Distribution of dividends of US$814,123 (equivalent to Rp9,500,000 million).
- Allocation to compulsory reserve based on 5% of net income and remaining balance to other reserve.

### II. Extraordinary General Meeting of Shareholder (EGMS) for the year 2013

On 23 December 2013, the Company held an EGMS regarding approval of the Company workplan and budget (RKAP) for 2014. Based on the minutes of meeting, the shareholder approved, among others, the following actions:

- Partnership and Community Development Fund of US$63,709 (equivalent to Rp616,955 million) was allocated from 2012 retained earnings based on GMS 2012, adjusted to retained earnings of 2013.
- Community Developments Fund of US$20,559 (equivalent to Rp200,000 million) was recognised as an expense in 2013. Such practice is based on the Minister of State-Owned Enterprises Regulation No. PER-08/MBU/2013 dated 10 September 2013 (Note 35).

Based on the letter of Minister of State-Owned Enterprises No. S-763/MBU/2013 dated 20 December 2013, there was a dividend declaration in the amount of US$4,486 (equivalent to Rp55,000 million) for the fiscal year 2012.

## 25. RETAINED EARNINGS (continued)

### III. GMS for the year 2012

On 27 February 2013, the Company held a GMS for the fiscal year 2012. Based on the minutes of meeting, the shareholder approved, among others, utilisation of 2012 net income as follows:

- Distribution of dividends of US$799,257 (equivalent to Rp7,740,000 million).
- Allocation of US$27,567 (equivalent to Rp266,955 million) to a Partnership Development Program.
- Allocation of US$36,142 (equivalent to Rp350,000 million) to a Community Development Program.
- Allocation of US$1,897,688 to a general reserve consisting of a compulsory reserve of US$138,033 and to other reserves of US$1,759,655.

### IV. GMS for the year 2011

On 28 May 2012, the Company held a GMS for the fiscal year 2011. Based on the minutes of meeting, the shareholder approved, among others, the utilisation of 2011 net income of the Company as follows:

- Distribution of a dividend of US$769,978 (equivalent to Rp7,257,043 million).
- Allocation of US$21,935 (equivalent to Rp204,716 million) to a Partnership Development Program.
- Allocation of US$43,869 (equivalent to Rp409,432 million) to a Community Development Program.
- Allocation of US$1,336,908 (equivalent to Rp12,600,361 million) to a general reserve consisting of a compulsory reserve of US$108,602 (equivalent to Rp1,023,578 million) and to other reserves of US$1,228,306 (equivalent to Rp11,576,783 million).

### V. GMS for the year 2010

On 14 June 2011, the Company held a GMS for the year 2010. Based on the minutes of meeting, the shareholder approved, among others, the following actions:

Utilisation of 2010 net income of the Company amounting to Rp16,775,554 million:
- Distribution of a dividend of Rp7,123,104 million including a paid dividend amounting to Rp1,500,000 million.
- Allocation of Rp167,757 million to a Partnership Development Program.
- Allocation of Rp251,633 million to a Community Development Program.
- Allocation of Rp9,233,062 million to a general reserve consisting of a compulsory reserve of Rp838,778 million and to other reserves of Rp8,394,284 million.
- Allocation of the tantiem (bonus) for the members of the Boards of Directors and Commissioners.

Under Indonesian Limited Company Law, the Company are required to set up a statutory reserve amounting to at least 20% of the Company's issued and paid up capital.

The balance of the appropriated retained earnings as at 31 December 2013, 2012 and 2011 was respectively, US$6,772,928, US$4,875,239 and US$3,538,331 and 68.66%, 49.42% and 36.07% of the Company’s issued and paid up capital.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 26. DOMESTIC SALES OF CRUDE OIL, NATURAL GAS, GEOTHERMAL ENERGY AND OIL PRODUCTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Natural gas | 2,851,203 | 2,205,404 | 1,429,685 |
| DMO fees - crude oil | 903,141 | 1,021,778 | 1,003,394 |
| Geothermal energy - steam and electricity | 474,752 | 537,155 | 534,069 |
| Crude oil | 156,937 | 201,535 | 338,019 |
| Oil products: | | | |
| Automotive Diesel Oil (ADO) | 16,803,326 | 17,385,639 | 18,757,710 |
| Premium gasoline | 13,107,192 | 11,424,759 | 11,066,392 |
| LPG, petrochemicals, lubricants and others | 4,432,600 | 4,491,206 | 4,284,084 |
| Avtur and Avigas | 3,670,107 | 3,606,651 | 3,231,836 |
| Industrial/Marine Fuel Oil (IFO/MFO) | 1,293,319 | 1,800,002 | 2,586,339 |
| Pertamax, Pertamax Plus (gasoline) and Pertadex (diesel) | 633,770 | 533,132 | 548,748 |
| Kerosene | 350,383 | 467,462 | 691,516 |
| Industrial Diesel Oil (IDO) | 53,383 | 80,085 | 30,486 |
| Others | 6,172 | 9,205 | 109,382 |
| **Total** | **44,736,285** | **43,764,013** | **44,611,660** |

## 27. SUBSIDY REIMBURSEMENTS FROM THE GOVERNMENT

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current year: | | | |
| Net amount of reimbursements of subsidy costs for certain BBM products (Note 8a) | 16,795,944 | 18,756,863 | 15,442,938 |
| Total reimbursement of costs subsidy for LPG 3 kg cylinders (Note 8d) | 3,480,344 | 3,175,539 | 2,413,501 |
| | 20,276,288 | 21,932,402 | 17,856,439 |
| Correction from BPK for reimbursements of subsidy costs for certain BBM products for the year 2012 (Note 8a) | 26,061 | - | - |
| Correction of estimation for reimbursement of subsidy costs for LPG 3 kg cylinders for the year 2012 (Note 8d) | 1,385 | - | - |
| Correction from BPK for reimbursements of subsidy costs for certain BBM for the year 2011 (Note 8a) | - | (7,758) | - |
| Correction from BPK for reimbursement of subsidy costs for LPG 3 kg cylinders for the year 2011 (Note 8d) | - | (686) | - |
| Correction from BPK for reimbursement of subsidy costs for certain BBM for the year 2010 (Note 8a) | - | - | 5119 |
| Correction from BPK for reimbursement of subsidy costs for LPG 3 kg cylinders for the year 2010 (Note 8d) | - | - | (1,064) |
| | 27,446 | (8,444) | 4,055 |
| **Total** | **20,303,734** | **21,923,958** | **17,860,494** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 27. SUBSIDY REIMBURSEMENTS FROM THE GOVERNMENT (continued)

The Company receives revenue from subsidy reimbursements based on the result of BPK's audit. As at 31 December 2013, the audit for the 2013 subsidy reimbursements is not yet completed. Any differences in subsidy reimbursement amounts between book and BPK's audit are adjusted in the period when the audit report is received.

## 28. EXPORT OF CRUDE OIL, NATURAL GAS AND OIL PRODUCTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Oil products | 4,072,709 | 4,174,319 | 3,709,074 |
| Crude oil | 1,146,410 | 327,222 | 402,550 |
| Natural gas | 283,803 | 212,720 | 178,172 |
| **Total** | **5,502,922** | **4,714,261** | **4,289,796** |

## 29. REVENUES IN RELATION TO OTHER OPERATING ACTIVITIES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Natural gas transportation services | 139,846 | 113,844 | 86,619 |
| Shipping services | 104,627 | 39,634 | 71,443 |
| Health and hospital services | 83,565 | 74,143 | 61,776 |
| Air transportation services | 72,167 | 64,381 | 49,125 |
| Office and hospitality services | 20,105 | 18,652 | 18,864 |
| Technical and transportation services | 4,647 | 22,951 | 59,507 |
| Others (each below US$10,000) | 26,887 | 77,673 | 37,450 |
| **Total** | **451,844** | **411,278** | **384,784** |

## 30. COST OF GOODS SOLD

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance of oil products | (5,732,227) | (4,955,035) | (4,353,311) |
| Provision for impairment for oil products (Note 9) | 32,384 | 41,861 | 22,494 |
| | (5,699,843) | (4,913,174) | (4,330,817) |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 30. COST OF GOODS SOLD (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Production costs: | | | |
| - Direct materials | (29,416,415) | (28,664,821) | (28,434,259) |
| - Supporting materials | (1,766,031) | (1,585,351) | (1,244,882) |
| - Rent | (519,926) | (426,184) | (405,417) |
| - Utilities, infrastructure and fuel | (509,263) | (699,522) | (465,463) |
| - Salaries, wages, and other employee benefits | (426,515) | (470,702) | (379,974) |
| - Depreciation (Note 11) | (368,049) | (319,065) | (324,083) |
| - Freight and transportation | (266,004) | (197,507) | (161,246) |
| - Custom and duty | (152,537) | (123,611) | (92,971) |
| - Maintenance and repairs | (132,083) | (131,461) | (93,675) |
| - Professional services | (123,583) | (100,284) | (74,759) |
| - Materials and equipment | (108,688) | (130,452) | (206,899) |
| - Business travel | (26,527) | (21,850) | (22,600) |
| - Other overheads | (71,278) | (119,456) | (54,253) |
| | (33,886,899) | (32,990,266) | (31,960,481) |
| Purchases of oil products and others: | | | |
| - Imports of premium gasoline | (13,531,907) | (13,835,468) | (7,987,520) |
| - Imports of ADO | (5,572,942) | (6,370,964) | (11,707,208) |
| - Imports of other oil products | (4,479,516) | (3,583,109) | (2,835,226) |
| - Domestic purchases of other oil products | (3,244,931) | (3,520,688) | (2,348,426) |
| - Imports of IFO and MFO | (432,610) | (839,489) | (571,773) |
| - Purchases of geothermal energy | (289,835) | (345,938) | (337,622) |
| | (27,551,741) | (28,495,656) | (25,787,775) |
| Ending balance of oil products | 6,285,947 | 5,732,227 | 4,955,035 |
| Provision for impairment for oil products (Note 9) | (57,672) | (32,384) | (41,861) |
| **Total** | **(60,910,208)** | **(60,699,253)** | **(57,165,899)** |

## 31. UPSTREAM PRODUCTION AND LIFTING COSTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Depreciation, depletion and amortisation (Note 12) | (677,761) | (517,807) | (349,979) |
| Contracts | (467,291) | (558,924) | (791,035) |
| TAC and OC partners | (456,691) | (527,045) | (489,357) |
| Materials | (417,738) | (362,872) | (200,029) |
| Salaries, wages, and other employee benefits | (292,607) | (247,099) | (129,443) |
| Others (each below US$10,000) | (155,993) | (177,214) | (43,291) |
| **Total** | **(2,468,081)** | **(2,390,961)** | **(2,003,134)** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 32. EXPLORATION COSTS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Seismic, geological and geophysical | (128,924) | (131,748) | (101,536) |
| Dry holes | (34,806) | (103,752) | (17,236) |
| Indonesian Participation/Pertamina Participating Interests | (10,914) | (67,327) | (74,188) |
| Others (each below US$10,000) | (35,182) | (73,203) | (10,096) |
| **Total** | **(209,826)** | **(376,030)** | **(203,056)** |

## 33. EXPENSES IN RELATION TO OTHER OPERATING ACTIVITIES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cost of services | (369,054) | (370,377) | (379,613) |
| Depreciation (Note 11) | (56,976) | (38,541) | (60,179) |
| Salaries, wages and other employee benefits | (56,651) | (88,860) | (73,136) |
| Insurance claims | (32,055) | (24,152) | (21,224) |
| **Total** | **(514,736)** | **(521,930)** | **(534,152)** |

## 34. SELLING AND MARKETING EXPENSES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Freight and transportation | (401,674) | (268,600) | (266,746) |
| Salaries, wages and other employee benefits | (176,220) | (214,015) | (193,378) |
| Depreciation (Note 11) | (148,272) | (158,920) | (147,521) |
| Professional services | (123,959) | (132,277) | (60,949) |
| LPG filling fee | (123,527) | (107,281) | (111,791) |
| Maintenance and repairs | (51,465) | (97,175) | (56,130) |
| Materials and equipment | (33,222) | (51,804) | (69,863) |
| Utilities, infrastructure and fuel | (26,932) | (25,231) | (22,707) |
| Advertising and promotion | (25,206) | (42,487) | (35,674) |
| Rent | (20,665) | (25,689) | (11,424) |
| Business travel | (19,399) | (24,388) | (18,534) |
| Others (each below US$10,000) | (15,062) | (2,958) | (4,271) |
| **Total** | **(1,165,603)** | **(1,150,825)** | **(998,988)** |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**31 DECEMBER 2013, 2012 AND 2011**
(Expressed in thousands of US Dollars, unless otherwise stated)

## 35. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Salaries, wages and other employee benefits | (449,760) | (521,957) | (485,691) |
| Taxes, retributions and penalties | (147,729) | (144,782) | (149,448) |
| Professional services | (101,850) | (63,561) | (80,823) |
| Rent | (36,926) | (26,941) | (53,501) |
| Materials and equipment | (33,605) | (21,802) | (53,902) |
| Training, education and recruitment | (28,919) | (33,327) | (24,828) |
| Maintenance and repairs | (27,993) | (19,056) | (40,675) |
| Depreciation, depletion and amortisation (Note 10, 11 and 12) | (21,740) | (37,404) | (36,988) |
| Business travel | (20,734) | (31,671) | (30,471) |
| Community Development Programs (Note 25.II) | (20,559) | - | - |
| Others (each below US$10,000) | (105,579) | (120,722) | (81,961) |
| **Total** | **(995,394)** | **(1,021,223)** | **(1,038,288)** |

## 36. FINANCE INCOME AND FINANCE COST

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Finance income:** | | | |
| Time deposits | 49,283 | 37,642 | 31,254 |
| Current accounts | 43,928 | 70,618 | 43,744 |
| MTNs | 3,663 | 12,071 | 28,540 |
| Other investments | 29,885 | 11,709 | 14,557 |
| **Total** | **126,759** | **132,040** | **118,095** |
| **Finance costs:** | | | |
| Bonds | (250,925) | (140,133) | (52,322) |
| Short-term loans | (66,464) | (45,740) | (38,262) |
| Long-term loans | (62,205) | (51,157) | (50,501) |
| Finance lease | (50,667) | (59,180) | (71,591) |
| Accretion (Note 21) | (46,346) | (31,953) | (71,164) |
| Others (each below US$10,000) | (1,929) | (1,140) | (3,556) |
| **Total** | **(478,536)** | **(329,303)** | **(287,396)** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 37. OTHER INCOME/(EXPENSE)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| PNBP correction | 119,814 | - | - |
| Contract and material penalties and claims | 70,793 | 51,614 | 125,055 |
| Supplies and equipment | 27,217 | 27,349 | 19,203 |
| Gain/(loss) on disposal of fixed asset | 20,851 | 16,241 | (249) |
| Joint operations (KSO) revenue | 18,442 | 27,458 | 11,131 |
| Rental income | 17,836 | 26,551 | 17,328 |
| Docking services | 15,754 | 66,041 | 53,372 |
| Management fee income | 12,546 | 5,224 | 32,455 |
| Reversal of fixed asset impairment | - | 21,850 | 5,264 |
| Provision for decommisioning and site restoration (Note 21) | - | 17,156 | 91,029 |
| Underpayment of 2007 VAT | - | (116,408) | (55,174) |
| Underpayment of 2008 VAT | - | - | (66,644) |
| Underpayment of retention 2002 VAT | - | - | (125,540) |
| Others (each below US$10,000) | (11,128) | (16,435) | 97,895 |
| **Total** | **292,125** | **126,641** | **205,125** |

## 38. TAXATION

### a. Prepaid taxes

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Overpayment of corporate income tax: | | | |
| - 2013 | 821,135 | - | - |
| - 2012 | 517,502 | 565,876 | - |
| - 2011 | 5,591 | 335,472 | 400,853 |
| - 2010 | - | - | 374,403 |
| - 2009 | - | 1,353 | 501,308 |
| - 2008 | - | - | 406,544 |
| - 2007 | - | - | 251,054 |
| - 2005 | 290,945 | 367,020 | 190,648 |
| - 2004 | - | - | 43,873 |
| - 2003 | - | - | 4,460 |
| Corporate and dividend tax | 77,579 | 66,173 | - |
| | 1,712,752 | 1,335,894 | 2,173,143 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### a. Prepaid taxes (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| VAT restitution: | | | |
| - 2013 | 20,181 | - | - |
| - 2012 | 5,146 | 5,146 | - |
| - 2011 | 37,574 | - | - |
| - 2010 | 54,848 | 69,136 | 59,298 |
| - 2009 | 31,305 | 48,779 | - |
| - 2007 | 152,163 | 173,158 | - |
| Reimbursable VAT | 330,713 | 314,054 | 182,766 |
| VAT | 146,859 | 121,934 | 71,045 |
| | 778,789 | 732,207 | 313,109 |
| | 2,491,541 | 2,068,101 | 2,486,252 |
| **Current portion** | **(467,896)** | **(405,314)** | **(306,909)** |
| **Non-current portion** | **2,023,645** | **1,662,787** | **2,179,343** |

Details of reimbursable VAT are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| VAT reimbursable by SKK MIGAS: | | | |
| - PT Pertamina EP | 232,107 | 199,987 | 125,981 |
| - PT Pertamina EP Cepu | 46,313 | 31,828 | 4,331 |
| - PT Pertamina Hulu Energi | 837 | 24,687 | - |
| Subtotal | 279,257 | 256,502 | 130,312 |
| Provision for reimbursable VAT | - | (539) | (539) |
| Subtotal | 279,257 | 255,963 | 129,773 |
| VAT reimbursable by the Directorate General of Budgeting and Finance Stability: | | | |
| - PT Pertamina Geothermal Energy | 51,456 | 58,091 | 52,993 |
| **Total** | **330,713** | **314,054** | **182,766** |

Management believes that no provision for reimbursable VAT as at 31 December 2013 is required and the provision for reimbursable VAT as at 31 December 2012 and 2011 was adequate.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### b. Taxes payable

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Corporate and dividend tax | 274,332 | 280,567 | 354,764 |
| Corporate income tax | 45,201 | 24,818 | 12,064 |
| | 319,533 | 305,385 | 366,828 |
| Other taxes: | | | |
| - Income taxes - Article 21 | 18,601 | 19,615 | 17,525 |
| - Income taxes - Article 22 | 10,629 | 15,193 | 8,831 |
| - Income taxes - Article 15/4(2) | 8,306 | 2,716 | 3,131 |
| - Income taxes - Article 23/26 | 3,905 | 104 | 11,781 |
| - VAT | 146,810 | 63,250 | 159,666 |
| - Fuel taxes | 125,849 | 127,614 | 119,237 |
| | 314,100 | 228,492 | 320,171 |
| **Total** | **633,633** | **533,877** | **686,999** |

### c. Income tax expense

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current tax expense | 1,694,628 | 1,789,958 | 1,959,321 |
| Deferred tax expense | 271,198 | 244,384 | 140,131 |
| Adjustment in respect of prior year | - | 2,236 | - |
| **Total** | **1,965,826** | **2,036,578** | **2,099,452** |

### d. Current taxes

Current income tax computations are based on estimated taxable income. The amounts may be adjusted when annual tax returns are filed to the Directorate General of Tax (DGT).

The reconciliation between income tax expense and the theoretical tax amount on the Company's profit before income tax is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Consolidated profit before income tax expense | 5,032,881 | 4,802,288 | 4,504,754 |
| Add: | | | |
| Consolidation eliminations | 3,289,655 | 3,022,156 | 2,655,467 |
| Profit before income tax - subsidiaries | (5,352,102) | (5,071,158) | (4,704,965) |
| Profit before income tax - the Company | 2,970,434 | 2,753,286 | 2,455,256 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### d. Current taxes (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Temporary differences:** | | | |
| Accrual for legal costs | (1,280) | (700) | (108) |
| (Reversal of)/provision for impairment of inventories | (3,066) | 19,996 | 27,524 |
| (Reversal of)/provision for incentives and performance bonuses (tantiem) | (16,077) | 1,348 | 12,664 |
| Discount and unamortised debt issue cost | (16,147) | (27,776) | (34,292) |
| Fixed assets depreciation | (81,229) | (29,624) | (16,304) |
| Finance lease assets and liabilities | (93,117) | (28,908) | (20,508) |
| (Reversal of)/provision for employee benefits liabilities | (261,071) | (48,936) | 19,848 |
| (Reversal of)/provision for impairment of financial assets | (554,728) | 57,260 | 675,612 |
| Provision for/(reversal of) impairment of non-free and non-clear assets | - | 26,156 | (8) |
| **Permanent difference:** | | | |
| Non-deductible expenses | 248,852 | 365,724 | 392,772 |
| Non-tax deductible fixed asset depreciation | 4,529 | 4,672 | 6,520 |
| Other income subject to final tax | (21,160) | (47,080) | (12,376) |
| Interest income subject to final tax | (82,160) | (103,876) | (88,656) |
| Post-retirement healthcare benefits | (417,493) | (64,276) | (14,196) |
| Income from subsidiaries and associates | (3,067,765) | (2,946,864) | (2,467,576) |
| Difference due to changes in reporting currency | - | - | (47,340) |
| Total temporary and permanent differences | (4,361,912) | (2,822,884) | (1,566,424) |
| Tax (losses)/profits - the Company | (1,391,478) | (69,598) | 888,832 |
| Current income tax - the Company | - | - | 222,208 |
| Current income tax - subsidiaries | 1,694,628 | 1,789,958 | 1,737,113 |
| **Consolidated current income tax** | **1,694,628** | **1,789,958** | **1,959,321** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### d. Current taxes (continued)

The reconciliation between the Group's income tax expense and the theoretical tax amount on the Group's profit before income tax is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Profit before income tax - Consolidation** | **5,032,881** | **4,802,288** | **4,504,754** |
| Tax calculated at weighted average tax rates | 2,058,953 | 1,940,408 | 1,873,895 |
| Non-deductible expenses | 160,841 | 263,328 | 338,895 |
| Share net income of associates | 55,472 | 16,509 | 42,573 |
| Non-tax deductible fixed assets depreciation | 843 | 1,168 | 1,630 |
| Post-retirement healthcare benefits | (104,373) | (16,069) | (3,549) |
| Interest income subject to final tax | (20,964) | (32,006) | (27,896) |
| Income subject to final tax | (184,946) | (136,760) | (126,096) |
| **Consolidated corporate income tax expenses** | **1,965,826** | **2,036,578** | **2,099,452** |

The theoretical amount of income tax expense is calculated using the weighted average tax rate applicable to entities consolidated to the Group. The weighted average tax rate was 40.9% (2012: 40.4%, 2011: 41.6%). The changes is due to change in the composition of subsidiaries' taxable income contribution.

### e. Deferred tax

The details of deferred tax assets and liabilities as of 31 December 2013, 2012 and 2011 were as follows:

| | 1/1/2013 | Additions from business combination | Applications SFAS 38 | Translation adjustments | Charged to the profit or loss | 31/12/2013 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Tax loss carry-forward | 17,400 | - | - | - | 347,869 | 365,269 |
| Employee benefits | 281,928 | - | - | 531 | (57,731) | 224,728 |
| Provision for impairment of financial assets | 254,866 | - | - | 2,359 | (142,732) | 114,493 |
| Fixed assets | 60,029 | - | 56,973 | - | (26,772) | 90,230 |
| Unrealised profits from transaction at consolidation level | 77,919 | - | - | - | 8,886 | 86,805 |
| Provision for decommissioning and site restoration | - | - | - | - | 51,303 | 51,303 |
| Provision for incentives and performance bonuses (tantiem) | 45,936 | - | - | - | (5,314) | 40,622 |
| Provision for impairment of Non-free and non-clear assets | 37,887 | - | - | - | - | 37,887 |
| Provision for impairment of inventories | 25,221 | - | - | - | (766) | 24,455 |
| Accrual for legal cost | 12,698 | - | - | - | (320) | 12,378 |
| Deferred revenue | - | - | - | - | 4,071 | 4,071 |
| Capital contribution in the form of assets | 99,957 | - | (101,488) | - | 1,531 | - |
| Discount and unamortised debt issue cost | (15,516) | - | - | - | (4,037) | (19,553) |
| Oil and gas properties | 13,082 | - | - | - | (49,109) | (36,027) |
| Finance lease assets and liabilities | (16,280) | - | - | - | (23,279) | (39,559) |
| Others | 1,556 | - | - | (4,634) | 14,268 | 11,190 |
| **Total consolidated deferred tax assets-net** | **896,683** | **-** | **(44,515)** | **(1,744)** | **117,868** | **968,292** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### e. Deferred tax (continued)

| | 1/1/2013 | Additions from business combination | Applications SFAS 38 | Translation adjustments | Charged to the profit or loss | 31/12/2013 |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | |
| Provision for decomissioning and site restoration | 294,134 | - | - | - | 206,933 | 501,067 |
| Finance lease assets | 169,336 | - | - | - | 24,723 | 194,059 |
| Employee benefits | 49,340 | - | - | - | (36,729) | 12,611 |
| Provision for impairment | 2,746 | - | - | - | 500 | 3,246 |
| Deferred revenue | 29,679 | - | - | - | (27,324) | 2,355 |
| Fixed assets | (44,551) | - | 48,306 | (10,582) | 4,802 | (2,025) |
| Excess fair value over NBV | (44,014) | (516,354) | - | - | 70,057 | (490,311) |
| Oil and gas properties | (1,622,954) | - | - | 5,023 | (673,172) | (2,291,103) |
| Others | 2,874 | - | - | - | 41,144 | 44,018 |
| **Total deferred tax liabilities - consolidated – net** | **(1,163,410)** | **(516,354)** | **48,306** | **(5,559)** | **(389,066)** | **(2,026,083)** |
| **Deferred tax expense** | | | | | **(271,198)** | |

| | 1/1/2012 | Additions from business combination | Translation adjustments | Charged to the profit or loss | 31/12/2012 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Employee benefits | 293,639 | - | - | (11,711) | 281,928 |
| Provision for impairment of financial assets | 239,309 | - | - | 15,557 | 254,866 |
| Capital contribution in the form of assets | 99,957 | - | - | - | 99,957 |
| Unrealised profits from transaction at consolidation level | 89,111 | - | - | (11,192) | 77,919 |
| Fixed assets | 66,996 | - | 4,762 | (11,729) | 60,029 |
| Provision for incentives and performance bonuses (tantiem) | 44,796 | - | - | 1,140 | 45,936 |
| Provision for impairment of Non-Free and Non-Clear assets | 31,348 | - | - | 6,539 | 37,887 |
| Provision for impairment of inventories | 20,222 | - | - | 4,999 | 25,221 |
| Tax loss carry-forward | - | - | - | 17,400 | 17,400 |
| Oil and gas properties | 34,978 | - | - | (21,896) | 13,082 |
| Accrual for legal cost | 12,873 | - | - | (175) | 12,698 |
| Deferred revenue | 9,345 | - | - | (9,345) | - |
| Provision for decommissioning and site restoration | 130 | - | - | (130) | - |
| Discount and unamortised debt issue cost | (8,572) | - | - | (6,944) | (15,516) |
| Finance lease assets and liabilities | (9,053) | - | - | (7,227) | (16,280) |
| Others | 1,603 | - | - | (47) | 1,556 |
| **Total consolidated deferred tax assets-net** | **926,682** | **-** | **4,762** | **(34,761)** | **896,683** |
| **Deferred tax liabilities** | | | | | |
| Provision for decomissioning and site restoration | 221,846 | - | - | 72,288 | 294,134 |
| Finance lease assets | 165,618 | - | - | 3,718 | 169,336 |
| Employee benefits | 39,986 | - | - | 9,354 | 49,340 |
| Deferred revenue | 30,659 | - | - | (980) | 29,679 |
| Provision for impairment | 5,122 | - | - | (2,376) | 2,746 |
| Excess fair value over NBV | (49,929) | - | - | 5,915 | (44,014) |
| Fixed assets | (19,750) | - | - | (24,801) | (44,551) |
| Oil and gas properties | (1,359,017) | 824 | - | (264,761) | (1,622,954) |
| Others | 10,854 | - | - | (7,980) | 2,874 |
| **Total deferred tax liabilities - consolidated - net** | **(954,611)** | **824** | **-** | **(209,623)** | **(1,163,410)** |
| **Deferred tax expense** | | | | **(244,384)** | |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### e. Deferred tax (continued)

| | 1/1/2011 | Additions from business combination | Translation adjustments | Charged to the profit or loss | 31/12/2011 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Employee benefits | 287,971 | - | - | 5,668 | 293,639 |
| Provision for impairment of financial assets | 69,866 | - | - | 169,443 | 239,309 |
| Capital contribution in the form of assets | 99,957 | - | - | - | 99,957 |
| Unrealised profits from transaction at consolidation level | 57,440 | - | - | 31,671 | 89,111 |
| Fixed assets | 71,199 | - | (1) | (4,202) | 66,996 |
| Provision for incentives and performance bonuses (tantiem) | 41,482 | - | - | 3,314 | 44,796 |
| Provision for impairment of Non-free and non-clear | | | | | |
| Oil and gas properties | (36,880) | - | - | 71,858 | 34,978 |
| assets | 31,350 | - | - | (2) | 31,348 |
| Provision for impairment of inventories | 13,341 | - | - | 6,881 | 20,222 |
| Accrual for legal cost | 12,900 | - | - | (27) | 12,873 |
| Deferred revenue | 35,245 | - | - | (25,900) | 9,345 |
| Provision for decommissioning and site restoration | 333 | - | - | (203) | 130 |
| Unrecovered cost | 67,236 | - | - | (67,236) | - |
| Discount and unamortised debt issue cost | - | - | - | (8,572) | (8,572) |
| Finance lease assets and liabilities | (3,927) | - | - | (5,126) | (9,053) |
| Others | 773 | - | - | 830 | 1,603 |
| **Total consolidated deferred tax assets-net** | **748,286** | **-** | **(1)** | **178,397** | **926,682** |
| **Deferred tax liabilities** | | | | | |
| Provision for decomissioning and site restoration | 228,679 | - | - | (6,833) | 221,846 |
| Finance lease assets | 154,286 | - | - | 11,332 | 165,618 |
| Employee benefits | 36,867 | - | - | 3,119 | 39,986 |
| Deferred revenue | 37,031 | - | - | (6,372) | 30,659 |
| Provision for impairment | 4,074 | - | - | 1,048 | 5,122 |
| Fixed assets | (8,984) | - | - | (10,766) | (19,750) |
| Excess fair value over NBV | (57,875) | - | - | 7,946 | (49,929) |
| Oil and gas properties | (1,025,466) | - | - | (333,551) | (1,359,017) |
| Others | (4,695) | - | - | 15,549 | 10,854 |
| **Total deferred tax liabilities - consolidated - net** | **(636,083)** | **-** | **-** | **(318,528)** | **(954,611)** |
| **Deferred tax expense** | | | | **(140,131)** | |

At 31 December 2013, the Company had deferred tax assets arising from tax losses carried forward of US$365,269 (2012: US$17,400; 2011: US$Nil). Management believes that the above tax losses can be compensated for with taxable income for the next five years. Such belief is based on the Company's long-term plan with total projected earnings from 2014 to 2018 exceeding US$4,000,000. The project earnings will be achieved through the expected increase of LPG sales price annually, increase in sales volume of oil products and earnings from planned overseas acquisition and business developments.

Deferred tax assets and liabilities as at 31 December 2013, 2012 and 2011 have been calculated taking into account the applicable tax rates for each respective period.

## 38. TAXATION (continued)

### f. Administration

The Group calculates and pays its tax obligations separately. Based on the most recent amendments of the Income Tax Law effective on 1 January 2008, the DGT may decide and amend tax liabilities within a period of 5 (five) years from the date taxes payable become due.

Under the transitional regulation, taxes for fiscal years prior to 2008 may be assessed by the Tax Authorities for the earlier of ten years and up to 31 December 2013.

### g. Tax audit

The Company is being audited by the DGT for financial year 2012.

### h. Tax assessment letters of the Company

| | | | In millions of Rupiahs | | |
|---|---|---|---|---|---|
| **Number and issue date of assessment letter** | **Fiscal year** | **Type of taxes** | **Underpayment/ overpayment or fiscal loss** | **Objection/appeal according to the Company** | **Status** |
| 00008 /408/11/051/13 04 April 2013 | 2011 | Corporate Income Tax | Overpayment of Rp3,033,041 | Overpayment of Rp3,100,850 | In objection process |
| 00062 to 00071/207/11/051/13 04 April 2013 | 2011 | VAT | Underpayment of Rp450,587 | Underpayment of Rp34,285 | In objection process |
| KEP-1080 to KEP-1081/WPJ.19/ 2013 23 August 2013 | 2010 | VAT | Underpayment of Rp542,362 | Underpayment of Rp283,401 | Rejected and in tax penalty reduction process |
| KEP-1491, KEP-1494 to 1497/ WPJ.19/2013 25 October 2013 KEP-1532 to 1534/WPJ.19/2013, 30 October 2013 KEP-1539 to 1540/WPJ.19/2013, 31 October 2013 | 2010 | VAT | Underpayment of Rp473,215 | Underpayment of Rp99,389 | Rejected and appeal process review |
| KEP-1135/WPJ.19/2013 5 September 2013 | 2009 | VAT | Overpayment of Rp3,029 | Overpayment of Rp21,637 | In appeal process |
| KEP-1133 to KEP-1145/WPJ.19/ 2013 5 September 2013 | 2009 | VAT | Underpayment of Rp365,131 | Overpayment of Rp36,771 | In appeal process |
| KEP-248/WPJ.19/ BD.05/2011 30 March 2011 | 2007 | VAT | Underpayment of Rp2,898,180 | Underpayment of Rp1,223,738 | In appeal process |
| KEP-659/PJ.07/2009 10 August 2009 | 2005 | Corporate Income Tax | Underpayment of Rp1,820,784 | Overpayment of Rp1,913,491 | In appeal process |
| 00001 to 00010/307/09/051/13 15 November 2013 | 2009 | LNG VAT | Add Underpayment of Rp351,096 | Underpayment of Rp351,096 | In objection process |
| 00001 to 00003/307/08/051/13 31 October 2013 | 2008 | LNG VAT | Add Underpayment of Rp95,332 | Underpayment of Rp95,332 | In objection process |
| 00001 to 00011/307/07/051/13 12 November 2013 | 2007 | LNG VAT | Add Underpayment of Rp360,541 | Underpayment of Rp360,541 | In objection process |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 38. TAXATION (continued)

### h. Tax assessment letters of the Company (continued)

The Company has recognised/recorded the values of the disputes based on the value in the filing of litigation Removal Penalty Tax, filing Objections with the DGT, and the Tax Court of Appeal in progress. The Group did not recognise provisions in the financial statements based on the belief that formal compliance litigation and the evidentiary material for disputes under the Removal of Sanctions and Objections process are acceptable to the DGT and the Tax Court of Appeal.

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS

Significant related party accounts were as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Cash and cash equivalents (Note 5) | 4,345,550 | 3,287,021 | 2,937,000 |
| Restricted cash (Note 6) | 206,576 | 88,727 | 49,744 |
| Trade receivables - related parties (Note 39a) | 2,074,389 | 2,246,090 | 2,171,989 |
| Due from the Government (Note 8) | 4,290,954 | 2,714,526 | 1,905,878 |
| Other receivables - related parties (Note 39b) | 710,890 | 363,125 | 183,789 |
| Investment in MTNs (Note 10) | - | 103,413 | 220,556 |
| Restricted cash - non-current (Note 13c) | 151,853 | 99,649 | 13,956 |
| **Total** | **11,780,212** | **8,902,551** | **7,482,912** |
| As a percentage of total assets | 24% | 22% | 21% |
| Short-term loans (Note 14) | 1,950,018 | 2,095,231 | 1,640,515 |
| Trade payables - related parties (Note 39c) | 89,217 | 148,027 | 142,956 |
| Due to the Government (Note 16) | 2,573,016 | 2,362,795 | 2,677,524 |
| Long-term liabilities (Note 18a) | 312,246 | 569,572 | 914,523 |
| Other payables - related parties (Note 39d) | 9,080 | 72,668 | 66,425 |
| **Total** | **4,933,577** | **5,248,293** | **5,441,943** |
| As a percentage of total liabilities | 15% | 20% | 25% |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### a. Trade receivables

Related party trade receivables resulting from domestic sales of crude oil, natural gas and geothermal energy and the export of crude oil and oil products.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Trade receivables from related parties | 2,075,869 | 2,294,915 | 2,209,580 |
| Less: Provision for impairment | (1,480) | (48,825) | (37,591) |
| Net | 2,074,389 | 2,246,090 | 2,171,989 |
| **Less: current portion** | **(2,039,173)** | **(2,246,090)** | **(2,171,989)** |
| **Non-current portion - net (Note 13)** | **35,216** | **-** | **-** |

Trade receivables by customers are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| PT PLN and Subsidiaries | 1,004,067 | 1,410,195 | 1,529,442 |
| Indonesian Armed Forces/ Ministry of Defense | 771,702 | 657,400 | 428,545 |
| PT Garuda Indonesia (Persero) Tbk. | 107,645 | 76,425 | 42,462 |
| PT Pupuk Indonesia (Persero) | 49,574 | 61,906 | 72,703 |
| PT Perusahaan Gas Negara (Persero) Tbk. | 41,291 | 20,198 | 30,510 |
| PT Asuransi Jasa Indonesia (Persero) | 13,199 | 7,580 | - |
| PT Merpati Nusantara Airlines (Persero) | 12,664 | 2,830 | 6,685 |
| PT Elnusa Tbk. | 4,428 | 8,889 | 20,031 |
| Patra SK | 2,840 | 19,249 | - |
| Pacific Petroleum & Trading Co. Ltd. | 484 | 500 | 26,319 |
| Others (each below US$10,000) | 67,975 | 29,743 | 52,883 |
| | 2,075,869 | 2,294,915 | 2,209,580 |
| Provision for impairment | (1,480) | (48,825) | (37,591) |
| **Net** | **2,074,389** | **2,246,090** | **2,171,989** |

Movements in the provision for impairment of trade receivables from related party are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | (48,825) | (37,591) | (174,136) |
| Reversal of provision for impairment for recovered receivables - net | 38,346 | - | 166,507 |
| Impairment during the year | (1,051) | (13,093) | (35,702) |
| Foreign exchange gain | 10,050 | 1,859 | 5,740 |
| **Ending balance** | **1,480** | **(48,825)** | **(37,591)** |

The Group's management has provided a provision for the impairment of receivables using an individual impairment approach.

Management believes that the provision for impairment is adequate to cover possible losses that may arise from the uncollectible trade receivables from related parties.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### a. Trade receivables (continued)

Details of trade receivables by currencies are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Rupiah | 1,657,012 | 1,930,733 | 1,886,818 |
| US Dollar | 418,785 | 363,427 | 321,796 |
| Others | 72 | 755 | 966 |
| **Total** | **2,075,869** | **2,294,915** | **2,209,580** |

**Receivable from fuel and lubricant distribution to the Indonesian Armed Forces Ministry of Defence**

The fuel and lubricant distribution to the Indonesian Armed Forces is based on the planned needs of the Indonesian Armed Forces/Ministry of Defence and is capped by the State Budget for Fuels and Lubricants (BMP) as one of the expenditure items of the Indonesian Armed Forces/Ministry of Defence. The annual BMP budgets were relatively lower compared to the realisations, and thus, the receivables balance accumulated over time. The details are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 657,400 | 428,545 | 191,454 |
| Distribution of fuel and lubricant | 425,324 | 464,389 | 467,135 |
| Payment receipts of BMP distribution | (161,416) | (208,406) | (223,049) |
| Adjustment audit BPKP 2006-2012 | (13,723) | - | - |
| Foreign exchange loss | (135,883) | (27,128) | (6,995) |
| **Ending balance** | **771,702** | **657,400** | **428,545** |

The Company has proposed an additional budget allocation to the Government to collect the outstanding receivables due to insufficient BMP budget.

Based on Letter of Minister of Finance to Head of BPKP No. S-150/MK.02/2013 dated 28 February 2013 and Letter of Minister of Finance to Minister of Defence No. S-149/MK.02/2013 dated 28 February 2013, BPKP was requested to verify the Company’s oustanding receivables from Indonesian armed forces/Ministry of Defence for transactions that occured in the period from 2006 to the fourth quarter of 2012.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### a. Trade receivables (continued)

**Receivable from fuel and lubricant distribution to the Indonesian Armed Forces Ministry of Defence** (continued)

Based on BPKP's verification report No. LHV-68/D201/2013 dated 3 June 2013 for receivables from the fourth quarter 2011 to the fourth quarter 2012 and verification report No. LHV-798/D201/2012 dated 27 December 2012 for receivables from 2006 to the third quarter of the year 2011, the receivable balances were Rp3,449 billion (equivalent to US$282,978) and Rp2,671 billion (equivalent to US$219,205), respectively – total Rp6,120 billion or equivalent to US$502,183. In addition, the Government's budget allocation to settle the outstanding receivables has been approved by the Ministry of Finance based on the letter from the Directorate General of Budget No. S-125/AG/2014 dated 23 January 2014. Based on the above developments, the Company's management reversed the provision for impairment of these receivables. Accordingly, the balance of the provision for impairment as at 31 December 2013 was US$Nil (2012: US$47,695; 2011: US$34,899).

**PT Perusahaan Listrik Negara (Persero) (PLN)**

On 5 December 2012, PT Nusantara Regas, a jointly controlled entity owned by the Company, entered into an Agreement for Sale and Purchase of Natural Gas from West Java FSRT LNG Regasification with PLN to supply natural gas to PLN's power plant in Muara Karang and Tanjung Priok. This agreement ends on 31 December 2022.

### b. Other receivables

Other receivables by customers are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| PT Trans Pacific Petrochemical Indotama | 565,962 | 556,408 | 557,906 |
| PT Donggi Senoro LNG | 370,506 | 258,591 | 115,303 |
| PT Garuda Indonesia (Persero) Tbk. | 43,138 | 57,517 | 57,517 |
| PT Merpati Nusantara Airlines (Persero) | 21,479 | 26,995 | 23,452 |
| Others (each below US$10,000) | 48,926 | 42,804 | 6,533 |
| | 1,050,011 | 942,315 | 760,711 |
| Provision for impairment | (339,121) | (579,190) | (576,922) |
| | 710,890 | 363,125 | 183,789 |
| **Less: current portion** | **(448,468)** | **(291,930)** | **(20,159)** |
| **Non-current portion - net (Note 13)** | **262,422** | **71,195** | **163,630** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### b. Other receivables (continued)

Movements in the provision for impairment of other receivables from related parties are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | (579,190) | (576,922) | (787) |
| Reversal of impairment on the recovered receivables-net | 236,032 | - | 28 |
| Impairment during the year | (511) | (3,371) | (409,662) |
| Foreign exchange gain | 4,548 | 1,103 | 6 |
| Reclassification | - | - | (166,507) |
| **Ending balance** | **(339,121)** | **(579,190)** | **(576,922)** |

Management believes that the provision for impairment is adequate to cover possible losses that may arise from the uncollectible other receivables from related parties.

**Receivables from PT Trans Pacific Petrochemical Indotama (TPPI)**

The Company's receivables from TPPI as at 31 December 2013 amounted to US$565,962 (2012: US$556,408 and 2011: US$557,906), consisting of receivables from sales of Senipah condensate (Senipah Receivable) amounting to US$184,583 (2012: US$184,611 and 2011: US$183,806), receivables from Low Sulphur Waxed Residue Delayed Payment Notes (LSWR DPN) of US$371,797 (2012: US$371,797 and 2011: US$371,797), and receivables from non operating activities of US$9,582 (2012: US$Nil and 2011: US$2,303).

On 28 December 2011, a Master Restructuring Agreement (MRA) for debts restructuring of PT Tuban Petrochemical Industries (“TubanPetro”) including TPPI to among others the Company and PT Perusahaan Pengelola Aset (Persero) q.q. Minister of Finance (“PPA”) was signed, which was then amended on 18 June 2012 containing the following important matters:

- The effective date of the MRA is maximum 75 calendar days after the signing of the supporting agreement.
- The receivables from LSWR DPN consisting of the principal amounting to US$371,797 and interest amounting to US$34,464, and receivables from Senipah consisting of the principal amounting to US$183,806 and interest amounting to US$36,370.
- For the LSWR DPN receivables, TPPI will pay a down payment of US$300,000 in cash and issue a Standby Letter of Credit (“SBLC”) in the amount of US$106,264 to be completed on 15 March 2012 at the latest.
- For the receivables from Senipah, TPPI will settle the amount in installments for 10 years starting from 31 December 2012 to 31 December 2021.

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### b. Other receivables (continued)

**Receivables from PT Trans Pacific Petrochemical Indotama (TPPI)** (continued)

In 2012, the MRA as mentioned above was unsuccessful and terminated as TubanPetro/TPPI failed to fulfill the condition precedents of the MRA.

PT Perusahaan Pengelola Aset (Persero) (PPA) is a majority shareholder with ownership of 70% share in TubanPetro. PPA guaranteed Multi Year Bonds (MYB) amounting to Rp3,266,000 million issued by TubanPetro as part of a debt restructuring in 2004.

In 2012, some of TPPI's creditors filed a bankruptcy petition against TPPI with the Commercial Court at the District Court of Central Jakarta (Commercial Court). This bankruptcy petition has led the TPPI debt settlement to be settled through the Commercial Court.

On 11 October 2012, TPPI held an Extraordinary General Meeting of the Shareholders which resolved, among others, to make a change to TPPI's management (management step-in) so as to ensure the continued operations for the improvement of TPPI.

Furthermore, with regard to the above mentioned bankruptcy petition, on 5 November 2012, the Commercial Court through its verdict No. 47/PKPU/2012/ PN.Niaga.JKT.PST declared that TPPI was subject to Suspension of Payment (PKPU).

In December 2012, a Creditors Meeting agreed to a Composition Plan which was subsequently ratified by the Commercial Court on 26 December 2012. The key terms of the Composition Plan are as follows:

a. Converting TPPI unsecured claims into 75% stock ownership, which will result in dilution of the existing shareholders' share to 25% stock ownership.

b. Rescheduling the settlement of TPPI secured claims.

On 8 May 2013, as a follow-up to the Composition Agreement and in order to restart operating the refinery, TPPI and the Company signed a Raw Material Processing Agreement (Tolling) for a six month period. TPPI would process the raw materials of the Company and TPPI would receive a tolling fee from the Company. Operation through this tolling mechanism was started when the outputs met the product specification, which was in November 2013.

In 2013, the management of the Company conducted a valuation of TPPI.

Based on the Composition Plan, which has became legally enforceable, commencement of TPPI refinery operations, and the result of the valuation of TPPI, the Company's management reversed the provision for impairment for a portion of receivables from TPPI amounting to US$236,032. As at 31 December 2013, 2012 and 2011 the balance of the provision for impairment was US$320,376, US$556,408 and US$557,906, respectively, against TPPI's receivables.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### b. Other receivables (continued)

**PT Donggi Senoro LNG**

The receivable from PT Donggi Senoro LNG, an associate, of US$370,506 (2012: US$258,591, 2011: US$115,303) will mature on 22 July 2014. This receivable is provided for the construction of a LNG production facility with a capacity of 2 million tonnes per year.

The interest rate for the loan is one month US Dollar LIBOR plus 3.75% per annum and is due every three months after the loan drawdown. During 2012 and 2013, interest accruing was compounded to the loan because the construction of the LNG production facility was still underway. Interest income earned during 2013, 2012 and 2011 was US$19,691, US$2,694 and US$1,896 respectively.

**PT Garuda Indonesia (Persero) Tbk. (Garuda)**

On 19 October 2009, the Company and Garuda signed a Transfer of Debt Agreement No. 1617/C00000/2009-SO. Based on this agreement, Garuda's trade payables amounting to US$76,485 for purchases of jet fuel (avtur) from the Company for the period from 1 June 2004 to 30 June 2006 were converted to a long-term loan, which is subject to interest at the rate of six months' LIBOR plus 1.75% per annum. Interest is payable semi-annually starting from 31 December 2009.

The schedule of loan repayments is as follows: 1% of loan principal on 31 December 2009, 5% of loan principal on 31 December 2010 and 18.8% of loan principal on 31 December of each year thereafter until 31 December 2015. A penalty of 2% per annum is applied for late payments.

As at 31 December 2013, 2012 and 2011 the outstanding restructured long-term receivables from Garuda amounted to US$43,138, US$57,517 and US$57,517 respectively.

The movements of the restructured receivables from Garuda are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Beginning balance | 57,517 | 57,517 | 71,896 |
| Receipts | (14,379) | - | (14,379) |
| **Ending balance** | **43,138** | **57,517** | **57,517** |

**PT Merpati Nusantara Airlines (Persero) (MNA)**

On 27 October 2009, MNA requested to restructure its payable. An agreement was made on 17 October 2011 through a meeting at the Ministry of State-Owned Enterprises. As at 31 December 2013, 2012 and 2011, the provision for impairment for this receivable was US$17,924, US$21,992 and US$18,262, respectively.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### c. Trade payables

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| PT Rekayasa Industri | 14,706 | 46,161 | 38,711 |
| PT PAL Indonesia (Persero) | 9,159 | 5,534 | 16,886 |
| PT Adhi Karya (Persero) Tbk. | 7,712 | 15,824 | - |
| PT Wijaya Karya (Persero) Tbk. | 5,960 | 25,800 | 13,718 |
| PT Badak NGL | - | - | 13,955 |
| Others (each below US$10,000) | 51,680 | 54,708 | 59,686 |
| **Total** | 89,217 | 148,027 | 142,956 |

### d. Other payables

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| PT Badak NGL | 17 | 58,749 | 56,726 |
| Others (each below US$10,000) | 9,063 | 13,919 | 9,699 |
| **Total** | 9,080 | 72,668 | 66,425 |

### e. Sales and other operating revenues

The Group had sales and other operating revenues involving related parties in 2013, 2012 and 2011, representing 45%, 46% and 45% of the total sales and other operating revenues for the year as follow:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Domestic sales of crude oil, natural gas, geothermal energy and oil products | | | |
| - Entities related to the Government | 10,427,935 | 10,121,258 | 11,477,254 |
| - Shareholder | 903,141 | 1,987 | 104,716 |
| - Associates | 36,501 | 91,034 | 187,846 |
| Subsidy reimbursements from the Government | | | |
| - Shareholder | 20,303,734 | 21,923,958 | 17,860,494 |
| Export of crude oil and oil products | | | |
| - Associates | 220,754 | 292,952 | 256,963 |
| Marketing fees | | | |
| - Shareholder | 107,317 | 110,930 | 150,707 |
| Revenues in relation to other operating activities | | | |
| - Entities related to the Government | 36,128 | 46,392 | 53,212 |
| - Common key management | - | - | 8,260 |
| **Total** | 32,035,510 | 32,588,511 | 30,099,452 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### f. Cost of goods sold

The Group performed purchases from related parties in 2013, 2012 and 2011, representing 25%, 30% and 32% respectively, of the total cost of goods sold (Note 30) for the years as follow:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Crude oil Shareholder | 14,420,555 | 17,622,208 | 17,640,337 |
| Natural gas | | | |
| Entities related to the Government | - | - | 338 |
| Oil product: | | | |
| LPG | | | |
| Associates | 710,818 | 664,468 | 570,463 |
| Entities related to the Government | 63,677 | 38,626 | 30,367 |
| **Total** | **15,195,050** | **18,325,302** | **18,241,505** |

### g. Key management compensation

Key management comprises the Boards of Directors and Commissioners of the Company. The compensation paid or payable to key management is shown below:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Salaries and other benefits | 41,666 | 26,151 | 19,929 |

### h. Relations with related parties

The nature of the relationships with the related parties is as follows:

| Relations | Related parties |
|---|---|
| - Shareholder | The Government of the Republic of Indonesia |
| - Associates | PT Arun NGL<br>PT Badak NGL<br>PT Elnusa Tbk.<br>Pacific Petroleum & Trading Co. Ltd.<br>Korea Indonesia Petroleum Co. Ltd.<br>PT Tugu Reasuransi Indonesia<br>PT Asuransi Samsung Tugu<br>PT Asuransi Jiwa Tugu Mandiri<br>PT Trans Java Gas Pipeline<br>PT Asuransi Maipark Indonesia<br>PT Staco Jasapratama Indonesia<br>PT Donggi Senoro LNG<br>PT Patra Dok Dumai |
| - Joint ventures | PT Patra SK<br>PT Nusantara Regas<br>PT Perta-Samtan Gas<br>PT Perta Daya Gas |

## 39. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

### h. Relations with related parties (continued)

| Relations | Related parties |
|---|---|
| - Common key management | Koperasi Karyawan Pertamina<br>Dana Pensiun Pertamina<br>Yayasan Kesejahteraan Pegawai Pertamina |
| - Entities related to the Government | Tentara Nasional Indonesia (TNI)<br>Polisi Republik Indonesia (Polri)<br>PT Asuransi Jasa Indonesia (Persero)<br>PT Perusahaan Listrik Negara (Persero)<br>PT Pupuk Indonesia (Persero)<br>PT Perusahaan Gas Negara (Persero) Tbk.<br>PT Krakatau Steel (Persero) Tbk.<br>PT Garuda Indonesia (Persero) Tbk.<br>PT Merpati Nusantara Airlines (Persero)<br>PT Wijaya Karya (Persero) Tbk.<br>PT PAL Indonesia (Persero)<br>PT Trans Pacific Petrochemical Indotama<br>PT Bina Bangun Wibawa Mukti<br>Perusahaan Badan Usaha Milik Negara (BUMN) lainnya<br>Perusahaan Badan Usaha Milik Daerah (BUMD) lainnya<br>BNI<br>BRI<br>Bank Mandiri<br>Lembaga Pembiayaan Ekspor Indonesia |
| - Key Management Personnel | Board of Directors<br>Board of Commissioners<br>Other key management personnel |

Transactions between related parties are based on an agreement between the parties thereto which generally refers to the market price which includes a certain margin.

## 40. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the strategic steering committee that are used to make strategic decisions.

Segments are grouped into two principal business activities consisting of Upstream and Downstream, representing the Company's reportable segments as defined in accounting standards for segment reporting SFAS No. 5 (Revised 2009), Operation Segment (Note 2u).

The Group changed the structure of its internal organisation due to the establishment of gas directorate. Previously, PT Pertamina Gas was included in the upstream segment and PT Nusantara Regas was included in the downstream segment. In 2013, these companies were organised within the gas directorate, which included under “Others” segment. As a result, the corresponding segment information for 2012 and 2011 have been recasted from prior year consolidated financial statements to follow the composition of the Group’s reportable segments in 2013.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 40. SEGMENT INFORMATION (continued)

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Upstream | Downstream | Others[a] | Total before elimination | Elimination | Total consolidated |
| External sales | 3,651,437 | 66,048,226 | 1,402,439 | 71,102,102 | - | 71,102,102 |
| Inter-segment sales | 4,156,846 | 128,409 | 419,279 | 4,704,534 | (4,704,534) | - |
| Total segment revenues | 7,808,283 | 66,176,635 | 1,821,718 | 75,806,636 | (4,704,534) | 71,102,102 |
| Segment results | 4,347,000 | 103,917 | 422,879 | 4,873,796 | (35,542) | 4,838,254 |
| Foreign exchange loss - net | | | | | | (195,611) |
| Finance income | | | | | | 126,759 |
| Finance cost | | | | | | (478,536) |
| Share in net income of associates | | | | | | (975) |
| Other income - net | | | | | | 742,990 |
| | | | | | | 194,627 |
| Income before income tax expense | | | | | | 5,032,881 |
| Income tax expense | | | | | | (1,965,826) |
| Income for the year | | | | | | 3,067,055 |
| Income attributable to: | | | | | | |
| Owners of the parent | | | | | | 3,061,625 |
| Non-controlling interest | | | | | | 5,430 |
| **Other Information** | | | | | | |
| Segment assets | 19,270,482 | 34,678,991 | 2,410,550 | 56,360,023 | (7,703,424) | 48,656,599 |
| Investments | 207,965 | 9,558,941 | 78,558 | 9,845,464 | (9,160,192) | 685,272 |
| Total assets | 19,478,447 | 44,237,932 | 2,489,108 | 66,205,487 | (16,863,616) | 49,341,871 |
| Segment liabilities | 8,522,576 | 30,029,825 | 1,207,937 | 39,760,338 | (7,707,759) | 32,052,579 |
| Depreciation, depletion and amortisation expense | 718,823 | 508,063 | 45,912 | 1,272,798 | - | 1,272,798 |
| Additions of fixed assets, oil & gas and geothermal properties | 4,968,298 | 1,344,490 | 338,161 | 6,650,949 | - | 6,650,949 |

a) Others consist of office and house rentals, hotel operation, air transportation services, health services and operation of hospitals, investment management, gas transportation services, human resources development services and insurance services.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 40. SEGMENT INFORMATION (continued)

| | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Upstream | Downstream | Others[a)] | Total before elimination | Elimination | Total consolidated |
| External sales | 3,667,015 | 66,424,688 | 832,737 | 70,924,440 | - | 70,924,440 |
| Inter-segment sales | 4,505,854 | 211,144 | 298,857 | 5,015,855 | (5,015,855) | - |
| Total segment revenues | 8,172,869 | 66,635,832 | 1,131,594 | 75,940,295 | (5,015,855) | 70,924,440 |
| Segment results | 4,458,875 | 66,068 | 194,508 | 4,719,451 | 44,767 | 4,764,218 |
| Foreign exchange loss - net | | | | | | 40,452 |
| Finance income | | | | | | 132,040 |
| Finance cost | | | | | | (329,303) |
| Share in net income of associates | | | | | | (1,693) |
| Other income - net | | | | | | 196,574 |
| | | | | | | 38,070 |
| Income before income tax expense | | | | | | 4,802,288 |
| Income tax expense | | | | | | (2,036,578) |
| Income for the year | | | | | | 2,765,710 |
| Income attributable to: | | | | | | |
| Owners of the parent | | | | | | 2,760,654 |
| Non-controlling interest | | | | | | 5,056 |
| **Other Information** | | | | | | |
| Segment assets | 15,984,101 | 30,168,709 | 1,696,465 | 47,849,275 | (7,644,540) | 40,204,735 |
| Investments | 148,054 | 7,647,126 | 150,507 | 7,945,687 | (7,191,781) | 753,906 |
| Total assets | 16,132,155 | 37,815,835 | 1,846,972 | 55,794,962 | (14,836,321) | 40,958,641 |
| Segment liabilities | 6,993,132 | 25,671,550 | 868,405 | 33,533,087 | (7,767,227) | 25,765,860 |
| Depreciation, depletion and amortisation expense | 543,423 | 491,165 | 37,149 | 1,071,737 | - | 1,071,737 |
| Additions of fixed assets, oil & gas and geothermal properties | 2,642,608 | 682,306 | 132,197 | 3,457,111 | - | 3,457,111 |

a) Others consist of office and house rentals, hotel operation, air transportation services, health services and operation of hospitals, investment management, gas transportation services, human resources development services and insurance services.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 40. SEGMENT INFORMATION (continued)

| | 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Upstream | Downstream | Others[a] | Total before elimination | Elimination | Total consolidated |
| External sales | 3,445,597 | 63,536,752 | 315,092 | 67,297,441 | - | 67,297,441 |
| Inter-segment sales | 4,261,571 | 195,466 | 269,343 | 4,726,380 | (4,726,380) | - |
| Total segment revenues | 7,707,168 | 63,732,218 | 584,435 | 72,023,821 | (4,726,380) | 67,297,441 |
| Segment results | 4,520,245 | 827,626 | 132,738 | 5,480,609 | (126,685) | 5,353,924 |
| Foreign exchange loss - net | | | | | | (10,090) |
| Finance income | | | | | | 118,095 |
| Finance cost | | | | | | (287,396) |
| Share in net income of associates | | | | | | (6,320) |
| Other income - net | | | | | | (663,459) |
| | | | | | | (849,170) |
| Income before income tax expense | | | | | | 4,504,754 |
| Income tax expense | | | | | | (2,099,452) |
| Income for the year | | | | | | 2,405,302 |
| Income attributable to: | | | | | | |
| Owners of the parent | | | | | | 2,399,157 |
| Non-controlling interest | | | | | | 6,145 |
| **Other Information** | | | | | | |
| Segment assets | 14,060,941 | 26,249,056 | 1,566,975 | 41,876,972 | (7,622,231) | 34,254,741 |
| Investments | 77,988 | 7,022,096 | 103,331 | 7,203,415 | (6,467,857) | 735,558 |
| Total assets | 14,138,929 | 33,271,152 | 1,670,306 | 49,080,387 | (14,090,088) | 34,990,299 |
| Segment liabilities | 5,917,075 | 22,564,366 | 810,905 | 29,292,346 | (7,584,657) | 21,707,689 |
| Depreciation, depletion and amortisation expense | 378,499 | 502,915 | 37,336 | 918,750 | - | 918,750 |
| Additions of fixed assets, oil & gas and geothermal properties | 1,464,266 | 945,728 | 157,700 | 2,567,694 | - | 2,567,694 |

a) Others consist of office and house rentals, hotel operation, air transportation services, health services and operation of hospitals, investment management, gas transportation services, human resources development services and insurance services..

Transaction between segments are carried out at agreed terms between companies.

The following table shows the distribution of the Group's consolidated revenues based on their geographic segments:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Revenues** | | | |
| Indonesia | 65,599,180 | 66,210,179 | 63,007,645 |
| Other countries | 5,502,922 | 4,714,261 | 4,289,796 |
| **Consolidated revenues** | **71,102,102** | **70,924,440** | **67,297,441** |

## 40. SEGMENT INFORMATION (continued)

Revenue from two customers of the downstream segment in 2013, 2012 and 2011 represents approximately 37%, 42% and 40% (US$26,458,054, US$29,460,322 and US$27,012,229) of total sales and other operating revenues.

All of the Group's assets are substantialy located in Indonesia, except for several foreign ownership of assets such as Petral, COPAL and PIREP which are located in Hong Kong, Singapore, Algeria and Iraq.

## 41. OIL AND GAS CONTRACT ARRANGEMENTS

### a. PSCs

PSCs are entered into by PSC contractors with SKK MIGAS (previously BP MIGAS) acting on behalf of the Government, for a period of 20 - 30 years, and may be extended in accordance with applicable regulations.

- **Working area**

  The PSC working area is a designated area in which the PSC contractors may conduct oil and gas operations. On or before the tenth year from the effective date of the PSCs, the PSC contractors must return 10% of such designated working area to the Government.

- **Crude oil and gas production sharing**

  Oil and gas production sharing is determined annually, and represents the total liftings of oil and gas in each period/year ending 31 December net of Investment Credit, First Tranche Petroleum (FTP) and cost recovery.

  The PSC contractors are subject to tax on their taxable income from their PSC operations based on their share of equity oil and gas production, less bonuses, at a combined tax rate comprising corporate income tax and dividend tax.

- **Cost recovery**

  Annual cost recovery comprises:

  i. Current year non-capital costs
  ii. Current year depreciation of capital costs
  iii. Unrecovered prior years' operating costs

- **Crude oil and natural gas prices**

  The PSC contractors' crude oil production is priced at Indonesian Crude Prices (ICP). Natural gas deliveries to third parties and related parties are valued based on the prices stipulated in the respective sale and purchase contracts.

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### a. PSCs (continued)

- **Domestic market obligation (DMO)**

Crude oil

The PSC contractor is required to supply the domestic market in Indonesia with the following annual calculation:

i. Multiply the total quantity of crude oil produced from the contract area by a fraction the numerator of which is the total quantity of crude oil to be supplied and the denominator is the entire Indonesian production of crude oil of all petroleum companies.
ii. Compute 25% of the total quantity of crude oil produced from the contract area.
iii. Multiply the lower computation, either under (i) or (ii) by the resultant percentage of the contractor's entitlement.

The price at which the DMO crude oil is supplied is equal to the weighted average of all types of crude oil sold by the PSC Contractor.

Natural gas

The PSC contractor is also required to supply the domestic market in Indonesia with 25% of the total quantity of natural gas produced from the contract area multiplied by the PSC Contractor's entitlement percentage.

The price at which the DMO gas is supplied is the price determined based on the agreed contracted sales prices.

- **FTP**

The Government is entitled to receive an amount ranging from 10% - 20% of the total production of oil and gas each year before any deduction for recovery of operating costs and investment credit.

- **Ownership of materials and supplies and equipment**

Materials, supplies and equipment acquired by the PSC contractors for oil and gas operations belong to the Government; however, the PSC contractors have the right to utilise such materials, supplies and equipment until they are declared surplus or abandoned with the approval of the MoEMR.

### b. PT Pertamina EP's Cooperation Contract

On 17 September 2005, an oil and gas cooperation contract in the form of Pertamina Oil and Gas Contract which is equivalent to a PSC, was signed between BPMIGAS and PT Pertamina EP as a successor contract to Pertamina's Petroleum Contract (PPC).This involves a period of 30 years from 17 September 2005 until 16 September 2035, which may be extended in accordance with a written agreement between the parties (BPMIGAS and PT Pertamina EP) and approval from the Government.

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### b. PT Pertamina EP's Cooperation Contract (continued)

The terms of PT Pertamina EP's Cooperation Contract differ from general PSC terms in the following respects:

- **Crude oil and natural gas production sharing**

  PT Pertamina EP and the Government's shares of equity (profit) of oil and gas production are 67.2269% and 32.7731%, respectively.

- **FTP**

  The Government and PT Pertamina EP are entitled to receive an amount equal to 5% of the total production of oil and gas each year before any deduction for recovery of operating costs and investment credit. FTP is shared between the Government and PT Pertamina EP in accordance with the entitlements to oil and gas production.

### c. Cooperation arrangements with the parties in conducting oil and gas activities - PT Pertamina EP

PT Pertamina EP can establish cooperation agreements with other parties in conducting oil and gas activities or technical assistance arrangements in certain parts of its Cooperation Contract working area under Joint Venture Arrangements with the approval of the Government through the MoEMR.

The recoverable costs and profit sharing of the other parties under the following cooperation agreements form part of PT Pertamina EP's recoverable costs under its Cooperation Contract.

- **Technical assistance contracts (TAC)**

  Under a TAC, operations are conducted through partnership arrangements with PT Pertamina EP. TACs are awarded for fields which are currently in production, or which had previously been in production, but in which production had ceased. Crude oil and natural gas production is divided into non-shareable and shareable portions. The non-shareable portion represents the production which is expected from the field (based on the historic production trends of the field) at the time the TAC is signed and accrues to PT Pertamina EP. Non-shareable production decreases annually reflecting expected declines in production. The shareable portion of production corresponds to the additional production resulting from the Partners' investments in the TAC fields.

  The Partners are entitled to recover costs, subject to specified annual limitations depending on the contract terms.The remaining portion of shareable production (shareable production less cost recovery) is split between PT Pertamina EP and the Partners. The Partners' share of equity (profit) oil and gas production is stipulated in each contract and ranges from 26.7857% to 67.3077% for oil and from 62.5000% to 79.9231% for gas. As at 31 December 2013, PT Pertamina EP's TAC arrangements were as follows:

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### c. Cooperation arrangements with the parties in conducting oil and gas activities - PT Pertamina EP (continued)

#### - Technical Assistance Contracts (TAC) (continued)

| Partner | Working Area | Area | Effective Date of Contract | Date of Commencement of Production | Date of End of Contract | Production |
|---|---|---|---|---|---|---|
| PT Medco E&P Sembakung | Sembakung | East Kalimantan | 22/12/1993 | 01/05/1994 | 21/12/2013 | Oil |
| Korea Development (Poleng) Co. Ltd. | Poleng | East Java | 22/12/1993 | 1/5/1998 | 21/12/2013 | Oil and gas |
| PT Babat Kukui Energi | Babat, Kukui | Jambi | 12/7/1994 | 12/11/2003 | 11/7/2014 | Oil |
| PT Binawahana Petrindo Meruap | Meruap | Jambi | 12/7/1994 | 30/8/2000 | 11/7/2014 | Oil |
| PT Patrindo Persada Maju | Mogoi, Wasian | Papua | 12/7/1994 | 22/9/2000 | 11/7/2014 | Oil |
| PT Radiant Energi Sukatani | Sukatani | West Java | 16/6/1995 | 18/11/1999 | 15/6/2015 | Oil |
| PT Pelangi Haurgeulis Resources | Haurgeulis | West Java | 17/11/1995 | 26/6/2003 | 16/11/2015 | Gas |
| PT Radiant Ramok Senabing | Ramok Senabing | South Sumatera | 9/1/1995 | 23/9/2003 | 8/1/2015 | Oil |
| Intermega Sabaku Pte Ltd. | Sabaku, Salawati - A, D | Papua | 9/1/1995 | 01/12/1995 | 8/1/2015 | Oil |
| Intermega Salawati Pte Ltd. | Salawati - C, E, N dan F | Papua | 9/1/1995 | 01/10/1995 | 8/1/2015 | Oil |
| PT Sembrani Persada Oil (SEMCO) | Semberah | East Kalimantan | 17/11/1995 | 28/11/2004 | 16/11/2015 | Oil and gas |
| Salamander Energy (North Sumatera) Ltd. | Glagah, Kambuna | North Sumatera | 17/12/1996 | 17/9/2009 | 16/12/2016 | Oil and gas |
| Goldwater TMT Ltd. Timur | Tanjung Miring Timur | South Sumatera | 17/12/1996 | 23/10/2000 | 16/12/2016 | Oil |
| Pilona Petro Tanjung Lontar Ltd. | Tanjung Lontar | South Sumatera | 7/10/1996 | 27/3/1998 | 6/10/2016 | Oil |
| PT Akar Golindo | Tuba Obi Timur | Jambi | 15/5/1997 | 11/10/2011 | 14/5/2017 | Oil |
| PT Insani Mitrasani Gelam | Sungai Gelam - A, B, D | Jambi | 15/5/1997 | 13/10/2004 | 14/5/2017 | Oil and Gas |
| Blue Sky Langsa Ltd . | Langsa | Aceh | 15/5/1997 | 28/11/2001 | 14/5/2017 | Oil |
| PT Putra Kencana Diski Petroleum | Diski | Aceh | 16/11/1998 | 13/02/2002 | 15/11/2018 | Oil |
| IBN Oil Holdico Ltd. | Linda - A, C, G, Sele | Papua | 16/11/1998 | 4/9/2000 | 15/11/2018 | Oil |
| PT Indama Putera Kayapratama | Kaya | South Sumatera | 22/5/2000 | 19/03/2012 | 21/5/2020 | Oil |
| Ellipse Energy Jatirarangon Wahana Ltd. | Jatirarangon | West Java | 22/5/2000 | 06/1/2004 | 21/5/2020 | Oil and Gas |
| PT Binatek Reka Kruh | Kruh | South Sumatera | 22/5/2000 | 6/2/2003 | 21/5/2020 | Oil |
| PT Eksindo Telaga Said Darat | Telaga Said | Aceh | 7/8/2002 | 16/02/2006 | 6/8/2022 | Oil |
| PT Pertalahan Arnebatara Natuna | Udang Natuna | Riau Archipelago | 7/8/2002 | 28/11/2005 | 6/8/2022 | Oil |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### c. Cooperation arrangements with the parties in conducting oil and gas activities - PT Pertamina EP (continued)

- **Technical Assistance Contracts (TAC)** (continued)

| Partner | Working Area | Area | Effective Date of Contract | Date of Commencement of Production | Date of End of Contract | Production |
|---|---|---|---|---|---|---|
| PT Indo Jaya Sukaraja (Easco Sukaraja) | Sukaraja, Pendopo | South Sumatera | 7/8/2002 | 19/6/2008 | 6/8/2022 | Oil |
| PT Prakarsa Betung Meruo Senami | Meruo Senami | Jambi | 14/8/2002 | 15/02/2012 | 13/8/2022 | Oil |

At the end of the TAC contracts, all TAC assets are transferred to PT Pertamina EP. The TAC Partners are responsible for settling all outstanding TAC liabilities to third parties until the end of the TAC contracts.

- **Operation Co-operation (OC) Contract**

In an OC Contract, operations are conducted through partnership arrangements with PT Pertamina EP. OC Contracts are awarded for fields which are currently in production, or which have previously been in production, but in which production has ceased, or for areas with no previous production. The two types of OC contracts are:

a. OC Production - Exploration contract
b. OC Production contract

Under an OC Production-Exploration contract, there is no non-shareable oil. Under an OC Production contract, the crude oil production is divided into non-shareable and shareable portions.

The non-shareable portion of crude oil (the NSO) production represents the production which is expected from the field (based on the historic production trends of the field) at the time the OC is signed, and it accrues to PT Pertamina EP. The shareable portion of crude and gas production corresponds to the additional production resulting from the Partners' investments in the OC fields and is in general split between the parties in the same way as under a Cooperation Contract. In certain OC production contracts, in the event that the production is the same as or less than the NSO, the Partner's production cost will not be deferred and will be recovered with the following provisions:

- If the total production cost incurred for the current year's operations is less than total NSO revenue, recovery will be 70% of production cost incurred for the current year's operations and the remaining production cost will not be carried forward to any subsequent year.

- In the event that total production cost incurred for the current year's operations is higher than total NSO revenue, recovery will be 50% of total NSO revenue and the remaining production cost will not be carried forward to any subsequent year.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### c. Cooperation arrangements with the parties in conducting oil and gas activities - PT Pertamina EP (continued)

- **Operation Co-operation (OC) Contract** (continued)

The Partner's share of equity (profit) oil and gas production is stipulated in each contract and ranges from 16.6667% to 26.7857% for oil and 31.6667% to 53.5714% for gas, respectively.

Specified investment expenditure commitments are required to be made in the first three years after the OC contract date. To ensure that these expenditure commitments will be met, the Partners are required to provide PT Pertamina EP with irrevocable and unconditional bank guarantees. The OC Partners are also required to make payments to PT Pertamina EP before the date of signing the OC contracts, of the amounts stated in the bid documents.

As at 31 December 2013 PT Pertamina EP's OC partnership agreements were as follows:

| Partner | Working Area | Area | Effective Date of Contract | Date of Commencement of Production | Date of End of Contract | Production |
|---|---|---|---|---|---|---|
| PT Indelberg Indonesia Perkasa | Suci | East Java | 25/04/2007 | - | 24/04/2027 | - |
| PT Kendal Oil and Gas** | Kendal | Central Java | 25/04/2007 | - | 24/04/2027 | - |
| PT Kamundan Energy | Kamundan | Papua | 25/04/2007 | - | 24/04/2027 | - |
| PT Formasi Sumatera Energy | Tanjung Tiga Timur | South Sumatera | 25/04/2007 | 25/04/2007 | 24/04/2022 | Oil |
| GEO Minergy Sungai Lilin Ltd.*) | Sungai Lilin | South Sumatera | 25/04/2007 | 25/04/2007 | 24/04/2022 | Oil |
| Patina Group Ltd. | Bangkudulis | East Kalimantan | 25/04/2007 | 01/1/2011 | 24/04/2022 | Oil |
| Pacific Oil & Gas (Perlak) Ltd.** | Perlak | North Sumatera | 25/04/2007 | July 2011 | 24/04/2022 | Oil |
| Indrillco Hulu Energy Ltd. | Uno Dos Rayu | South Sumatera | 19/12/2007 | - | 18/12/2007 | Oil |
| PT Benakat Barat Petroleum | Benakat Barat | South Sumatera | 16/03/2009 | 16/3/2009 | 15/03/2024 | Oil |
| PT Petroenergi Utama Wiriagar | Wiriagar | West Papua | 02/09/2009 | 02/09/2009 | 01/09/2024 | Oil |
| PT Santika Pendopo Energy | Talang Akar | South Sumatera | 05/06/2010 | 05/07/2010 | 04/06/2025 | Oil |
| Cooper Energy Sukananti Ltd. | Tangai Sukananti | South Sumatera | 26/07/2010 | 26/07/2010 | 25/07/2025 | Oil |
| PD Migas Bekasi***) | Jatinegara | West Java | 17/02/2011 | 17/02/2011 | 16/02/2026 | Gas |
| Samudra Energy Tanjung Lontar Limited | Tanjung Lontar Timur | South Sumatera | 17/02/2011 | - | 16/02/2031 | - |
| Prisma Kampung Minyak Ltd*) | Kampung Minyak | South Sumatera | 15/07/2011 | 15/07/2012 | 14/07/2026 | Oil |
| Ramba Energy West Jambi Limited | Jambi Barat | Jambi | 13/06/2011 | - | 12/06/2031 | - |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### c. Cooperation arrangements with the parties in conducting oil and gas activities - PT Pertamina EP (continued)

- **Operation Co-operation (OC) Contract** (continued)

| Partner | Working Area | Area | Effective Date of Contract | Date of Commencement of Production | Date of End of Contract | Production |
|---|---|---|---|---|---|---|
| PT Techwin Benakat Timur | Benakat Timur | South Sumatera | 01/05/2012 | 01/05/2012 | 30/04/2027 | Oil |
| PT Petroenim Betun Selo | Muara Enim | South Sumatera | 28/06/2012 | 28/06/2012 | 27/06/2027 | Oil |
| PT Tawun Gegunung Energi***) | Tawun Gegunung | East Java | 28/06/2012 | 28/06/2012 | 27/06/2027 | Oil |
| Foster Trembes Petroleum Ltd***) | Trembes Sendang | East Java | 28/06/2012 | 28/06/2012 | 27/06/2027 | Oil |
| PT Axis Sambidoyong Energi***) | Sambidoyong | West Java | 26/07/2012 | 26/07/2012 | 25/07/2027 | Oil |
| PT IEV Pabuaran***) | Pabuaran | West Java | 03/08/2012 | 03/08/2012 | 02/08/2027 | Gas |
| PT Klasofo Energy Resources | Klamono Selatan | Papua | 22/11/2012 | - | 21/11/2032 | - |
| PT Energi Jambi Indonesia | Jambi Barat | Jambi | 23/11/2012 | - | 22/11/2032 | - |
| PT QEI Loyak Talang Gula*) | Loyak Talang Gula | South Sumatera | 28/12/2012 | 01/01/2013 | 27/12/2027 | Oil |
| Gegunung Kampung Minyak Ltd.*) | Sungai Taham Batu | South Sumatera | 15/02/2013 | 01/07/2013 | 14/02/2028 | Oil |
| Indospec Energy Limau Ltd.*) | Keras Suban Jeriji Limau | South Sumatera | 01/03/2013 | 01/03/2013 | 28/02/2033 | Oil |
| Energi Tanjung Tiga***) | Pandan-Petanan-Tapus | South Sumatera | 05/07/2013 | 05/07/2013 | 04/07/2028 | Oil |
| PT Geo Cepu Indonesia***) | Kawengan, Ledok, Nglobo dan Semanggi | East Java | 01/12/2013 | 01/12/2013 | 30/11/2033 | Oil |
| PT Banyubang Blora Energi ***) | Banyubang | East Java | 20/12/2013 | 20/12/2013 | 19/12/2033 | Oil |

*) Production is less than NSO
**) Terminated at 24 April 2013
***) Commencement date of production is effective date of contract

At the end of OC contracts, all OC assets are transferred to PT Pertamina EP. The OC Partners are responsible for settling all outstanding OC liabilities to third parties until the end of the OC contracts.

- **Unitisation Agreement**

In accordance with Government Regulation No. 35 Year 2004 on Upstream Oil and Gas Business Activities, a contractor is required to conduct unitisation if it is proven that its reservoir extends into another contractor's Working Area. The MoEMR will determine the operator for the unitisation based on the agreement between the contractors entering the unitisation after considering the opinion of SKK MIGAS.

Since several of PT Pertamina EP's oil and gas reservoirs extend into other Contractors' Working Areas, PT Pertamina EP entered into Unitisation Agreements with several contractors.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### c. Cooperation arrangements with the parties in conducting oil and gas activities - PT Pertamina EP (continued)

#### - Unitisation Agreement (continued)

As at 31 December 2013, PT Pertamina EP's Unitisation Agreements were as follows:

| Parties | Operator | Field | Location | Contract | Production | Contract | PT Pertamina EP |
|---|---|---|---|---|---|---|---|
| PEP, CNEES & BVI (O.K). | Talisman Ogan Komering Ltd. | Air Serdang | Air Serdang, South Sumatra | 22-Jul-91 | 22-Jul-91 | 16-Sep-35 | Oil: 21.96% and Gas: 19.93% |
| PEP, PCI, Pearl Oil, Lundin Intl. & PHE Salawati Basin | Petrochina International (Bermuda) Ltd. | Wakamuk | Sorong, Papua | 13-Nov-06 | 13-Nov-06 | 16-Sep-35 | Oil and Gas: 50% |
| PHE, PHE East Java, PHE TUBAN & Petrochina East Java Intl. | JOB Pertamina-Petrochina East Java | Sukowati | Tuban, East Java | 2-Jul-04 | 2-Jul-04 | 16-Sep-35 | Oil and Gas: 80% |
| PEP, ConocoPhilips (Grissik) Ltd. , Talisman, PHE | ConocoPhilips (Grissik) Ltd. | Suban | Suban, Jambi | 11-Mar-13 | Juni 2011 | 23-Jan-23 | Oil and Gas: 10% |
| PEP, Medco EP Rimau | PT Pertamina EP | Tanjung Laban | Tanjung Laban, South Sumatra | 18-Jun-87 | 2005 | 16-Sep-35 | Oil and Gas: 74.99 % |
| PEP, PHE ONWJ | Pertamina Hulu Energi Offshore North West Java Ltd. | MB Unit | West Java | 23-Dec-85 | 23-Dec-85 | 16-Sep-35 | Oil and Gas: 47.4% |
| PEP, PEPC,MCL, AMPOLEX, SPHC,PJUC, BHP,ADS | PT Pertamina EP Cepu *) | Tiung Biru | Jambaran, East Java | 14-Sep-12 | - | 16-Sep-35 | Gas: 8.06% |

*) Unitisation of Tiung Biru is not yet in production.

### d. PHE's cooperation agreements with other parties

#### - Indonesian Participation Arrangements (IP)

Through IP arrangements, the Company , as a State-Owned Enterprise, is offered a 10% working interest in PSCs at the time the first Plans of Development (POD) are approved by the Government of Indonesia, represented by the MoEMR. The Company assigned these IP interests to PHE's subsidiaries on 1 January 2008. As at 31 December 2013, PHE subsidiaries' IP partnership arrangements were as follows:

| Partner | Working Area | Area | Effective Date of Contract | Production Commencement Date | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| ConocoPhillips (Grissik) Ltd. Talisman (Corridor) Ltd. | Corridor Block | South Sumatera | 20/12/2003 | 1/8/1987 | 19/12/2023 | 10% | Oil and gas | 20 years |
| Star Energy (Kakap) Ltd. | Kakap Block | Natuna Archipelago | 22/3/2005 | 1/1/1987 | 21/3/2028 | 10% | Oil and gas | 23 years |
| Singapore Petroleum Co. Ltd. Premier Oil Kakap BV | | | | | | | | |
| Petrochina International Kepala Burung Ltd. RH Petrogas Pearl Oil Ltd. | Kepala Burung Block | Papua | 15/10/2000 | 7/10/1996 | 14/10/2020 | 10% | Oil and gas | 20 years |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### d. PHE's cooperation agreements with other parties (continued)

#### - Indonesian Participation Arrangements (IP) (continued)

| Partner | Working Area | Area | Effective Date of Contract | Production Commencement Date | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| Petrochina International Jabung Ltd. Petronas Carigali Sdn. Bhd. | Jabung Block | Jambi | 27/2/1993 | 13/9/1996 | 26/2/2023 | 14.28%* | Oil and gas | 30 years |
| Chevron Makassar Ltd. | Makassar Strait Block | East Kalimantan | 26/1/1990 | 1/7/2000 | 25/1/2020 | 10% | Oil and gas | 30 years |
| Total E&P Indonesie Inpex Co. | Tengah Block | East Kalimantan | 5/10/1988 | 27/11/2007 | 4/10/2018 | 5%** | Oil and gas | 30 years |

* The interest in the Jabung Block of 14.28% reflects the acquisition by the Group of an additional interest of 4.28%.
** The interest in the Tengah Block of 5% represents 10% of the 50% foreign contractor ownership.

#### - Production Sharing Contract interests acquired subsequent to the issue of Law No. 22 Year 2001 related to oil and gas

##### 1. Oil and gas

As at 31 December 2013, oil and gas partnership arrangements of PHE subsidiaries were as follows:

| Partner | Working Area | Area | Effective Date of Contract | Production Commencement Date | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| PT Bumi Siak Pusako | Coastal Plain Pekanbaru Block | Riau | 6/8/2002 | 6/8/2002 | 5/8/2022 | 50% | Oil | 20 years |
| Statoil Indonesia Karama AS | Karama Block | Makassar Strait | 21/3/2007 | - | 20/3/2037 | 49% | - | 30 years |
| Petrochina International Java Ltd. PT PHE Tuban East Java | Tuban Block | East Java | 29/2/1988 | 12/2/1997 | 28/2/2018 | 25% | Oil and gas | 30 years |
| Kodeco Energy Co. Ltd. | West Madura Block* | East Java | 7/5/2011 | 27/9/1984 | 6/5/2031 | 80% | Oil and gas | 20 years |
| CNOOC SES Ltd. Korea National Oil Corporation Talisman Resources Ltd. Talisman UK Ltd. Orchard Energy Ltd. Fortune Resources Ltd. | Offshore South East Sumatera Block | South East Sumatera | 6/9/1998 | 1975 | 5/9/2018 | 13.07% | Oil and gas | 20 years |
| Energi Mega Persada ONWJ Ltd. Risco Energy ONWJ Ltd. | Offshore North West Java Block* | West Java | 19/1/1997 | 27/8/1971 | 18/1/2017 | 58.2795%** | Oil and gas | 20 years |
| Petronas Carigali Sdn. Bhd. Petrovietnam | Randu-gunting Block* | Central & East Java | 9/8/2007 | - | 8/8/2037 | 40% | - | 30 years |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### d. PHE's cooperation agreements with other parties (continued)

- **Production Sharing Contract interests acquired subsequent to the issue of Law No. 22 Year 2001 related to oil and gas** (continued)

#### 1. Oil and gas (continued)

| Partner | Working Area | Area | Effective Date of Contract | Production Commencement Date | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| Konsorsium Murphy (Murphy Oil Corporation, Inpex Corporation and PTTEP Ltd.) | Semai II Offshore Block | West Papua | 13/11/2008 | - | 12/11/2038 | 15% | - | 30 years |
| Petronas Carigali Sdn. Berhad | West Glagah Kambuna Block | North Sumatera | 30/11/2009 | - | 29/11/2039 | 40% | - | 30 years |
| Medco E&P Nunukan<br>Videocon Indonesia Nunukan<br>Bpril Ventures Indonesia BV | Nunukan Block* | East Kalimantan | 12/12/2004 | - | 11/12/2034 | 35%*** | - | 30 years |
| ENI Ambalat Ltd. | Ambalat Block | East Kalimantan | 27/9/1999 | - | 26/9/2029 | 33.75%*** | - | 30 years |
| ENI Bukat Ltd. | Bukat Block | East Kalimantan | 24/2/1998 | - | 23/2/2028 | 33.75%*** | - | 30 years |
| Premier Oil Natuna Sea Ltd.<br>Kufpec Indonesia (Natuna) BV<br>Natuna 1 BV (Petronas Carigali Indonesi Operation) | A Block (Natuna Sea) | Natuna Sea | 15/1/1999, PSC extension 16/10/2009 | - | 14/1/2019, PSC extension 15/10/2029 | 23%**** | - | 20 years |

* PHE's Subsidiaries are the operators of these blocks
** Effective on 2 May 2013, PHE ONWJ acquired additional of 5.0295% of participating interest in ONWJ block held by Talisman Resources ONWJ Ltd.
*** Effective on 15 February 2013, PHE acquired participating interest held by Anadarko Offshore Holding Company LLC.
**** The Company's Subsidiaries (PHE Oil and Gas) invested 50% shares in Natuna 2 BV

#### 2. Coal Bed Methane

As at 31 December 2013, the following contracts for Coal Bed Methane exploration activities had been signed:

| PSC Partner | Working Area | Area | Effective Date of Contract | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|
| Sangatta West CBM, Inc. | Sangatta I Block | East Kalimantan | 13/11/2008 | 12/11/2038 | 52% | Coal Bed Methane | 30 years |
| PT Visi Multi Artha | Sangatta II Block | East Kalimantan | 5/5/2009 | 4/5/2039 | 40% | Coal Bed Methane | 30 years |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### d. PHE's cooperation agreements with other parties (continued)

- **Production Sharing Contract interests acquired subsequent to the issue of Law No. 22 Year 2001 related to oil and gas** (continued)

#### 2. Coal Bed Methane (continued)

| PSC Partner | Working Area | Area | Effective Date of Contract | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|
| Arrow Tanjung Enim Pty., Ltd.<br>PT Bukit Asam Metana Enim | Tanjung Enim Block | South Sumatera | 4/8/2009 | 3/8/2039 | 77.5% | Coal Bed Methane | 30 years |
| PT Trisula CBM Energy | Muara Enim Block | South Sumatera | 30/11/2009 | 29/11/2039 | 60% | Coal Bed Methane | 30 years |
| Konsorsium KP SGH Batubara (PT Indo Gas Methan) | Muara Enim I Block | South Sumatera | 3/12/2010 | 2/12/2040 | 65% | Coal Bed Methane | 30 years |
| None | Tanjung II Block | South Kalimantan | 3/12/2010 | 2/12/2040 | 100% | Coal Bed Methane | 30 years |
| Indo CBM Sumbagsel2 Pte. Ltd.<br>PT Metana Enim Energi | Muara Enim II Block | South Sumatera | 1/4/2011 | 31/3/2041 | 40% | Coal Bed Methane | 30 years |
| BP Eksploration Ltd | Tanjung IV Block | Central Kalimantan | 1/4/2011 | 31/3/2041 | 56% | Coal Bed Methane | 30 years |
| PT Baturaja Metana Indonesia | Muara Enim III Block | South Sumatera | 1/4/2011 | 31/3/2041 | 73% | Coal Bed Methane | 30 years |
| PT Suban Energi | Suban I Block | South Sumatera | 1/8/2011 | 31/7/2041 | 58% | Coal Bed Methane | 30 years |
| PT Suban Methan Gas | Suban II Block | South Sumatera | 1/8/2011 | 31/7/2041 | 50% | Coal Bed Methane | 30 years |
| PT Petrobara Sentosa | Air Benakat I Block | South Sumatera | 18/4/2012 | 17/4/2042 | 79.5% | Coal Bed Methane | 30 years |
| PT Prima Gas Sejahtera | Air Benakat II Block | South Sumatera | 18/4/2012 | 17/4/2042 | 69.7% | Coal Bed Methane | 30 years |
| PT Unigas Geosinkinal Makmur | Air Benakat III Block | South Sumatera | 18/4/2012 | 17/4/2042 | 73.5% | Coal Bed Methane | 30 years |

#### 3. Unconventional Oil and Gas

As at 31 December 2013, Unconventional Oil and Gas partnership arrangements which had been signed were as follows:

| PSC Partner | Working Area | Area | Effective Date of Contract | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|
| None | MNK Sumbagut Block | North Sumatera | 15/5/2013 | 14/5/2043 | 100% | Unconventional Oil and Gas | 30 Years |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### d. PHE's cooperation agreements with other parties (continued)

- **Joint Operating Body-Production Sharing Contracts (JOB-PSC)**

In a JOB-PSC, operations are conducted by a joint operating body between PHE's subsidiaries and contractors. The PHE subsidiaries' share of expenditures is paid in advance by the contractors and repaid by the PHE subsidiaries out of their share of crude oil and natural gas production, with a 50% uplift. After all expenditures are repaid, the crude oil and natural gas production is divided between the PHE subsidiaries and the contractors based on their respective percentages of participation in the JOB-PSC. The contractors' shares of crude oil and natural gas production are determined in the same manner as for a PSC.

| JOB-PSC Partner | Working Area | Area | Effective Date of Contract | Date of Commencement of Production | Date of End of Contract | Percentage of Participation | Produksi/ Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| Golden Spike Indonesia Ltd. | Raja and Pendopo Block | South Sumatera | 6/7/1989 | 21/11/1992 | 5/7/2019 | 50% | Oil and gas | 30 years |
| Petrochina Kepala Burung Ltd.<br>RHP Salawati Island B.V<br>Petrogas (Island) Ltd. | Salawati Block | Papua | 23/4/1990 | 21/1/1993 | 22/4/2020 | 50% | Oil | 30 years |
| Petrochina International Java Ltd.<br>PT PHE Tuban | Tuban Block | East Java | 29/2/1988 | 12/2/1997 | 29/2/2018 | 50% | Oil and gas | 30 years |
| EMP Gerbang | Block Gebong | North Sumatera | 29/11/1985 | 29/10/1992 | 28/11/2015 | 50% | Oil and gas | 30 years |
| Talisman (Ogan Komering) Ltd. | Ogan Komering Block | South Sumatera | 29/2/1988 | 11/7/1991 | 28/2/2018 | 50% | Oil and gas | 30 years |
| Talisman Jambi Merang<br>Pacific Oil and Gas Ltd. | Jambi Merang Block | Jambi | 10/2/1989 | - | 9/2/2019 | 50% | Oil and gas | 30 years |
| PT Medco E&P Tomori Sulawesi<br>Mitsubishi Corporation | Senoro Toili Block | Central Sulawesi | 4/12/1997 | August 2006 | 30/11/2027 | 50% | Oil | 30 years |
| Medco Simenggaris Pty., Ltd.<br>Salamander Energy Ltd. | Simenggaris Block | East Kalimantan | 24/2/1998 | - | 23/2/2028 | 37.5% | - | 30 years |

- **Pertamina Participating Interests (PPI)**

Since 2008, through PPI arrangements, PHE has owned working interests in contracts similar to JOB-PSC contracts. The remaining working interests are owned by contractors which act as the operators. PHE's share of expenditures is either funded by PHE on a current basis, or paid in advance by the contractors and repaid by PHE out of PHE's share of crude oil and natural gas production, with a 50% uplift. The crude oil and natural gas production is divided between PHE and the contractors based on their respective percentages of participation in the PSC. The contractors' share of crude oil and natural gas production is determined in the same manner as in the PSC. As at 31 December 2013, PHE's PPI partnership arrangements were as follows:

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### d. PHE's cooperation agreements with other parties (continued)

- **Pertamina Participating Interests (PPI)** (continued)

| PPI Partner | Working Area | Area | Effective Date of Contract | Production Commencement Date | Expiry Date of Contract | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| ConocoPhillips (South Jambi) Ltd.<br>Petrochina International Jambi B Ltd. | B Block | South Jambi | 26/1/1990 | 26/9/2000 | 25/1/2020 | 25% | Oil and gas | 30 years |
| Total E&P Indonesia<br>Inpex Tengah Ltd. | Tengah Block | East Kalimantan | 5/10/1988 | 1/6/1990 | 4/10/2018 | 50% | Gas | 30 years |

- **Foreign oil and gas contract interest**

As at 31 December 2013, PHE and PHE's subsidiaries directly and indirectly held foreign crude oil and natural gas interests as follows:

| Name of JV | JV Partners | Working Area | Country | Effective Date of Contract | Production Commencement Date | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| Petronas Carigali Pertamina Petrovietnam Operating Company Sdn. Bhd (PCPP) | Petronas Carigali Sdn. Bhd.<br>Petrovietnam | Offshore Sarawak Block (SK305) | Malaysia | 16/6/2003 | 26/7/2010 | 30% | Oil and gas | 29 years |
| Basker Manta Gummy (BMG) | Beach Petroleum Ltd.<br>Ceizo EP (Australia) Pty. Ltd.<br>Sojitz Energy Australia Pty. Ltd.<br>Anzon Australia Pty. Ltd. | Vic/L26,<br>Vic/L27,<br>Vic/L28 | Australia | 30/11/2005<br>3/8/2007<br>3/8/2007 | December 2006 | 10%<br>10%<br>10% | Oil | License<br>License<br>License |

### e. The Company's directly held foreign oil and gas PSC interests

The Company, as a State-Owned Enterprise, owns working interests in PSCs entered into among State-Owned Enterprises in certain countries. The Company's share of oil and gas production is determined in accordance with the respective PSCs.

As at 31 December 2013, the Company's directly held foreign oil and gas PSCs or similar interests were as follows:

| Name of JV | JV Partners | Working Area | Country | Effective Contract | Date of Commence -ment of Production | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| CONSON Joint Operating Company (CONSON JOC) | Petronas Carigali Petrovietnam | Offshore Block 10, 11 Vietnam | Vietnam | 8/1/2002 | - | 10% | - | 30 years |
| Pertamina EP Libya Ltd. | - | Block 123 Sirte onshore | Libya | 10/12/2005 | - | 100% | - | Exploration 5 years |
| Pertamina EP Libya Ltd. | - | Block 17-3 Sabrath offshore | Libya | 10/12/2005 | - | 100% | - | Exploration 5 years |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 41. OIL AND GAS CONTRACT ARRANGEMENTS (continued)

### e. The Company's directly held foreign oil and gas PSC interests (continued)

| Name of JV | JV Partners | Working Area | Country | Effective Contract | Date of Commence -ment of Production | Percentage of Participation | Production | Contract Period |
|---|---|---|---|---|---|---|---|---|
| West Qurna 1 Field Operating Division | ExxonMobil Iraq Limited, Shell Iraq B.V., PetroChina International Iraq FZE, Oil Exploration Company of Iraqi Ministry of Oil | Block West Qurna 1 | Iraq | 25/1/2010 | 25/1/2010 | 10% | Oil | 20 years |
| MLN | Talisman Energy Inc. | Block 405a | Algeria | 1993 | 2003 | 65% | Oil | 26 years |

## 42. GEOTHERMAL WORKING AREAS

Since 1974, the former Pertamina Entity was assigned geothermal working areas in Indonesia based on various decision letters issued by the Minister of Mines and Energy. In accordance with PP No. 31 Year 2003, all rights and obligations arising from contracts and agreements of the former Pertamina Entity with third parties, so long as these are not contrary to Law No. 22 Year 2001, were transferred to the Company effective as at 17 September 2003. The Company assigned its geothermal working areas to PGE effective as at 1 January 2007.

As of 31 December 2013, PGE's geothermal working areas are as follows:

### a. Own Operations

| Working Area | Location | Field Status |
|---|---|---|
| Sibayak-Sinabung | North Sumatera | Production |
| Ulubelu | Ulubelu, Lampung | Production |
| Kamojang-Darajat | Kamojang, West Java | Production |
| Lahendong | Lahendong, North Sulawesi | Production |
| Lumut Balai | Lumut Balai, South Sumatera | Development |
| Karaha-Cakrabuana | Karaha, West Java | Development |
| Sungai Penuh | Sungai Penuh, Jambi | Exploration |
| Tambang Sawah-Hululais | Hululais, Bengkulu | Exploration |
| Iyang Argopuro | Argopuro, East Java | Exploration |
| Kotamobagu | Kotamobagu, North Sulawesi | Exploration |

### b. Joint Operating Contracts (JOCs)

JOCs involve geothermal activities in PGE's working areas that are conducted by third parties. In accordance with the JOCs, PGE is entitled to receive production allowances from the JOC contractors at the rate of 2.66% for the Darajat JOC and 4% for the Salak, Wayang Windu Sarulla and Bedugul JOCs of the JOC contractors' annual net operating income as calculated in accordance with the JOCs.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 42. GEOTHERMAL WORKING AREAS (continued)

### b. Joint Operating Contracts (JOCs) (continued)

As at 31 December 2013, PGE's JOCs were as follows:

| Working Area | Location | Field Status | Contractor |
|---|---|---|---|
| Cibeureum – Parabakti | Salak, West Java | Production | Chevron Geothermal Salak Ltd. |
| Pangalengan | Wayang Windu, West Java | Production | Star Energy Geothermal (Wayang Windu) Ltd. |
| Kamojang-Darajat | Darajat, West Java | Production | Chevron Geothermal Indonesia Ltd. |
| Sibualbuali | Sarulla, North Sumatera | Exploration | PT Perusahaan Listrik Negara (Persero). |
| Tabanan/Bedugul | Bedugul, Bali | Exploration | Bali Energy Ltd. |

PGE's income from geothermal activities is subject to tax (Government share) at the rate of 34%.

## 43. GOVERNMENT AUDIT

### The Company

In accordance with Section 8.1 and Article 3.2 of Exhibit C of the PPC, the Company included the depreciation of oil and gas assets owned by the former Pertamina Entity as recoverable costs for the period 17 September 2003 through 16 September 2005. However, as disclosed in Note 16f, according to Minister of Finance Decree No. 92/KMK.06/2008 dated 2 May 2008, the status of assets previously owned by the former Pertamina Entity which were not recognised in the Company's opening balance sheet represent state-owned assets (BMN) leased to the Company for the period 17 September 2003 to 16 September 2005. Accordingly, adjustments were required to recognise the impact of the related depreciation of such assets previously claimed as recoverable costs by the Company for the period 17 September 2003 through 16 September 2005.

BPK, BPMIGAS and BPKP audit findings for the Company for the period 2003 through 2005 excluded the depreciation of assets owned by the former Pertamina Entity as at 16 September 2003 from recoverable costs, resulting in an increase in the Company's and the Government's equity share of oil and gas production and an increase in corporate income and dividend tax payable by the Company. The Company has accepted the position as per BPK, BPMIGAS and BPKP's audit findings in relation to this issue.

As at 31 December 2013, the Company has settled its portion of liability to the Government, except for the settlement of the Company's corporate income tax obligation based on BPK's audit finding of US$229,860 pending the outcome of the Company's appeal in relation to the overpayment of the Company's corporate income tax for the period 17 September 2003 through 31 December 2005.

At 31 December 2013, the Company had completed the appeal process of corporate income tax for the years 2003 and 2004, while the appeal for the year 2005 was still in progress.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 43. GOVERNMENT AUDIT (continued)

**Audit of reimbursement of costs subsidy for certain fuel (BBM) products and LPG 3 kg cylinders**

As of the completion date of these consolidated financial statements, reimbursement of the cost subsidy for certain fuel (BBM) products and LPG 3 kg cylinders for the year ended 31 December 2013 is still being audited by BPK. Management believes that the audit results will not have a material impact on the Company's financial position and cash flows.

**PT Pertamina EP, PT Pertamina EP Cepu, and subsidiaries of PT Pertamina Hulu Energi**

The accounting policies specified in the Production Sharing Contract are subject to interpretation by SKK MIGAS and the Government. The accounting records and financial information of the PSC are subject to an audit by SKK MIGAS and/or the Government on an annual basis. Claims arising from these audits are either agreed upon by the PSC operators and recorded in the PSC accounting records or discussed with SKK MIGAS and/or the Government. Resolution of the discussed claims may require a lengthy negotiation process.

Management believes that the audit results for PT Pertamina EP's Cooperation Contract and other PSCs where PT Pertamina EP Cepu and subsidiaries of PT Pertamina Hulu Energi have a participating interest will not have a material impact on the Group's financial position and cash flows.

## 44. ACTIVITIES NOT AFFECTING CASH FLOWS

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Offset of conversion account (amount due to the Government for its share of Indonesian crude oil production supplied to the Company's refineries) against trade receivables from PLN, subsidy trade receivables from Indonesian Armed Forces/Police and reimbursement of subsidy costs for LPG 3 kg cylinders (Note 16a) | 175,088 | 216,148 | 3,593,460 |
| Offset of receivables for reimbursements of subsidy costs for certain fuel (BBM) product against balances due to The Government (Note 16a) | - | - | 2,336,154 |
| Offset of DMO fees PT Pertamina EP and PHE's receivable against the Company's obligations to the Government (Note 16c) | 187,019 | 126,656 | 200,007 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 44. ACTIVITIES NOT AFFECTING CASH FLOWS (continued)

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Offset of DMO fees PT Pertamina EP and PHE's receivable against the Company's obligations to the Government related to natural gas sales | 325,799 | 233,455 | 151,607 |
| Offset of DMO fees PT Pertamina EP and PHE's receivable against the Company's obligations to the Government related to crude oil export | 141,473 | 66,333 | 1,851 |
| Increase in fixed assets from finance lease assets (Note 11) | 39,808 | 43,789 | 110,365 |
| Fixed assets additions resulting from capitalisation of borrowing costs (Note 11) | 21,759 | 21,269 | 16,076 |
| Oil and gas properties additions resulting from capitalisation of borrowing costs (Note 12) | 39,306 | 27,325 | 9,780 |
| Oil and gas properties (deduction)/addition resulting from capitalisation for decommissioning and site restoration (Note 21) | (268,350) | 609,841 | 157,370 |

## 45. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The information given below relates to the Group's financial assets and liabilities by category:

| | Total | Fair value through profit or loss | Available-for-sale | Loans and receivables | Held to maturity |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 4,686,040 | - | - | 4,686,040 | - |
| Restricted cash | 212,858 | - | - | 212,858 | - |
| Short-term investments | 152,993 | 50,402 | 63,924 | 38,667 | - |
| Long-term investments | 53,987 | - | 32,337 | - | 21,650 |
| Trade receivables | 4,017,103 | - | - | 4,017,103 | - |
| Due from the Government | 4,290,954 | - | - | 4,290,954 | - |
| Other receivables | 951,638 | - | - | 951,638 | - |
| Reimbursable VAT | 279,257 | - | - | 279,257 | - |
| Other assets | 313,786 | 24 | - | 313,762 | - |
| **Total financial assets** | 14,958,616 | 50,426 | 96,261 | 14,790,279 | 21,650 |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 45. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

| | Other financial liabilities |
|---|---|
| **Financial liabilities** | |
| Short-term loans | (4,994,964) |
| Trade payables | (5,082,940) |
| Due to the Government | (2,573,016) |
| Accrued expenses | (1,454,161) |
| Long-term liabilities | (2,784,922) |
| Other payables | (287,890) |
| Bond payables | (7,185,525) |
| Other non-current payables | (43,530) |
| **Total financial liabilities** | **(24,406,948)** |

| | Total | Fair value through profit or loss | Available-for-sale | Loans and receivables | Held to maturity |
|---|---|---|---|---|---|
| **31 December 2012** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 4,295,373 | - | - | 4,295,373 | - |
| Restricted cash | 172,788 | - | - | 172,788 | - |
| Short-term investments | 66,223 | 34,322 | - | 31,901 | - |
| Long-term investments | 245,032 | - | 26,399 | - | 218,633 |
| Trade receivables | 3,855,356 | - | - | 3,855,356 | - |
| Due from the Government | 2,714,526 | - | - | 2,714,526 | - |
| Other receivables | 969,701 | - | - | 969,701 | - |
| Reimbursable VAT | 255,963 | - | - | 255,963 | - |
| Other assets | 127,111 | - | - | 127,111 | - |
| **Total financial assets** | **12,702,073** | **34,322** | **26,399** | **12,422,719** | **218,633** |

| | Other financial liabilities |
|---|---|
| **Financial liabilities** | |
| Short-term loans | (3,843,002) |
| Trade payables | (4,745,376) |
| Due to the Government | (2,362,795) |
| Accrued expenses | (1,321,458) |
| Long-term liabilities | (1,873,263) |
| Other payables | (302,723) |
| Bond payables | (3,937,935) |
| Other non-current payables | (98,945) |
| **Total financial liabilities** | **(18,485,497)** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 45. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

| | Total | Fair value through profit or loss | Available-for-sale | Loans and receivables | Held to maturity |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 3,199,325 | - | - | 3,199,325 | - |
| Restricted cash | 128,009 | - | - | 128,009 | - |
| Short-term investments | 169,835 | 72,268 | 19,109 | 78,458 | - |
| Trade receivables | 3,541,762 | - | - | 3,541,762 | - |
| Due from the Government | 1,905,878 | - | - | 1,905,878 | - |
| Other receivables | 416,820 | - | - | 416,820 | - |
| Long-term investments | 305,137 | - | 27,538[a)] | - | 277,599 |
| Reimbursable VAT | 129,773 | - | - | 129,773 | - |
| Other assets | 207,194 | - | - | 207,194 | - |
| **Total financial assets** | **10,003,733** | **72,268** | **46,647** | **9,607,219** | **277,599** |

a) Investment in equity with no quoted market price

| | Other financial liabilities |
|---|---|
| **Financial liabilities** | |
| Short-term loans | (2,923,096) |
| Trade payables | (4,132,119) |
| Due to the Government | (2,677,524) |
| Accrued expenses | (1,131,053) |
| Other payables | (237,557) |
| Long-term liabilities | (2,414,807) |
| Bond payables | (1,465,711) |
| Other non-current payables | (88,691) |
| **Total financial liabilities** | **(15,070,558)** |

Net gain/(loss) from financial assets at fair value through profit or loss for 31 December 2013, 2012 and 2011 were US$921, US$1,221 and US$(502), respectively.

## 46. RISK MANAGEMENT POLICY

The Group has various business activities, which expose them to various potential risks. The Group's overall risk management program focuses on minimising potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's Board of Directors, specifically the Risk Management Committee (the Committee), Risk Management Unit and Risk Taking Unit to identify, assess, mitigate and monitor the risks of Group. The Committee provides principles for overall risk management, including business risk and financial risk.

### a. Business risks

The Group business activities are exposed to a variety of business risks (upstream and downstream) which are as follows:

I. The Group is subject to the control of the Government and there is no guarantee that the Government will always act in the Group's best interests. The Group also derives certain benefits from being a state-owned entity, and the Group cannot guarantee that any or all of these benefits will continue.

II. The Group is subject to audit by SKK MIGAS, BPK, DGT and/or the Government. The outcome of the assessment may result in claims against the Group or reduce claims against the Government that have already been recognised by the Group.

III. The Group is dependent on joint venture partners and third party independent contractors in connection with exploration and production operations and to implement the Group's development programs.

IV. The Group's crude oil, natural gas and geothermal reserve estimates are uncertain and may prove to be inaccurate over time or may not accurately reflect actual reserve levels, or even if accurate, technical limitations may prevent the Group from retrieving these reserves.

V. The Group is dependent on management's ability to develop existing reserves, replace existing reserves and develop additional reserves.

VI. A substantial part of the Group's revenues is derived from sales of subsidised certain fuel (BBM) products by the Government.

### b. Financial risk

Financial risk includes market, credit and liquidity risks.

#### I. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risk (continued)

#### I. Market risk (continued)

The market risk factors are as follows:

(i) Foreign exchange risk

Group revenues are determined by the movement of MOPS, which will be paid separately by the public and the Government of Indonesia in the form of subsidised fuel products and LPG products. Regulation of laws in Indonesia require transactions to be made in Rupiah, while most of the operating costs particularly for the procurement of crude oil and oil products are made in US Dollars, which can lead to foreign exchange risks for cash and cash equivalents, trade receivables, due from the Government, trade payables, short-term loans, due to the Government and long-term liabilities.

The Group naturally mitigates foreign exchange risks through the effective management of its cash flows.

**Sensitivity analysis**

A strengthening (weakening) of the Rupiah against the US Dollar would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that were considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and excludes any impact of forecasted sales and purchases.

| | Strengthening | | Weakening | |
|---|---|---|---|---|
| | Equity | Profit or loss | Equity | Profit or loss |
| **31 December 2013** | | | | |
| IDR (5% movement) | 1,158 | 114,759 | (1,048) | (103,830) |
| **31 December 2012** | | | | |
| IDR (5% movement) | 1,218 | 117,480 | (1,102) | (106,292) |

(ii) Commodity price risk

The volatility in prices of crude oil natural gas and refined products and the uncertainty of the market dynamics for oil and gas could adversely affect the Group's business, financial conditions and results of operations.

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risk (continued)

#### I. Market risk (continued)

(ii) Commodity price risk (continued)

The Group's profitability is significantly affected by the prices of, and demand for, crude oil, natural gas and refined products, the difference between the cost price of crude oil, the costs of exploring for, developing, producing, transporting and selling crude oil, gas and refined products. The international and domestic markets for crude oil and refined products are fluctiative, and have recently been characterised by significant price fluctuations. The fluctuation of the market prices of crude oil, natural gas and refined products is subject to a variety of factors beyond the Group's controls. These factors, among others, include:

- International events and circumstances, as well as political developments and instability in petroleum producing regions, such as the Middle East (particularly the Persian Gulf, Iran and Iraq), Latin America and Western Africa;
- The ability of the Organisation of Petroleum Exporting Countries (OPEC) and other petroleum-producing nations to set and influence market price;
- Supply levels of substitute energy sources, such as natural gas and coal;
- Domestic and foreign government regulations in relation to oil and energy industries in general, and crude oil, natural gas and refined product pricing policies in Indonesia;
- The level and scope of exploration and production of global oil and gas, global oil and natural gas inventories, oil speculators and other commodity market participants;
- Weather conditions and seasonality;
- Changes in pricing policies of competitors and the Government; and
- Overall global, domestic and regional economic conditions.

The risks explained above are normal business risks which are experienced by the Group. The Group does not engage in derivative transactions and product prices are determined based on market prices.

The Group mitigates the risk by commodity procurement management using the Crude Oil Management System (COMS) to acquire competitive crude prices to support production of petroleum products with the most optimum results.

The Group also participates in physical commodity contracts in the normal course of business. These contracts are not derivatives and are measured at cost. In this case, the Group is not exposed to commodity price risk because the price has been determined at the date of purchase.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risk (continued)

### I. Market risk (continued)

(iii) Cash flow and fair value interest rate risk

The Group is exposed to cash flow and fair value interest rate risk due to its financial asset and liabilities position, mainly to maintain cash flow in order to meet the needs of operational and capital expenditure.

Assets and liabilities with floating rates expose the Group to cash flow interest rate risk. Financial assets and liabilities with fixed rates expose the Group to fair value interest rate risk.

The Group has established a centralised treasury and continuously monitors movements of LIBOR, SIBOR, JIBOR and other borrowing rates prevailing in the market and conducts negotiations to get the most profitable interest rates before making placement of funds or conducts negotiation with lenders if the borrowing rates become uncompetitive compared to prevailing rates in the market.

The Group may use loan facilities provided by national banks such as BNI, BRI, Bank Mandiri, as well as foreign private banks.

At the reporting date, the Group's financial assets and liabilities with floating rates, fixed rates and those that were non-interest bearing were as follows:

| | 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Floating rate | | Fixed rate | | | |
| | Maturity less than one year | Maturity more than one year | Maturity less than one year | Maturity more than one year | Non-interest bearing | Total |
| **Assets** | | | | | | |
| Cash and cash equivalents | 2,317,427 | - | 2,362,040 | - | 6,573 | 4,686,040 |
| Restricted cash | 88,855 | - | 124,003 | - | | 212,858 |
| Short-term investments | - | - | 115,201 | - | 37,792 | 152,993 |
| Trade receivables | - | - | - | - | 4,017,103 | 4,017,103 |
| Due from the Government | - | - | - | - | 4,290,954 | 4,290,954 |
| Other receivables | - | - | - | - | 951,638 | 951,638 |
| Long-term investments | - | - | - | 53,793 | 194 | 53,987 |
| Reimbursable VAT | - | | - | - | 279,257 | 279,257 |
| Other assets | - | - | - | 24 | 313,762 | 313,786 |
| **Total financial assets** | 2,406,282 | - | 2,601,244 | 53,817 | 9,897,273 | 14,958,616 |
| **Liabilities** | | | | | | |
| Short-term loans | (4,994,964) | - | - | - | - | (4,994,964) |
| Trade payables | | | | | (5,082,940) | (5,082,940) |
| Due to the Government | - | - | (250,676) | (155,426) | (2,166,914) | (2,573,016) |
| Accrued expenses | - | - | - | - | (1,454,161) | (1,454,161) |
| Other payables | - | - | - | - | (287,890) | (287,890) |
| Long-term liabilities | (696,812) | (1,812,135) | (49,585) | (226,390) | - | (2,784,922) |
| Bond payables | | | | (7,185,525) | - | (7,185,525) |
| Other - non-current payables | - | - | - | - | (43,530) | (43,530) |
| **Total financial liabilities** | (5,691,776) | (1,812,135) | (300,261) | (7,567,341) | (9,035,435) | (24,406,948) |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risk (continued)

#### I. Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

| | 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Floating rate | | Fixed rate | | | |
| | Maturity less than one year | Maturity more than one year | Maturity less than one year | Maturity more than one year | Non-interest bearing | Total |
| **Assets** | | | | | | |
| Cash and cash equivalents | 1,927,115 | - | 2,360,377 | - | 7,881 | 4,295,373 |
| Restricted cash | 95,743 | - | 77,045 | - | - | 172,788 |
| Short-term investments | - | - | 31,901 | - | 34,322 | 66,223 |
| Trade receivables | - | - | - | - | 3,855,356 | 3,855,356 |
| Due from the Government | - | - | - | - | 2,714,526 | 2,714,526 |
| Other receivables | 287,349 | - | - | - | 682,352 | 969,701 |
| Long-term investments | 103,413 | - | - | 115,220 | 26,399 | 245,032 |
| Reimbursable VAT | - | - | - | - | 255,963 | 255,963 |
| Other assets | - | 28,759 | - | 23,368 | 74,984 | 127,111 |
| **Total financial assets** | 2,413,620 | 28,759 | 2,469,323 | 138,588 | 7,651,783 | 12,702,073 |
| **Liabilities** | | | | | | |
| Short-term loans | (3,843,002) | - | - | - | - | (3,843,002) |
| Trade payables | - | - | - | - | (4,745,376) | (4,745,376) |
| Due to the Government | - | - | (285,161) | (196,002) | (1,881,632) | (2,362,795) |
| Accrued expenses | - | - | - | - | (1,321,458) | (1,321,458) |
| Other payables | - | - | - | - | (302,723) | (302,723) |
| Long-term liabilities | (419,529) | (1,066,721) | (69,818) | (317,195) | - | (1,873,263) |
| Bond payables | - | - | - | (3,937,935) | - | (3,937,935) |
| Other non-current payables | - | - | - | - | (98,945) | (98,945) |
| **Total financial liabilities** | (4,262,531) | (1,066,721) | (354,979) | (4,451,132) | (8,350,134) | (18,485,497) |

| | 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Floating rate | | Fixed rate | | | |
| | Maturity less than one year | Maturity more than one year | Maturity less than one year | Maturity more than one year | Non-interest bearing | Total |
| **Assets** | | | | | | |
| Cash and cash equivalents | 2,320,663 | - | 873,823 | - | 4,839 | 3,199,325 |
| Restricted cash | 9,149 | - | 118,860 | - | - | 128,009 |
| Short-term investments | - | - | 78,458 | - | 91,377 | 169,835 |
| Trade receivables | - | - | - | - | 3,541,762 | 3,541,762 |
| Due from the Government | - | - | - | - | 1,905,878 | 1,905,878 |
| Other receivables | - | - | - | - | 416,820 | 416,820 |
| Long-term investments | 110,278 | 110,278 | - | 57,044 | 27,537 | 305,137 |
| Reimbursable VAT | - | - | - | - | 129,773 | 129,773 |
| Other assets | - | - | - | 13,956 | 193,238 | 207,194 |
| **Total financial assets** | 2,440,090 | 110,278 | 1,071,141 | 71,000 | 6,311,224 | 10,003,733 |
| **Liabilities** | | | | | | |
| Short-term loans | (2,923,096) | - | - | - | - | (2,923,096) |
| Trade payables | - | - | - | - | (4,132,119) | (4,132,119) |
| Due to the Government | - | - | (271,339) | (209,369) | (2,196,816) | (2,677,524) |
| Accrued expenses | - | - | - | - | (1,131,053) | (1,131,053) |
| Other payables | - | - | - | - | (237,557) | (237,557) |
| Long-term liabilities | (584,250) | (1,356,567) | (88,953) | (385,037) | - | (2,414,807) |
| Bond payables | - | - | - | (1,465,711) | - | (1,465,711) |
| Other non-current payables | - | - | - | - | (88,691) | (88,691) |
| **Total financial liabilities** | (3,507,346) | (1,356,567) | (360,292) | (2,060,117) | (7,786,236) | (15,070,558) |

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risk (continued)

#### I. Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

A change of 30 basis points in floating interest rates at the reporting date would have affected income for the year to the amounts shown below. This analysis assumed that all other variables, in particular foreign currency rates, remain constant.

| **Effect in:** | **+30 bp increase** | **-30 bp decrease** |
|---|---|---|
| Income for the year | (11,469) | 11,469 |
| **Cash flow sensitivity (net)** | (11,469) | 11,469 |

#### II. Credit risk

The Group has significant credit risk from unpaid receivables, cash and cash equivalents and investments in debt securities. In most transactions, the Group uses banks and financial institutions that are independently assessed with a rating of AAA, AA+ and AA.

For the Group’s credit sales, the Group applied a standard operating procedure for credit approval mechanism. With such practice, some portion of the Group’s credit sales has been secured with a collateral/bank guarantee. For other credit sales without collateral/bank guarantee, the Group ensured that credit scoring, credit limit evaluation and credit approval were performed and provided prior to any sales to the customer.

The Group also has a Credit Management System to monitor the usage of credit limits and automatic blocking facility in the case of no payment starting from seven days after the maturity date. The Group will impose penalty for overdue payments in some sales contracts based on the result of each customer’s credit evaluation.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### II. Credit risk (continued)

##### (i) Third parties and related parties

**Financial assets neither past due nor impaired**

The credit quality of the Group's financial assets that are neither past due nor impaired, was assessed by referencing external credit ratings PT Pemeringkat Efek Indonesia (Pefindo) or to historical information about counterparty default risk rates, as follows:

| | 2013 | 2012 |
|---|---|---|
| **Cash and cash equivalent** | | |
| Rated | | |
| Rating AAA | 3,445,979 | 2,766,076 |
| Rating AA+ | 912,373 | 835 |
| Rating AA | - | 1,094,996 |
| Rating A+ | 8,069 | 31,732 |
| Not rated | 319,619 | 401,734 |
| | **4,686,040** | **4,295,373** |
| **Restricted cash** | | |
| Rated | | |
| Rating AAA | 130,437 | 55,780 |
| Rating AA+ | 77,370 | - |
| Rating AA | - | 69,186 |
| Rating A+ | - | 4 |
| Not rated | 5,051 | 47,818 |
| | **212,858** | **172,788** |
| **Short-term investments** | | |
| Rated | | |
| Rating AAA | 16,572 | 18,608 |
| Rating AA+ | 2,060 | 4,123 |
| Rating AA | 10,916 | 2,349 |
| Rating AA- | 2,789 | 1,003 |
| Rating AA+ | - | 259 |
| Rating BBB | 17,799 | - |
| Not rated | 102,857 | 39,881 |
| | **152,993** | **66,223** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### II. Credit risk (continued)

##### (i) Third parties and related parties (continued)

**Financial assets neither past due nor impaired** (continued)

| | 2013 | 2012 |
|---|---|---|
| **Long-term investments** | | |
| Rated | | |
| Rating AAA | 13,032 | 27,581 |
| Rating AA+ | - | 104,447 |
| Rating AA | 9,435 | 25,140 |
| Rating AA- | 246 | 2,378 |
| Not rated | 31,274 | 85,486 |
| | 53,987 | 245,032 |
| **Trade receivables** | | |
| Third parties | | |
| > US$10,000 | | |
| - Good credit history | 710,928 | 519,849 |
| - Some defaults in the past two years | 36,669 | 77,479 |
| < US$10,000 | 330,348 | 614,497 |
| Related parties | 1,023,209 | 735,093 |
| | 2,101,154 | 1,946,918 |
| **Other receivables** | | |
| Third parties | 444,262 | 677,771 |
| Related parties | 447,410 | 291,832 |
| | 891,672 | 969,603 |
| **Prepaid taxes** | | |
| Related parties | 279,257 | 256,502 |
| | 279,257 | 256,502 |
| **Other assets** | | |
| Third parties | 13,126 | 55,916 |
| Related parties | 51,592 | 66,192 |
| | 64,718 | 122,108 |

**Prepaid taxes**

Prepaid tax from third parties as at 31 December 2013 of US$279,257 (2012: US$256,502) is VAT reimbursable to SKK MIGAS (Note 38a).

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### II. Credit risk (continued)

##### (i) Third parties and related parties (continued)

**Financial assets neither past due nor impaired** (continued)

| | 2013 | 2012 |
|---|---|---|
| **Trade receivables** | | |
| - Less than 3 months | 562,555 | 1,054,796 |
| - 3 - 6 months | 29,810 | 34,999 |
| - 6 -12 months | 32,793 | 95,220 |
| - 12 - 24 months | 286,216 | 5,927 |
| - > 24 months | 220,214 | 4,585 |
| | **1,131,588** | **1,195,527** |
| **Other receivables** | | |
| Third parties | 6,379 | - |
| Related parties | 1,022 | 98 |
| | **7,401** | **98** |
| **Other assets** | | |
| Third parties | 3,373 | - |
| | **3,373** | **-** |

**Trade receivables**

Trade receivables from third parties and related parties that are past due but not impaired at the reporting date relate to customers who have not had defaults in the past two years. Some of the accounts receivable from these customers have also been secured with collateral/bank guarantee.

As at 31 December 2013, trade receivables which are past due between 12 - 24 months and more than 24 months primarily due from TNI/Ministry of Defence. The receivables from TNI/Ministry of Defence were not impaired because there is an assurance the balance will be collectible in 2014 (refer Note 39a).

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

### II. Credit risk (continued)

#### (i) Third parties and related parties (continued)

**Financial assets that are impaired**

| | 2013 | 2012 |
|---|---|---|
| **Trade receivables** | | |
| - Current | 660,683 | 163,537 |
| - Less than 3 months | 66,197 | 226,441 |
| - 3 - 6 months | 13,444 | 67,295 |
| - 6 -12 months | 24,754 | 4,555 |
| - 12 - 24 months | 52,358 | 294,118 |
| - > 24 months | 89,479 | 115,921 |
| | **906,915** | **871,867** |
| **Impairment** | **(122,554)** | **(158,956)** |
| **Net** | **784,361** | **712,911** |
| **Other receivables** | | |
| - Related parties | 856 | - |
| - Third parties | 62,389 | - |
| | **63,245** | **-** |
| **Impairment** | **(10,680)** | **-** |
| **Net** | **52,565** | **-** |
| **Prepaid taxes** | | |
| - Third parties | - | 256,502 |
| | **-** | **256,502** |
| **Impairment** | **-** | **(539)** |
| **Net** | **-** | **255,963** |
| **Other assets** | | |
| - Related parties | 584,346 | 583,403 |
| - Third parties | 21,719 | 34,365 |
| | **606,065** | **617,768** |
| **Impairment** | **(360,394)** | **(612,765)** |
| **Net** | **245,671** | **5,003** |

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### II. Credit risk (continued)

##### (i) Third parties and related parties (continued)

**Trade receivables**

Trade receivables from third parties and related parties of US$4,052,319 were impaired amounting to US$122,554 at the reporting date, of which 52% is from Government institutions and State Owned Enterprises, with the largest balance due primarily trade receivables from PLN and its subsidiaries of US$1,004,067.

**Other receivables**

Other receivables from third parties and related parties in 2013, 2012 and 2011 amounted to US$1,600,403, US$1,629,643 and US$ were impaired amounting to US$370,701 and US$588,747 respectively at the reporting date, which mainly comes from:

- Other receivables from TPPI in 2013 and 2012 amounted to US$565,962 and US$556,408 with provision amount of US$320,376 and US$556,408 repectively (Note 39b).

- Other receivables from MNA in 2013 and 2012 amounted to US$21,479 and US$26,995 with provision amount of US$17,924 and US$21,992 respectively (Note 39b).

- Other receivables from PT Polytama Propindo in 2013 and 2012 amounted to US$21,719 and US$22,095 with provision amount of US$21,719 and US$22,095 respectively.

- Other receivables from PT Indorama Petrochemicals in 2013 and 2012 amounted to US$15,643 and US$12,270 with provision amount of US$Nil and US$12,270 respectively.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### II. Credit risk (continued)

##### (ii) Government

**Financial assets neither past due nor impaired**

| | 2013 | 2012 |
|---|---|---|
| **The Company:** | | |
| Receivables for reimbursement of subsidy cost for certain fuel (BBM) products | 2,757,919 | 2,084,986 |
| Receivables for reimbursement of subsidy for LPG 3kg cylinders | 808,720 | 222,659 |
| Others | - | 130 |
| Total - the Company | 3,566,639 | 2,307,775 |
| **Subsidiaries:** | | |
| Due from the Government | | |
| PT Pertamina EP | | |
| - DMO fees | 71,513 | 83,403 |
| - Underlifting | - | 20,170 |
| PT Pertamina Hulu Energi | | |
| - DMO fees | 64,794 | 24,750 |
| - Underlifting | 37,025 | 12,555 |
| Total subsidiaries | 173,332 | 140,878 |
| **Total consolidated** | **3,739,971** | **2,448,653** |

**Financial assets that are impaired**

| | 2013 | 2012 |
|---|---|---|
| **The Company:** | | |
| Receivables for reimbursement of costs for kerosene conversion to LPG program | 202,429 | 277,218 |
| Receivables for marketing fees | 371,004 | 264,265 |
| Total - the Company | 573,433 | 541,483 |
| Provision for impairment | (22,450) | (275,610) |
| **Total consolidated** | **550,983** | **265,873** |

Refer to Note 8 for information regarding receivables from the Government including impaired receivables for marketing fees.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### III. Liquidity risk

The amount of liquidity which the Group requires for its operations is uncertain and its operations may be adversely affected if the Group does not have sufficient working capital to meet its cash and operational requirements. This may occur as a result of, amongst other reasons, delays in the payment of the Government's subsidies.

The Group uses significant amounts of cash in its operations, specially to procure commodities and raw materials. In particular, one of its principal operating costs is the acquisition of feedstock for its refineries. Fluctuation in market prices for crude oil, natural gas and their refined products and fluctuations in exchange rates that cause working capital and costs for the Group's upstream and downstream operations to be uncertain.

The Group funds its operations principally through cash flow from operations, a significant portion of which comprises sales, subsidy payments, working capital facilities (including bank overdrafts, L/Cs and revolving credit), and long-term bank loans. In accordance with the terms of PSO's assignment, the Group is required to submit its claim for subsidy to the Government at the end of each month for the subsidised fuel distributed in that month.

As at 31 December 2013, 2012 and 2011, the Group had cash and cash equivalents in the amount of US$4,686,040, US$4,295,373 and US$3,199,325, respectively. The Group manages liquidity risk by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of trade receivables and trade payables.

| | Less than 1 year | Later than 1 year and not later than 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| **31 December 2013** | | | | |
| **Financial liabilities** | | | | |
| Short term loans | 4,994,964 | - | - | 4,994,964 |
| Trade payables | 5,082,940 | | | 5,082,940 |
| Due to the Government | 2,454,826 | 132,431 | 409,313 | 2,996,570 |
| Accrued expenses | 1,454,161 | - | - | 1,454,161 |
| Other payables | 287,890 | - | - | 287,890 |
| Long-term liabilities | 870,031 | 2,132,494 | 54,975 | 3,057,500 |
| Bond payables | 382,219 | 1,493,938 | 5,365,922 | 7,242,079 |
| Other non-current payables | - | 43,530 | - | 43,530 |
| **Total financial liabilities** | **15,527,031** | **3,802,393** | **5,830,210** | **25,159,634** |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### b. Financial risks (continued)

#### III. Liquidity risk (continued)

| | Less than 1 year | Later than 1 year and not later than 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| **31 December 2012** | | | | |
| **Financial liabilities** | | | | |
| Short term loans | 3,843,002 | - | - | 3,843,002 |
| Trade payables | 4,745,376 | - | - | 4,745,376 |
| Due to the Government | 2,196,815 | 157,445 | 523,172 | 2,877,432 |
| Accrued expenses | 1,321,458 | - | - | 1,321,458 |
| Other payables | 302,723 | - | - | 302,723 |
| Long-term liabilities | 592,916 | 1,311,931 | 128,071 | 2,032,918 |
| Bond payables | 220,938 | 1,072,188 | 6,870,781 | 8,163,907 |
| Other non-current payables | - | 98,945 | - | 98,945 |
| **Total financial liabilities** | **13,223,228** | **2,640,509** | **7,522,024** | **23,385,761** |

### c. Capital management

The Board of Director's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consist of share capital, retained earnings, non-controlling interests and other equity components. The Board of Directors ensures the return on capital as well as the level of dividends.

The Company as an entity whose main business involves oil and gas monitors capital on the basis of the debt-to-equity ratio. Net debt is calculated as total borrowings including short-term and long-term, while total capital is calculated from equity in the statement of consolidated financial position. The Group's target is to achieve a debt-to-equity ratio of 89.76%. Meanwhile, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 4.53% (2012: 4.73%, 2011: 3.91%).

The Group's debt to equity ratio at the reporting date was as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Total liabilities (interest bearing) | 15,371,514 | 10,135,363 | 7,284,322 |
| Total equity attributable to owners of the parent | 17,213,213 | 15,115,738 | 13,207,736 |
| Debt-to-equity ratio | 89.30% | 67.05% | 55.15% |
| Total own capitals to total assets ratio | 30.08% | 31.92% | 33.14% |
| Return-on-equity ratio | 31.88% | 30.01% | 29.04% |

(Expressed in thousands of US Dollars, unless otherwise stated)

## 46. RISK MANAGEMENT POLICY (continued)

### d. Fair value

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable and willing parties in an arm's length transaction.

The Company's current financial assets and liabilities are expected to be realised or settled in the near future. Therefore, their carrying amounts approximate their fair value.

The table below analyse financial instruments carried at fair value, by level of valuation method. The different levels of valuation methods have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following are the Group's financial assets that were measured at fair value as at 31 December 2013.

| | 31 December 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Short-term investments | 50,402 | - | - | 50,402 |
| Long-term investments | - | - | - | - |
| **Total financial assets** | **50,402** | **-** | **-** | **50,402** |

The table below describes the carrying amounts and fair value of long-term financial liabilities that as at 31 December 2013, 2012 and 2011:

| | Carrying amount | | | Fair value | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Long-term liabilities (Note 18) | 2,784,922 | 1,873,263 | 2,414,807 | 2,844,320 | 1,848,384 | 2,340,271 |
| Bond payables (Note 19) | 7,185,525 | 3,937,935 | 1,465,711 | 6,234,927 | 4,446,885 | 1,519,656 |
| | 9,970,447 | 5,811,198 | 3,880,518 | 9,079,247 | 6,295,269 | 3,859,927 |

The fair value of long-term liabilities is measured using the discounted cash flows based on the interest rate on the latest long-term liabilities by the Company. The fair value of bond payables is estimated using the quoted market price at balance sheet date.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 47. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

### a. Cooperation contract commitment

In accordance with the Cooperation Contract, PT Pertamina EP shall surrender a minimum of 10% of the original contract area to the Government on or before the end of the tenth year from the effective date of the Cooperation Contract.

PT Pertamina EP is required to pay a bonus to the Government amounting to US$1,000 in 30 days after cumulative production of oil and gas reaches 1,000 MMBOE from the effective date of the Cooperation Contract, and US$1,500 in 30 days after cumulative production of oil and gas reaches 1,500 MMBOE from the effective date of the Cooperation Contract.

PT Pertamina EP's cummulative production of oil and gas up to 31 December 2013 has not yet reached 1,000 MMBOE.

### b. Capital commitments

The Group has capital expenditure commitments in the normal course of business.

As at 31 December 2013, the Group’s unrealised total outstanding capital expenditure commitments amounted to US$963,471.

### c. Operating lease commitments - Group as lessee

Non-cancellable operating lease rentals are payable as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Less than one year | 673,059 | 249,094 | 209,489 |
| Between one to five years | 807,295 | 554,214 | 418,922 |
| More than five years | 120,185 | 315,925 | 179,492 |
| | 1,600,539 | 1,119,233 | 807,903 |

The Group lease a number of vessels, office buildings, vehicles and IT facilities under operating lease. The leases typically run for a period of ten years, with an option to renew the lease.

During 2013, operating lease expenses were US$577,517 (2012: US$477,282, 2011: US$470,342).

### d. Gas sale and purchase agreements

As at 31 December 2013, PT Pertamina EP had various commitments to deliver gas amounting to 2,019,657,656 MMBTU to various customers. The gas will be periodically delivered from 2014 until 2028.

As at 31 December 2013, PHE had various significant gas supply agreements to various customers, with gas value of each contract between 0.9 BBTU to 37,525 BBTU. The expiration years of those agreements range from 2014 to 2032.

## 47. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

### e. Legal cases

In the normal course of business, the Group is a party to various legal actions in relation to compliance with contracts, agreements, Government regulations and the tax law. As of the completion date of these consolidated financial statements, the possible losses arising from various legal actions cannot be determined. The most significant legal action currently in progress which is pending a final decision were as follows:

**PT Lirik Petroleum**

The Company and PT Pertamina EP, a Subsidiary, are defendants in a legal suit instituted by PT Lirik Petroleum (Lirik) in relation to a dispute involving rights to operate oil and gas blocks located in North Pulai and South Pulai, Riau Province.

On 17 May 2006, Lirik brought the legal suit to the International Chamber of Commerce (ICC) in Paris, France, on the basis that there was a violation of its rights under the Enhanced Oil Recovery (EOR) contract, since Lirik's request for approval for commercial operations of the oil and gas blocks had been rejected. According to the ICC's decision No.14387/JB/JEM dated 27 February 2009, the defendants are obliged to pay compensation of US$34,495 and interest at 6% per annum from the date of registration of the final award by the ICC until the date of payment.

Accordingly, the Company has recognised a provision for such compensation in its consolidated financial statements as at 31 December 2013 and 2012. On 18 November 2013, the Company had received proposal of case settlement in the amount as stated above plus interest penalty.

On 11 May 2009, the Company and PT Pertamina EP filed an appeal with the Central Jakarta District Court requesting the cancellation of the above ICC decision. On 3 September 2009, the Central Jakarta Disctrict Court rejected the Company's and PT Pertamina EP appeal. On 28 September 2009, the Company and PT Pertamina EP lodged an appeal with the Supreme Court in relation to the Central Jakarta District Court's Decision. On 9 June 2010, the Supreme Court rejected the Company and PT Pertamina EP appeal and requested that the Company and PT Pertamina EP's comply with the ICC's decision.

The Company and PT Pertamina EP filed a judicial review with the Supreme Court on 20 December 2010. Based on the Supreme Court decision No. 56/PK/PDT.SUS.2011 dated on 23 August 2011 the petition was rejected by the Supreme Court.

## 47. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

### e. Legal cases (continued)

**PT Lirik Petroleum** (continued)

An appeal refusing the execution of ICC's decision regarding PT Lirik Petroleum

On 16 November 2009, the Company and PT Pertamina EP filed an appeal with the Central Jakarta District Court refusing the execution (partij verzet) of the ICC's decision involving Lirik. On 15 April 2010 the Central Jakarta District Court rejected the Company and PT Pertamina EP's appeal. Based on this decision, the Company and PT Pertamina EP lodged an appeal with the Jakarta High Court. On 5 April 2011, the Jakarta High Court issued a verdict that annulled the Central Jakarta District Court's verdict, and thus the Arbitral Award's verdict is non-executable.

As a result of the Jakarta High Court's verdict, Lirik lodged an appeal and submitted a memorandum of appeal. Based on such fact the Company and PT Pertamina EP submitted a counter memorandum of appeal on 12 October 2011. Subsequently the Supreme Court through decision No. 144 K/PDT/2012 dated 24 May 2012 granted Lirik's appeal and annulled the Jakarta High Court's verdict.

The Company and PT Pertamina EP lodged a tort lawsuit against Lirik, ICC, Arbitral Tribunal, and Lirik's lawyer with the South Jakarta District Court on 10 August 2009. The Central Jakarta District Court rejected the Company's and PT Pertamina EP's appeal on 19 August 2010 and based on this decision the Company and PT Pertamina EP submited an appeal to the Jakarta High Court. On 14 July 2011, the Jakarta High Court issued a verdict that annulled the South Jakarta District Court's verdict and declared that there were tort arbitration proceedings.

Furthermore, based on the Jakarta High Court's verdict, both Lirik and PT Pertamina EP lodged appeals and submitted memorandum of appeal. PT Pertamina EP filed the appeal on 16 August 2011 and submitted the memorandums of appeal on 24 August 2011. The Company submitted a contra memorandum of appeal to both PT Pertamina EP's and PT Lirik Petroleum's memorandum of appeal on 18 October 2011. The Supreme Court through decision No. 203 K/PDT/2012 dated 29 June 2012 granted Lirik's appeal and annulled the Jakarta High Court's verdict.

As at the completion date of these financial statements, the Company is evaluating its options in response to the Supreme Court's decisions above. The Company believes the Supreme Court's decisions above will have an insignificant impact on the Company's operations because provision for compensation to Lirik has been made.

### f. Onerous contracts

i. Sales of 12 kg cylinder LPG

The Company sells 12 kg cylinder LPG to the public based on a common business practice scheme. The Government is in charge of setting the ceiling price of the products. Including unavoidable costs, losses arising from sales of 12 kg cylinder LPG were US$548,784 during 2013 (2012: US$538,411, 2011: US$420,676).

## 47. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

### f. Onerous contracts (continued)

ii. The assignment to supply fuel products of Premium, Diesel and Kerosene.

The Company has an engagement with the Government for the PSO assignment to distribute fuel products, i.e. Premium, Diesel and Kerosene. Pertamina and the Government have agreed to use MOPS as a reference for the market price of fuel products to calculate the amount of subsidy. However, the sales price (the sales price in accordance with the Government Decree), which is derived from MOPS price plus distribution cost and margin (alpha), cannot cover all expenses to procure the subsidised fuels. This is because the margin (alpha) is not tied to the fluctuation of fuel market price. Including the unavoidable costs, losses from the sales of PSO fuel products in 2013 were US$32,198 (2012: US$90,492, 2011: US$110,448).

### g. Business acquisition

At 31 December 2013, the Group had several acquisition transactions through acquisition and increase in participating interest (farm-in) which were ongoing. These acquisition transactions were made in connection with the Group's strategy to develop its upstream business, i.e. to increase oil and gas production and reserves as well as expanding overseas. A summary of the Group's ongoing acquisitions were as follows:

#### (i) Acquisition of participating interest in Siak Block Central Sumatera

Based on letter of the MoEMR No. 8818/13/MEM.M/2013 dated 26 November 2013 the Company has been appointed as the operator of the Siak working area in Central Sumatera. The transition period will be six months or until the new PSC is signed between SKK MIGAS and the Company.

#### (ii) Addition of participating interest in Southeast Sumatera Block

On 20 December 2013, the Company and Fortuna Resources (Sunda) Limited, Talisman Resources (Bahamas) Limited and Talisman UK (Southeast Sumatra) Limited entered into an agreement for the acquisition of 7.483068% participating interest in the Southeast Sumatera PSC in Indonesia by the Company.

The closing of the transaction is pending fulfillment of all Conditions Precedent.

#### (iii) Acquisition of participating interest in Babar Selaru Block

On 14 May 2013, the Company and Inpex Corporation entered into an agreement to acquire a right to a 15% participating interest in Babar Selaru Block in Saumlaki.

The closing of the transaction is pending fulfillment of all Conditions Precedent.

#### (iv) Acquisition of participating interest in Kalyani Block

On 19 August 2013, the Company entered into an agreement to acquire a right to a 15% participating interest in Kalyani Block in South Sumatera, Indonesia.

The closing of the transaction is pending fulfillment of all Conditions Precedent.

(Expressed in thousands of US Dollars, unless otherwise stated)

## 48. PRESENTATIONS OF TRANSACTIONS FROM PROPORTIONATE CONSOLIDATION OF JOINT VENTURE

Aggregate amounts of assets, liabilities, income and expenses arising from proportionate consolidation of joint controlled entities are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | 293,415 | 187,133 | 84,202 |
| Non-current assets | 384,237 | 206,483 | 177,316 |
| **Total assets** | **677,652** | **393,616** | **261,518** |
| **Liabilities** | | | |
| Short-term liabilities | 165,654 | 93,584 | 46,919 |
| Long-term liabilities | 168,117 | 117,106 | 75,815 |
| **Total liabilities** | **333,771** | **210,690** | **122,734** |
| **Net assets** | **343,881** | **182,926** | **138,784** |
| **Revenues** | 844,493 | 541,629 | 138,150 |
| **Expenses** | (756,978) | (525,721) | (135,081) |
| **Profit for the year** | **87,515** | **15,908** | **3,069** |

For the list of joint venture entities, please refer to Note 1b-iii.

## 49. RECLASSIFICATION OF FINANCIAL STATEMENTS

Certain comparative figures in the consolidated financial statements for the year ended 31 December 2012 and 2011 have been reclassified to conform to the basis on which the consolidated financial statements for the year ended 31 December 2013 have been presented.

The Group has reclassified the following accounts for the consolidated statements of financial position as at 31 December 2012 and 2011 were as follows:

1. Funds deposited specific for abandonment and site restoration amounting to US$76,281 (2011: US$66,656) which were previously presented as a deduction to provision for decommissioning and site restoration as restricted cash within other assets.
2. Employee benefits liabilities - current portion of US$183,189 (2011: US$178,778) as part of accrued expenses. Previously, the amount was recorded as part of employee benefits liabilities.

The Group changed the structure of its internal organisation due to the establishment of gas directorate. Previously, PT Pertamina Gas was included in the upstream segment and PT Nusantara Regas was included in the downstream segment. In 2013, these companies were organised within the gas directorate, which included under “Others” segment. As a result, the corresponding segment information for 2012 and 2011 in Note 40 have been recasted from prior year consolidated financial statements to follow the composition of the Group’s reportable segments in 2013.

## 50. REISSUANCE OF THE 2011 CONSOLIDATED FINANCIAL STATEMENTS

In relation to the annual update of the Group's global medium term note program from which debt securities will be issued from time to time, the Group has reissued its consolidated financial statements as at 31 December 2013 and 2012 and for the years then ended with the inclusion of the consolidated statements of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows and the related notes to the financial statements for the year ended 31 December 2011 as additional comparatives.

The Group has updated these financial statements with events occurred after 14 February 2014, the issuance date of the Group’s consolidated financial statements for the years ended 31 December 2013 and 2012. That event was related to the Company shareholder’s general meeting on 26 February 2014 as disclosed in Note 25.I.

**SUPPLEMENTAL INFORMATION**
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## ESTIMATED CRUDE OIL AND NATURAL GAS RESERVES (UNAUDITED)

The Company, PT Pertamina EP (PEP), subsidiaries of PT Pertamina Hulu Energi (PHE) and PT Pertamina EP Cepu (PEPC) have no ownership interests in the oil and gas reserves, but rather have the right to receive production and/or revenues from the sales of oil and gas in accordance with their PSCs and other production sharing arrangements.

The quantity of proved reserves is only an estimation, and is not intended to illustrate the realisable value or fair value of the Company's, PEP's, PHE Subsidiaries' and PEPC's reserves. This estimation is subject to changes whenever new information is available in the future. There are many inherent uncertainties in estimating crude oil and gas reserves, including factors beyond the Company's, PEP's, PHE Subsidiaries' and PEPC's control.

Before the year 2012, the calculation of proved oil and gas reserves for PEP and PHE was based on Society Petroleum Engineer 2001 (SPE 2001) guidelines while for PEPC was based on Society Petroleum Engineer – Petroleum Resources Management System 2007 (PRMS 2007).

In 2012 the Group changed reserves calculation method from SPE 2001 to PRMS 2007.

The PRMS 2007 method calculates the total reserves based on based project which considers commercial aspect, and therefore only active structures are included in the reserves calculation. Meanwhile, SPE 2001 guidelines consider only technical aspects and not commercial aspects, and therefore all structures, both active and non-active are included in the reserves calculation.

The method change is realised as a need in order to reach the target of being a World Class Company, and furthermore the method is applied in most oil and gas business around the world.

**SUPPLEMENTAL INFORMATION**
**31 DECEMBER 2013, 2012 AND 2011**
**(UNAUDITED)**

**ESTIMATED CRUDE OIL AND NATURAL GAS RESERVES (UNAUDITED)** (continued)

The method change is implemented gradually, where PHE and PEPC has applied the PRMS 2007 method; meanwhile PEP is still applying the SPE 2001 method.

Management is of the opinion that the reserve quantities, which include the Government's shares are reasonable based on available geological and technical data.

The calculation of proved oil and gas reserves are as follows:

**Crude oil and natural gas reserves 31 December 2013**

| | Subsidiaries | Ending balance 31 December 2011 | Adjustments | Production | Ending Balance 31 December 2012 | Adjustments | Production | Ending balance 31 December 2013 |
|---|---|---|---|---|---|---|---|---|
| **PT Pertamina (Persero)** | | | | | | | | |
| **I** | **Vietnam Block (PRMS 2007)** | | | | | | | |
| | - Oil and condensate (MBBLs) | 2,070 | (2,070) | - | - | - | - | - |
| | - Natural gas (MBOE) | 601 | (601) | - | - | - | - | - |
| **II** | **Iraq Block (PRMS 2007) *) ***)** | | | | | | | |
| | - Oil and condensate (MBBLs) | - | - | - | - | 105,170 | (73) | 105,097 |
| | - Natural gas (MBOE) | - | - | - | - | - | - | - |
| **III** | **Algeria Block (PRMS 2007) **) ***)** | | | | | | | |
| | - Oil and condensate (MBBLs) | - | - | - | - | 86,783 | (708) | 86,075 |
| | - Natural gas (MBOE) | - | - | - | - | - | - | - |
| **Sub total reserve (oil)** | | **2,070** | **(2,070)** | **-** | **-** | **191,953** | **(781)** | **191,172** |
| **Sub total reserve (natural gas)** | | **601** | **(601)** | **-** | **-** | **-** | **-** | **-** |

**SUPPLEMENTAL INFORMATION**
**31 DECEMBER 2013, 2012 AND 2011**
**(UNAUDITED)**

## ESTIMATED CRUDE OIL AND NATURAL GAS RESERVES (UNAUDITED) (continued)

| | Subsidiaries | Ending balance 31 December 2011 | Adjustments | Production | Ending balance 31 December 2012 | Adjustments | Production | Ending balance 31 December 2013 |
|---|---|---|---|---|---|---|---|---|
| **PT Pertamina EP (SPE 2001):** | | | | | | | | |
| **I** | **Sumatera** | | | | | | | |
| | - Oil and condensate (MBBLs) | 295,295 | (18,935) | (4,931) | 271,429 | 26,772 | (5,716) | 292,485 |
| | - Natural gas (MBOE) | 626,111 | (19,187) | (26,608) | 580,316 | 40,030 | (26,472) | 593,874 |
| **II** | **Java** | | | | | | | |
| | - Oil and condensate (MBBLs) | 242,309 | (1,725) | (16,572) | 224,012 | 72,822 | (14,810) | 282,024 |
| | - Natural gas (MBOE) | 180,698 | 13,979 | (26,478) | 168,199 | 69,369 | (26,056) | 211,512 |
| **III** | **East Indonesia** | | | | | | | |
| | - Oil and condensate (MBBLs) | 54,287 | 8,568 | (3,788) | 59,067 | 13,115 | (3,092) | 69,090 |
| | - Natural gas (MBOE) | 98,621 | (5,880) | (675) | 92,066 | 2,609 | (604) | 94,071 |
| **IV** | **TAC** | | | | | | | |
| | - Oil and condensate (MBBLs) | 128,283 | 68,714 | (6,132) | 190,865 | (21,796) | (5,193) | 163,876 |
| | - Natural gas (MBOE) | 101,667 | (4,881) | (4,049) | 92,737 | 101,815 | (2,420) | 192,132 |
| **V** | **OC** | | | | | | | |
| | - Oil and condensate (MBBLs) | 71,406 | (812) | (1,506) | 69,088 | 136,437 | (1,780) | 203,745 |
| | - Natural gas (MBOE) | 3,591 | 2,476 | - | 6,067 | 43,750 | - | 49,817 |
| **VI** | **Project** | | | | | | | |
| | - Oil and condensate (MBBLs) | 13,102 | 91,219 | (1,060) | 103,261 | (86,589) | (849) | 15,823 |
| | - Natural gas (MBOE) | 404,166 | (131,353) | (6,197) | 266,616 | 23,099 | (6,881) | 282,834 |
| **VII** | **Business Unit Exploration and Exploitation (UBEP)** | | | | | | | |
| | - Oil and condensate (MBBLs) | 214,820 | (14,478) | (12,725) | 187,617 | 38,079 | (12,912) | 212,784 |
| | - Natural gas (MBOE) | 43,656 | 9,707 | (2,565) | 50,798 | (1,841) | (2,513) | 46,444 |
| **Sub total reserve (oil)** | | **1,019,502** | **132,551** | **(46,714)** | **1,105,339** | **178,840** | **(44,352)** | **1,239,827** |
| **Sub total reserve (natural gas)** | | **1,458,510** | **(135,139)** | **(66,572)** | **1,256,799** | **278,831** | **(64,946)** | **1,470,684** |

**SUPPLEMENTAL INFORMATION**
**31 DECEMBER 2013, 2012 AND 2011**
**(UNAUDITED)**

## ESTIMATED CRUDE OIL AND NATURAL GAS RESERVES (UNAUDITED) (continued)

| | Subsidiaries | Ending balance 31 December 2011 | Adjustments | Production | Ending balance 31 December 2012 | Adjustments | Production | Ending balance 31 December 2013 |
|---|---|---|---|---|---|---|---|---|
| **PT Pertamina Hulu Energi (PRMS 2007):** | | | | | | | | |
| **I** | **Region Jawa** | | | | | | | |
| | JOB-PSC, PPI, IP, BOB (2 blocks) | | | | | | | |
| | - Oil and condensate (MBBLs) | 16,551 | (8,814) | (2,543) | 5,194 | 1,928 | (2,144) | 4,978 |
| | - Natural gas (MBOE) | 1,701 | (1,090) | (470) | 141 | 1,239 | (384) | 996 |
| | Own Operation (ONWJ and WMO) | | | | | | | |
| | - Oil and condensate (MBBLs) | 51,852 | 12,110 | (9,843) | 54,119 | 25,654 | (13,191) | 66,582 |
| | - Natural gas (MBOE) | 69,330 | (3,519) | (13,394) | 52,417 | 17,300 | (13,150) | 56,567 |
| **II** | **Region Sumatera (10 blocks)** | | | | | | | |
| | - Oil and condensate (MBBLs) | 62,350 | (19,019) | (7,706) | 35,625 | 3,468 | (7,671) | 31,422 |
| | - Natural gas (MBOE) | 180,659 | (69,943) | (14,740) | 95,976 | 27,614 | (15,916) | 107,674 |
| **III** | **Region Kalimantan, Sulawesi and Papua (6 blocks)** | | | | | | | |
| | - Oil and condensate (MBBLs) | 20,910 | (3,547) | (1,060) | 16,303 | (510) | (996) | 14,797 |
| | - Natural gas (MBOE) | 165,905 | (36,123) | (1,683) | 128,099 | 6,999 | (1,555) | 133,543 |
| **IV** | **Overseas** | | | | | | | |
| | - Oil and condensate (MBBLs) | 1,048 | (251) | (215) | 582 | 36 | (103) | 515 |
| | - Natural gas (MBOE) | 773 | (295) | (340) | 138 | 192 | (303) | 27 |
| **Sub total reserve (oil)** | | **152,711** | **(19,521)** | **(21,367)** | **111,823** | **30,576** | **(24,105)** | **118,294** |
| **Sub total reserve (natural gas)** | | **418,368** | **(110,970)** | **(30,627)** | **276,771** | **53,344** | **(31,308)** | **298,807** |

**SUPPLEMENTAL INFORMATION**
**31 DECEMBER 2013, 2012 AND 2011**
**(UNAUDITED)**

**ESTIMATED CRUDE OIL AND NATURAL GAS RESERVES (UNAUDITED)** (continued)

| Subsidiaries | Ending balance 31 December 2011 | Adjustments | Production | Ending balance 31 December 2012 | Adjustments | Production | Ending balance 31 December 2013 |
|---|---|---|---|---|---|---|---|
| **PT Pertamina EP Cepu (PRMS 2007):** | | | | | | | |
| - Oil and condensate (MBBLs) | 143,594 | - | (3,679) | 139,915 | 1,752 | (4,313) | 137,354 |
| - Natural gas (MBOE) - non-sales | 4,901 | 134 | (32) | 5,003 | 86,365 | (264) | 91,104 |
| **Total reserve** | | | | | | | |
| **- Oil and condensate (MBBLs)** | **1,317,877** | **110,960** | **(71,760)** | **1,357,077** | **403,121** | **(73,551)** | **1,686,647** |
| **- Natural gas (MBOE)** | **1,882,380** | **(246,576)** | **(97,231)** | **1,538,573** | **418,540** | **(96,518)** | **1,860,595** |

*) Total adjustments at Iraq Block is derived from reserves starting from effective date of 105,900 MBOE reduced with production starting from effective date until closing date of 730 MBOE.
**) Total adjustments at Algeria Block is derived from reserves starting from effective date of 97,305 MBOE reduced with production starting from effective date until closing date of 10,522 MBOE.
***) Total production figures at Iraq Block and Algeria Block are production figures from closing date until 31 December 2013.

Based on the table above total oil reserves are 1,686,647 MBBLs and total natural gas reserves are 1,860,595 MBOE.

Other reserves addition come from:

1. The adjustment figures at Iraq Block and Algeria Block were addition of crude oil reserves resulting from business acquisitions in the year 2013 (Note 4).
2. PEP for 120.82 MMBOE (SPE-2001 method) as result of exploitation which is included in adjustment column.
3. PHE for 41.08 MMBOE (PRMS-2007 method) and 43.11 MMBOE (SPE-2001 method) as result of exploitation and acquisition transactions which is included in adjustment column.

As explained before in business acquistion note (Note 47g), the Company has gone through some acquisition transactions which potentially increases the Group's total reserves. Important summary of total reserves increase are as follows:

| Number | Acquisition Transaction | Estimated Production 2014 (BOEPD*)) | Total Reserves of Proved and Probable (2P) (MMBOE**)) |
|---|---|---|---|
| 1. | PT Chevron Pacific Indonesia | 1,769 | 19.9 |
| 2. | Talisman UK (Southeast Sumatera) Ltd. | 3,280 | 4.7 |

*) BOEPD = Barrels Oil Equivalent per Day
**) MMBOE = Million Barrels of Oil Equivalent

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# PT PERTAMINA (PERSERO)

*(a state-owned company incorporated in the Republic of Indonesia with limited liability)*

**US$10,000,000,000**

**Global Medium Term Note Program**

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# OFFERING MEMORANDUM

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*Dealers*

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**Deutsche Bank** **HSBC** **Mitsubishi UFJ Securities** **Mizuho Securities**

March 13, 2014