



Gas Negara

PT Perusahaan Gas Negara (Persero) Tbk

(incorporated in the Republic of Indonesia with limited liability)

1,296,296,000 shares

This Offering Circular ("Offering Circular") has been prepared by us and by the Government of the Republic of Indonesia (the "Selling Shareholder"), acting through the Ministry of State-Owned Enterprises, in connection with the global offering of 820,987,000 newly-issued shares by us and 475,309,000 of our outstanding shares by the Selling Shareholder. The shares, including any shares offered through the exercise of the Over-subscription Option and the Over-allotment Option (each as defined below), are being offered by us and the Selling Shareholder (i) to eligible investors resident outside of the Republic of Indonesia (the "International Offering") as described in this Offering Circular and (ii) in connection with a public offer of shares in the Republic of Indonesia (the "Indonesian Offering"). The International Offering and the Indonesian Offering are collectively referred to as the "Global Offering".

This Offering Circular is being made available with respect to the International Offering only. In connection with the International Offering, ABN AMRO Rothschild ("AAR") and Credit Suisse First Boston (Europe) Limited ("CSFB" and together with AAR, the "Joint Lead International Selling Agents") and the other international selling agents (together with the Joint Lead International Selling Agents, the "International Selling Agents") are soliciting applications from eligible investors resident outside Indonesia on behalf of PT ABN AMRO Asia Securities Indonesia and PT Danareksa Sekuritas (the "Joint Lead Managing Underwriters"). The Indonesian Offering will be conducted by a group of underwriters (the "Underwriters") in Indonesia represented by and including the Joint Lead Managing Underwriters. We have applied to have our shares listed on the Jakarta Stock Exchange ("JSX") and the Surabaya Stock Exchange ("SSX") on completion of the Indonesian Offering. The Global Offering is our initial public offering, and no public market currently exists for our shares. The offering price may not reflect the market price of our shares after the closing of the Global Offering.

The Selling Shareholder has granted to PT ABN AMRO Asia Securities Indonesia, as agent for and on behalf of the International Selling Agents and the Underwriters, an option (the "Over-subscription Option"), exercisable in whole or in part, at any time and from time to time until the final allotment of the Global Offering, to acquire up to an additional 194,444,500 shares at the offering price, less applicable underwriting fees and commissions. In addition, the Selling Shareholder has granted to PT ABN AMRO Asia Securities Indonesia, as agent for and on behalf of the International Selling Agents and the Underwriters, an option (the "Over-allotment Option"), exercisable in whole or in part, at any time and from time to time, until 30 days after our shares commence trading on the JSX, to acquire up to an additional 194,444,500 shares at the offering price, less applicable underwriting fees and commissions.

Investing in our shares involves risks. See "Risk Factors" beginning on page 11 to read about factors you should consider before buying our shares.

Offering Price: Rp.1,500 per share

The International Selling Agents expect to deliver the shares to purchasers on or about December 15, 2003. The shares will begin trading on the JSX and the SSX on the listing date, which is expected to be December 15, 2003.

OUR SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"). OUR SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT ("REGULATION S")), EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A")) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A AND MAY NOT BE OFFERED OUTSIDE THE UNITED STATES, EXCEPT TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. YOU ARE HEREBY NOTIFIED THAT SELLERS OF OUR SHARES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON TRANSFER OF OUR SHARES, SEE "TRANSFER RESTRICTIONS".

Joint Global Coordinators and Joint Bookrunners (in alphabetical order)

ABN AMRO Rothschild Credit Suisse First Boston PT Danareksa Sekuritas

Joint Lead International Selling Agents (in alphabetical order)

ABN AMRO Rothschild Credit Suisse First Boston

Privatization Process Coordinator

PT Danareksa Sekuritas

	As of and for the year ended December 31,			As of and for the six months ended June 30,	
	2000	2001	2002	2002	2003
Operating data:					
Distribution business:⁽¹⁾					
Network length (km)	2,419	2,506	2,547	2,527 ⁽⁹⁾	2,562 ⁽¹⁰⁾
Capacity (mmscfd)	831.3	831.3	831.3	831.3	831.3
Average daily volume sold (mmscfd)	187.5	208.2	238.6	235.4	262.2
Capacity utilization (%)	22.6	25.0	28.7	28.3	31.5
Realized average sales price ⁽²⁾ (US\$ per mscf) ⁽³⁾	2.70	2.72	3.21	2.98	3.57
Realized average cost of gas ⁽⁴⁾ (US\$ per mscf) ⁽³⁾	1.89	2.04	2.16	2.04	2.31
Realized average transportation tariff ⁽⁵⁾ (US\$ per mscf) ⁽³⁾	0.80	0.67	1.04	0.93	1.25
Transmission business:⁽⁶⁾					
Network length (km)	603	603	603	603	603
Capacity (mmscfd)	410.0	410.0	410.0	410.0	515.0
Volume transported (mmscfd)	369.8	354.4	321.4	340.4	315.9
Capacity utilization (%)	90.2	86.4	78.4	83.0	61.3
Realized average tariff ⁽⁷⁾ (US\$ per mscf) ⁽³⁾	0.52	0.49	0.52	0.49	0.53
Rupiah to U.S. dollar exchange rate (Rp.) ⁽⁸⁾	8,534	10,266	9,261	9,499	8,655

Notes:

- (1) Excludes LPG.
- (2) Distribution revenue divided by volume sold.
- (3) Translated at a month-end average Rupiah to U.S. dollar exchange rate over the period.
- (4) Distribution cost of revenue divided by volume sold.
- (5) Distribution revenue less cost of revenue divided by volume sold.
- (6) Excludes Jakarta transmission business, with the exception of throughput volumes.
- (7) Transmission revenue divided by volume transported.
- (8) Month-end average over the period.
- (9) Estimate only, based on one half of the increase in the network for 2002.
- (10) Estimate only, based on one half of the budgeted increase in the network for 2003.

	As of December 31,				As of June 30,		
	2000	2001	2002	2002	2002	2003	2003
	As Restated	As Restated	As Restated		(Unaudited)	(Audited)	(Audited)
	(Rp. billion)	(Audited) (Rp. billion)	(Audited) (Rp. billion)	(US\$ million)	(Rp. billion)	(US\$ million)	
Consolidated balance sheet data:							
Assets:							
Current assets	1,193.6	1,576.2	1,807.8	218.2	1,551.7	1,456.4	175.8
Non-current assets	2,140.7	2,737.9	3,962.3	478.2	2,896.6	4,668.0	563.4
Total assets	3,334.3	4,314.2	5,770.1	696.5	4,448.3	6,124.4	739.2
Liabilities:							
Current liabilities	499.2	632.5	1,200.3	144.9	1,066.3	1,408.1	170.0
Long-term debt	2,234.7	2,221.0	1,772.6	214.0	1,784.7	2,189.4	264.3
Due to stockholder of the subsidiary	—	—	177.4	21.4	—	220.8	26.6
Other non-current liabilities	50.7	—	8.5	1.0	8.4	8.3	1.0
Minority interest	—	—	334.5	40.4	0.5	213.2	25.7
Government project funds	79.4	46.1	28.5	3.4	28.5	36.9	4.5
Equity	470.3	1,414.5	2,248.3	271.4	1,560.0	2,047.7	247.2
Total liabilities and equity	3,334.3	4,314.2	5,770.1	696.5	4,448.3	6,124.4	739.2

	Year ended December 31,				Six months ended June 30,		
	2000	2001	2002	2002	2002	2003	2003
	(Rp. billion unless otherwise indicated)	(Audited) (Rp. billion unless otherwise indicated)	(Audited) (Rp. billion unless otherwise indicated)	(US\$ million unless otherwise indicated)	(Unaudited) (Rp. billion unless otherwise indicated)	(Audited) (US\$ million unless otherwise indicated)	(Audited) (US\$ million unless otherwise indicated)
Other financial data:							
EBITDA ⁽¹⁾	864.5	971.9	1,120.7	135.3	596.0	631.7	76.2
EBITDA/Revenue (%)	39.6	35.0	35.6	35.6	37.9	36.5	36.5
EBITDA/Gross profit (%)	80.7	82.4	79.8	79.8	85.0	81.4	81.4
EBITDA/Interest ⁽²⁾	5.4x	4.4x	9.5x	9.5x	10.2x	8.7x	8.7x
Depreciation and amortization ⁽³⁾	267.1	247.2	306.8	37.0	147.3	131.6	15.9
EBIT ⁽⁴⁾	597.4	724.8	813.9	98.2	448.6	500.1	60.4
EBIT/Revenue (%)	27.4	26.1	25.8	25.8	28.5	28.9	28.9
EBIT/Gross profit (%)	55.8	61.5	58.0	58.0	64.0	64.4	64.4

Notes:

- (1) EBITDA means earnings before interest, taxes, depreciation, amortization, provision for doubtful accounts, gain or loss on foreign exchange and net miscellaneous income as calculated under Indonesian GAAP. EBITDA is not a standard measure under Indonesian GAAP. EBITDA is an indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cashflows, earnings or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cashflows generated by operating, investing or financing activities. EBITDA fails to account for taxes, interest expense and other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenues and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because management believes it is a useful supplement to cashflow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly-titled measures presented by other companies. For a reconciliation of EBITDA as used in this Offering Circular to our net income calculated under Indonesian GAAP, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures".
- (2) EBITDA divided by gross interest expense, including capitalized interest, expressed as a ratio.
- (3) Includes provision for doubtful accounts.
- (4) EBIT is income from operations.

SUMMARY SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth certain summary financial and operating data for us as of the dates and for each of the periods indicated. The summary financial data as of and for the years ended December 31, 2000, 2001 and 2002 and as of and for the six months ended June 30, 2003 has been derived from our financial statements prepared in accordance with Indonesian GAAP for the three years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003 which are included elsewhere in this Offering Circular. Our financial statements for the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003 have been audited by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young, independent public accountants. The financial statements of Transgasindo, the subsidiary, for the six months ended June 30, 2003 were audited by Drs. Hadi Sutanto & Rekan, PricewaterhouseCoopers. The summary financial data as of and for the six months ended June 30, 2002 has been derived from our unaudited financial statements which are included elsewhere in this Offering Circular. Such unaudited financial statements have been reviewed by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young and, in our opinion, have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments necessary for such financial information to be presented on a basis consistent with the financial statements for the six months ended June 30, 2003. For the year ended December 31, 2002 and the six months ended June 30, 2002 and 2003 our financial statements are presented on a consolidated basis. For the years ended December 31, 2000 and 2001 our financial statements are presented on a company only basis as our subsidiary, Transgasindo, was only established on February 1, 2002. Financial data for 2002 and the six months ended June 30, 2003 has been translated into U.S. dollars for convenience only based on the prevailing exchange rate on June 30, 2003 of Rp.8,285 = US\$1.00. See "Conventions Which Apply To This Offering Circular".

We have presented our financial statements included in this Offering Circular for December 31, 2000, 2001 and 2002 and the six months ended June 30, 2002 and 2003 using consistent accounting policies and principles. All financial information relating to us is stated in accordance with Indonesian GAAP. Indonesian GAAP differs in certain significant respects from U.S. GAAP. See "Principal Differences Between Indonesian GAAP and U.S. GAAP". We have not quantified or identified the impact of the differences between Indonesian GAAP and U.S. GAAP as they relate to our financial statements. The following information should be read in conjunction with, and is qualified in its entirety by reference to, our financial statements and the notes thereto included elsewhere in this Offering Circular.

	Year ended December 31,				Six months ended June 30,		
	2000 As Restated	2001 As Restated	2002 As Restated	2002	2002	2003	2003
	(Audited) (Rp. billion)			(US\$ million)	(Unaudited) (Rp. billion)	(Audited) (US\$ million)	
Consolidated income statement data:							
Revenues:							
Distribution	1,574.3	2,122.4	2,585.3	312.0	1,268.7	1,464.9	176.8
Transmission	601.0	650.6	561.6	67.8	303.2	261.5	31.6
Sale of LPG	6.5	7.2	4.9	0.6	2.6	2.3	0.3
Total revenues	2,181.8	2,780.3	3,151.8	380.4	1,574.4	1,728.8	208.7
Cost of revenues	(1,110.7)	(1,601.4)	(1,747.4)	(210.9)	(873.1)	(952.4)	(114.9)
Gross profit	1,071.1	1,178.9	1,404.4	169.5	701.3	776.4	93.7
Operating expenses	(473.8)	(454.1)	(590.4)	(71.3)	(252.7)	(276.3)	(33.3)
Income from operations	597.4	724.8	813.9	98.2	448.6	500.1	60.4
Other charges (income) — net	568.9	291.1	(876.4)	(105.8)	(162.8)	(81.2)	(9.8)
Income before tax expense	28.5	433.7	1,690.3	204.0	611.4	581.4	70.2
Tax expense — net	21.9	121.1	564.9	68.2	182.5	152.9	18.5
Income before minority interest	6.6	312.6	1,125.4	135.8	428.9	428.5	51.7
Minority interest	—	—	(9.7)	(1.2)	(0.5)	(6.3)	(0.8)
Net income	6.6	312.6	1,115.7	134.7	428.4	422.2	51.0

Delivery	Delivery of the shares to successful applicants will be made against payment therefor through the depository facilities of the Indonesian Securities Depository Company, PT Kustodian Sentral Efek Indonesia ("KSEI"). See "Indonesian Capital Markets" and "Plan of Distribution — Registration of the Shares in KSEI". It is expected that the shares will be delivered on or about December 15, 2003.
Transfer Restrictions	The shares sold in the Global Offering will be subject to certain transfer restrictions as described in "Transfer Restrictions".
Timetable	An indicative timetable in respect of the International Offering and the Indonesian Offering is set forth under "Plan of Distribution".
Risk Factors	Investment in our shares involves risks which are described under "Risk Factors".

See "Description of Our Shares" for more detailed information concerning the terms of our shares.

Listing of our Shares	Prior to the Global Offering, there has been no public market for our shares. Application has been made for the listing and quotation of our shares on each of the JSX and the SSX. If the relevant listing approval is granted, trading in our shares on the JSX and the SSX, respectively, is expected to commence on or about December 15, 2003 under the symbol PGAS.
Lock-up	We have agreed that, for a period of six months following the effective date of the registration statement with BAPEPAM, except for the issuance of shares to the Government upon the conversion to capital of up to Rp.164.7 billion (US\$19.9 million) of Government project funds in exchange for 329.3 million new shares to be issued to the Government as described in "Capitalization", we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our shares or any securities convertible into an exchangeable or exercisable for (including swap transactions) or warrants or other rights to purchase our shares, or publicly disclose the intention to effect any such transaction, without the prior written consent of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents. The Selling Shareholder has agreed to a similar restriction for a period of six months following the effective date of the registration statement with BAPEPAM. In addition to the consent of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents, each of us and the Selling Shareholder may require the consent of BAPEPAM before the applicable lock-up can be waived.
Use of Proceeds	We will use the net proceeds of Rp.1,194.5 billion (US\$144.2 million) we receive from the offering of new shares by us primarily to finance a portion of the cost of the development of our gas transmission projects. We will not receive any part of the proceeds from the Government's sale of outstanding shares it owns.
Special Share	The Special Share gives the Republic of Indonesia, represented by the Ministry of State-Owned Enterprises, rights such that its approval is required in respect of certain decisions including with respect to the election and removal of Commissioners and Directors and for amendments to our Articles of Association. Pursuant to our Articles of Association, the Republic of Indonesia cannot transfer the Special Share. The Republic of Indonesia's rights with respect to the Special Share will not terminate unless our Articles of Association are amended, which would require the approval of the Republic of Indonesia as holder of the Special Share.
Voting Rights	Owners of the shares offered in this Global Offering will be entitled to the same voting rights as other holders of our shares other than the Special Share.
Dividends	The declaration, amount and payment of future dividends on our shares, if any, is discretionary and will be subject to the recommendation of our Board of Directors and approval of our shareholders. See "Dividend Policy" and "Description of our Shares — Dividends".
Payment	Payment to us and the Selling Shareholder for the shares sold in the Global Offering is expected to be made on or about December 15, 2003 in immediately available funds.

THE OFFERING

Selling Shareholder	The Government of Indonesia, through the Ministry of State-Owned Enterprises.
The Global Offering	The offering of 1,296,296,000 shares of PT Perusahaan Gas Negara (Persero) Tbk (the "Underwritten Shares") together with any Over-subscription Option Shares and any Over-allotment Option Shares (in each case as defined below). We are offering 820,987,000 newly-issued shares and the Selling Shareholder is offering 475,309,000 currently outstanding shares. The Global Offering consists of the concurrent International Offering and Indonesian Offering.
The International Offering	The Underwritten Shares together with any Over-subscription Option Shares and any Over-allotment Option Shares are being offered by us and the Selling Shareholder through the Underwriters' arrangements with the International Selling Agents to (i) qualified institutional buyers in the United States in reliance on Rule 144A under the U.S. Securities Act, and (ii) certain non-U.S. persons outside Indonesia and the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.
The Indonesian Offering	The Underwritten Shares, together with any Over-subscription Option Shares and any Over-allotment Option Shares, are being offered in Indonesia through the Underwriters by way of a public offering in Indonesia.
Over-subscription Option	The Selling Shareholder has granted to PT ABN AMRO Asia Securities Indonesia, as agent for and on behalf of the Underwriters and the International Selling Agents, the Over-subscription Option, exercisable in whole or in part, at any time and from time to time, until the final allotment of the Global Offering, expected to be on December 12, 2003, to acquire up to an additional 194,444,500 shares (the "Over-subscription Option Shares") at the offering price, less applicable underwriting fees and commissions.
Over-allotment Option	The Selling Shareholder has granted to PT ABN AMRO Asia Securities Indonesia, as agent for and on behalf of the Underwriters and the International Selling Agents, the Over-allotment Option, exercisable in whole or in part, at any time and from time to time, until the date 30 days after our shares commence trading on the JSX, to acquire up to an additional 194,444,500 shares (the "Over-allotment Option Shares") at the offering price, less applicable underwriting fees and commissions.
Offering Price	Rp.1,500 per share.
Shares Outstanding	As of the date of this Offering Circular, our authorized share capital is Rp.7,000.0 billion (US\$844.9 million) divided into 14.0 billion shares, including one share with special rights (the "Special Share"), each with a par value of Rp.500. Our issued and paid-up share capital is Rp.1,750.0 billion (US\$211.2 million) consisting of 3.5 billion fully paid shares including the Special Share. Upon completion of the Global Offering, our issued and paid-up share capital will be Rp.2,160.5 billion (US\$260.8 million), consisting of 4.3 billion fully paid shares including the Special Share. Upon the conversion to capital of Rp.164.7 billion (US\$19.9 million) of Government project funds, as described in "Capitalization", our issued and paid-up share capital will be Rp.2,325.1 billion (US\$280.6 million).

- *Expanding into new distribution markets*

We intend to take advantage of the expected growth in the Indonesian gas distribution market by expanding our distribution network in additional urban/industrial centers. In particular, we plan to expand our distribution business in the next four years to include new markets strategically located in close proximity to our planned new transmission projects.

Share Ownership

Immediately prior to the Global Offering, 100.0% of our outstanding shares were owned by the Selling Shareholder. Immediately following the Global Offering, the Selling Shareholder will own approximately 70.0% of our outstanding shares (61.0% if both of the Over-subscription Option and Over-allotment Option are exercised in full and 63.8% if, in addition to the exercise of such options, the conversion of Rp.164.7 billion (US\$19.9 million) of Government project funds to 329.3 million shares, as described in "Capitalization", is made in full). The Selling Shareholder will also own a non-transferable Special Share (as defined below) which will give it approval rights with respect to certain key shareholder decisions. See "Risk Factors — Risks Relating to our Business — We are subject to the control of the Government".

transmission development projects will enable us to establish an integrated transmission network for Sumatra, which, in addition to providing significant volumes of natural gas from Sumatra to Singapore, will provide Sumatra natural gas to North Sumatra and West Java. We have begun the development of Phase I of the South Sumatra-to-West Java transmission pipeline project, and have licenses for all of our planned distribution network projects. We have also received approval for Phase II of the South Sumatra-to-West Java transmission pipeline project and a transmission pipeline from Duri to Medan and have applied for approvals to develop a number of other natural gas pipeline projects.

- *Stable EBITDA under a utility-like structure*

Our revenues and operating expenses from our distribution and transmission businesses benefit from utility-like commercial structures and are relatively stable, as demonstrated by our EBITDA. In particular, our gas distribution sales allow us to “pass through” natural gas purchase prices to end users in U.S. dollars as our distribution rates include a U.S. dollar component linked to the gas price. In addition, we purchase the natural gas we distribute under long-term supply contracts, with scheduled off-take volumes and stable gas pricing levels. These volumes are predominantly on-sold to industrial customers, which accounted for 98.5% of our sales volumes for the six months ended June 30, 2003. Our transmission revenues are derived from long-term ship-or-pay transportation agreements from which we receive U.S. dollar based transportation fees for contracted capacity volumes.

- *Experienced management team*

Most members of our senior management have over 20 years’ experience in the oil and gas industry, and most members of our Board of Directors have over 10 years’ experience developing and operating our core gas distribution business. Our management team has successfully developed our existing distribution business and market base. Despite the Asian economic crisis that began in 1997 and continuing Government fuel oil subsidies, our management has established consistent year-on-year distribution sales volume growth, from an average sales volume of 153.0 mmscfd for the year ended December 31, 1998 to 262.2 mmscfd for the six months ended June 30, 2003.

Strategy

We intend to leverage our competitive strengths to achieve our objective of maintaining our position as the leading provider of natural gas in Indonesia. We aim to achieve our strategic objective by:

- *Securing adequate natural gas supplies*

To increase the utilization of our existing distribution networks and meet increased demand from existing and new customers (either in new markets or as a result of conversions from other energy sources in our existing service areas), we intend to secure substantially greater supplies of natural gas, particularly from strategically located fields in Indonesia. Increased supply procurement should allow for increasing gas distribution volumes in the future. Additional gas supply procurement will also help position us against potential competitors in our distribution business, who will have open access rights to the excess capacity in our distribution system.

- *Participating in the expansion of Indonesia’s natural gas transmission system*

By participating in the development of the planned integrated gas transmission system linking Indonesia’s major urban centers to new supplies of natural gas, we expect to maintain our position as the principal provider of natural gas in Indonesia. Our transmission development will involve extending our transmission pipelines to create a transmission network across Sumatra, linking the island’s natural gas reserves to growing markets in Singapore, West Java and North Sumatra. This should provide significant new supply for our distribution business, especially in West Java and North Sumatra, as well as increased revenues for our transmission business. Longer-term development plans include transmission networks linking East Kalimantan to Java, and East Java to West Java.

- *Expanding operations in existing distribution markets*

We plan to continue our efforts to grow our customer base in areas where we have existing distribution networks. In addition, we intend to expand our existing networks in response to the conversion of more commercial and industrial customers to natural gas, which we expect to contribute substantially to the demand for natural gas in the future.

June 30, 2003, our transmission business accounted for Rp.261.5 billion (US\$31.6 million), or 15.1%, of our revenues and Rp.261.5 billion (US\$31.6 million), or 33.7%, of our gross profit.

Indonesia's Law No. 22 of 2001 regarding oil and gas (the "New Oil and Gas Law") came into force in November 2001. The New Oil and Gas Law creates an over-arching statutory framework setting forth general principles that are expected to be further developed in a series of Government regulations, presidential decrees and ministerial decrees, few of which have been promulgated. The provisions of the New Oil and Gas Law are broad, and few sources of interpretive guidance are available. Implementing regulations are expected to be issued to elaborate the regulatory rules in respect of (among other matters) upstream and downstream industries (including matters concerning business licensing), tariff controls on natural gas transportation and end user sales prices for small customers and the rules governing the opening up to third parties of our natural gas transmission and distribution systems. Accordingly, the impact of the New Oil and Gas Law on our existing distribution and transmission networks, business activities, business opportunities and approvals, along with other key regulatory issues affecting us, are not known. The uncertainty surrounding the New Oil and Gas Law has increased the risks, and may increase the costs, of conducting oil and gas businesses in Indonesia.

Competitive Strengths

We believe that our strong competitive position derives from a number of factors, including our dominant position in a growing natural gas market, an established distribution network with significant capacity for growth with limited additional investment, a portfolio of development projects providing a foundation for significant growth, stable EBITDA under a utility-like structure and an experienced management team.

- *Dominant position in a growing natural gas distribution market*

We are the dominant provider of gas distribution services in Indonesia's growing natural gas market. As a natural monopoly, we estimate that our distribution business had a market share of over 90.0% by volume of Indonesia's gas distribution business for the six months ended June 30, 2003. This dominance means that potential competitors face the following barriers to entry:

- our existing distribution infrastructure, covering major urban centers;
- our existing relationships with our customers;
- our sales and marketing capability, including knowledge of current and future demand; and
- our bargaining power and ability to secure favorable terms from suppliers.

Given these barriers to entry, we believe that our dominant position in the Indonesian gas distribution industry can be sustained notwithstanding the opening of the natural gas market to increased competition. In addition, we believe that the natural gas market itself is well-placed to grow, taking advantage of increasingly attractive pricing compared to that of fuel oil as a result of the Government's progressive reduction of fuel oil subsidies.

- *Established distribution network with significant capacity for growth with limited additional investment*

Our existing distribution networks have been established in six key urban markets, including the Jakarta area, with sizeable available system capacity for sales growth. For the six months ended June 30, 2003, our distribution networks averaged a capacity utilization of only 31.5%, primarily as a result of constraints on the available natural gas supply in each local market. As our contracted gas supply volumes are expanded and additional transmission lines are developed, we believe we will be well positioned to increase gas distribution sales in key market areas with limited further capital expenditure and distribution network development.

- *Portfolio of development projects, providing a foundation for significant growth*

We propose to develop the next generation of key transmission and distribution projects in Indonesia as part of the Government's planned integrated transmission and distribution network for natural gas. These include distribution network projects for six new markets as well as the strategic expansion of our existing distribution networks, particularly in the Jakarta and Surabaya markets. In addition, our

SUMMARY

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

Overview

We are Indonesia's leading natural gas utility, dominating the gas distribution market while also serving as the leading provider of gas transmission services.

We have distribution networks in Jakarta, Surabaya, Medan, Bogor, Cirebon and Palembang with a combined 2,547 km of pipelines and a capacity of 831.3 mmscfd as of December 31, 2002. Our distribution business in these six urban markets in the six months ended June 30, 2003 distributed an average of 262.2 mmscfd of natural gas, principally to industrial customers. Demand for natural gas in Indonesia has been increasing, in part as a result of the progressive reduction of fuel oil subsidies which began in 2001 and which has made natural gas an attractive alternative fuel. In order to meet this demand, we have plans to expand our distribution business to include networks in six new markets strategically located in close proximity to, and as part of the development of, proposed new transmission pipelines, as well as to expand our other existing networks, particularly Jakarta and Surabaya.

Most of our distribution networks have operated below full capacity in recent years due to supply constraints. Demand generally has exceeded the volume of natural gas which could be transported to our distribution networks due to the limitations of the existing gas transmission infrastructure in Indonesia. We expect that construction of planned new transmission pipelines will assist in reducing existing gas supply constraints and allow us to increase utilization of our distribution networks, as well as constraining upward pressure on gas supply prices. See "Business — Gas Transmission Business — Transmission Business Expansion".

Our transmission business has until recently been based on our Grissik-to-Duri transmission pipeline in Sumatra, operated through PGN's 59.75%-owned subsidiary Transgasindo, as well as small transmission operations in Medan and in Jakarta. Our transmission network transported an average of 315.9 mmscfd of natural gas in the six months ended June 30, 2003. On September 10, 2003 we commenced initial commercial operations of a transmission pipeline extending from Grissik in South Sumatra to Singapore. Volume throughput for this pipeline is being ramped up in accordance with the relevant gas transportation agreement with an affiliate of ConocoPhillips Inc. (together with its affiliates, "ConocoPhillips") and an affiliate of PetroChina Company Limited (together with its affiliates, "PetroChina"). We intend to transfer the Grissik-to-Singapore transmission assets to Transgasindo by the end of 2003. The Grissik-to-Duri, Grissik-to-Singapore and Medan transmission systems consist of 1,079 km of pipelines with a current capacity of 865.0 mmscfd while the Jakarta transmission system utilizes the existing distribution pipelines.

In addition to our existing transmission network, we have begun the development of Phase I of the South Sumatra-to-West Java transmission pipeline and have received approval for Phase II of the South Sumatra-to-West Java transmission pipeline project and a transmission pipeline from Duri to Medan. We have also applied for approvals to develop other gas transmission pipeline projects which the Indonesian regulatory authority, Badan Pengatur Hilir Minyak dan Gas Bumi ("BPHMigas"), may grant to us under special rights or put out to public tender as part of the Government's plan to develop Indonesia's integrated gas transmission and distribution network.

For the six months ended June 30, 2003, we had revenues of Rp.1,728.8 billion (US\$208.7 million), gross profit of Rp.776.4 billion (US\$93.7 million) and EBITDA of Rp.631.7 billion (US\$76.2 million). For the year ended December 31, 2002, we had revenues of Rp.3,151.8 billion (US\$380.4 million), gross profit of Rp.1,404.4 billion (US\$169.5 million) and EBITDA of Rp.1,120.7 billion (US\$135.3 million). For the six months ended June 30, 2003, our distribution business accounted for Rp.1,464.9 billion (US\$176.8 million), or 84.7%, of our revenues and Rp.514.6 billion (US\$62.1 million), or 66.3%, of our gross profit. For the six months ended

Rule 144A and designated by the holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act. We will furnish annual and interim reports in English and Indonesian to our shareholders, the JSX and the SSX. These reports will include a review of our business and operations and in our annual reports, audited financial statements which will be prepared in accordance with Indonesian GAAP. We will also furnish to the JSX all notices of shareholders' meetings in English and Indonesian that we make available to our shareholders.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a limited liability company incorporated under the laws of Indonesia. All of our Commissioners, Directors and executive officers reside outside the United States. All or a substantial portion of our assets and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or any of them in U.S. courts judgments obtained in U.S. courts, including judgments based upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

We have been advised by our Indonesian legal counsel, Lubis Ganie Surowidjojo, that judgments of U.S. courts based upon the civil liability provisions of the federal securities laws of the United States are not enforceable in Indonesian courts, although such a judgment could be admissible as evidence in a proceeding on the underlying claim in an Indonesian court. There is doubt as to whether Indonesian courts will enter judgments on original actions brought in Indonesian courts based solely upon the civil liability provisions of the federal securities laws of the United States.

to the volume of natural gas consumption for which they are billed in a particular period. These changes may be made if the customer disagrees with the metered volume of gas or with the calorific value used to convert the volume in cubic meters to mmbtu for U.S. dollar billing purposes.

See "Glossary of Terms" for other defined terms used in this Offering Circular.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute "forward-looking statements", including statements regarding our expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "will", "aim", "will likely result", "will continue", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "should", "will pursue" and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding our financial position and results, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to our services), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause our actual results, performance or achievements to differ materially from those in the forward-looking statements are:

- our ability to implement our strategy successfully;
- the condition of and changes in the local, Indonesian, Asian or global economies;
- future levels of our growth and expansion, including whether we succeed in our business strategy;
- changes in the value of the Rupiah against the U.S. dollar and other currencies;
- changes in government regulation and licensing of our businesses in Indonesia and competition in the oil and gas industry in Indonesia;
- our relationship with the Government and our key customers and suppliers;
- the demand for, prices of and availability of natural gas in Indonesia;
- environmental regulations;
- our ability to fund our future capital expenditure needs;
- the performance of third parties under material agreements; and
- our ability to secure sufficient supplies of natural gas to support expansion of our distribution business.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors". These forward-looking statements speak only as of the date of this Offering Circular. We, the Selling Shareholder, the International Selling Agents and the Underwriters each expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement is based.

AVAILABLE INFORMATION

For so long as any of our outstanding shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of restricted securities who is a "qualified institutional buyer" within the meaning of

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

Market data and certain industry forecasts used throughout this Offering Circular have been obtained from market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither we, the Selling Shareholder, the International Selling Agents nor the Underwriters make any representation as to the accuracy of that information.

In this Offering Circular, 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 Indonesia. All references to "United States" or "U.S." herein are to the United States of America. All references to "United Kingdom" herein are to the United Kingdom of Great Britain and Northern Ireland. All references to "Rupiah" and "Rp." herein are to the lawful currency of Indonesia and all references to "U.S. dollars" or "US\$" herein are to the lawful currency of the United States.

For convenience, certain Rupiah amounts have been translated into U.S. dollar amounts. Unless otherwise indicated, translations have been made based on the exchange rate on June 30, 2003 of Rp.8,285 = US\$1.00, being the middle exchange rate announced by Bank Indonesia on that date. Rupiah amounts relating to realized average prices, costs and tariffs for our distribution and transmission businesses have been translated into U.S. dollar amounts based on the average month-end exchange rates for the periods concerned, which are the exchange rates used for the purposes of our financial statements. Such translations should not be construed as representations that the Indonesian Rupiah or U.S. dollar amounts referred to could have been, or could be, converted into Rupiah or U.S. dollars, as the case may be, at that or any other rate or at all. See "Exchange Rate Information" for further information regarding rates of exchange between Rupiah and U.S. dollars.

In this Offering Circular, unless the context otherwise requires, "we", "us" and "our" refer to PT Perusahaan Gas Negara (Persero) Tbk and its subsidiaries taken as a whole. Further, unless we specify otherwise or the context otherwise requires, all references to our "common shares" or our "shares" refer to common shares of par value Rp.500 each in the capital of PT Perusahaan Gas Negara (Persero) Tbk. "PGN" refers to PT Perusahaan Gas Negara (Persero) Tbk alone.

In this Offering Circular, references to "2000", "2001" and "2002" refer to our fiscal years ended December 31, 2000, December 31, 2001 and December 31, 2002, respectively. Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young, have audited and rendered an unqualified audit report with explanatory paragraphs on the restatements of the previously issued 2002, 2001 and 2000 financial statements and the effects of economic conditions, on our consolidated financial statements for the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003.

Unless otherwise stated, all our financial information is stated in accordance with Indonesian GAAP. For 2002 and the six months ended June 30, 2002 and 2003 our financial statements are presented on a consolidated basis. For 2000 and 2001 our financial statements are presented on a company only basis as our subsidiary, PT Transportasi Gas Indonesia ("Transgasindo"), was only established on February 1, 2002. Any discrepancies in the tables included in this Offering Circular between the listed amounts and their totals are due to rounding. In addition, unless we indicate otherwise, all percentage figures included in this Offering Circular are rounded.

Certain daily average volume figures for our gas distribution and transmission businesses used in this Offering Circular are given in million standard cubic feet per day (mmscfd). Standard cubic feet is a standardized measurement of gas volume adjusted to a defined temperature and pressure to provide a standardized measurement. For distribution customers, gas used is measured in cubic meters using a gas meter at the customer receiving point. In order to convert a cubic meter measurement into a standard cubic feet measurement, the conversion factor must take into account the calorific value of the gas involved, which varies. In this Offering Circular, the calorific values used for conversion purposes are the annual averages for each distribution network which are used for billing purposes. The amount of standard cubic feet per day for any period is calculated by taking the aggregate amount of standard cubic feet for the period and dividing by the actual number of days in the period.

Unless otherwise stated, distribution revenues given throughout this Offering Circular are expressed net of sales adjustments. Sales adjustments are changes which we agree with customers, after they have been invoiced,

Our shares have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and, unless so registered, 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 under Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The International Offering is being made in the United States in reliance on an exemption from registration under the U.S. Securities Act and outside the United States under Regulation S under the U.S. Securities Act. Each purchaser of the shares hereby in making its purchase will be required to make or will be deemed to have made certain acknowledgements, representations and agreements. For a description of these and certain further restrictions on offers, sales and transfers of the shares, see "Transfer Restrictions".

Each purchaser of our shares must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such shares or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such shares under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and none of us, the Selling Shareholder, any of the International Selling Agents nor the Underwriters shall have any responsibility therefor.

In connection with the Global Offering, to the extent permitted by, and in accordance with, applicable laws and regulations, PT Danareksa Sekuritas, one of the Joint Lead Managing Underwriters, may for a period of 30 days following the commencement of trading of our shares on the JSX and the SSX effect transactions which may stabilize or maintain the market price of our shares at levels which might not otherwise prevail in the open market. These transactions, if commenced, may be discontinued at any time and shall not be effected after the date falling 30 days following the commencement of trading of our shares on the JSX and the SSX.

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 Annotated ("RSA 421-B") with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State 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 CANADIAN RESIDENTS

The distribution of the shares in Canada is being made only on a private placement basis exempt from the requirement that we and the Selling Shareholder prepare and file a prospectus with the securities authorities in each province where trades of our shares are made. Any resale of the shares in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the shares.

The U.S. Securities and Exchange Commission and state securities regulators have not approved of, disapproved of or recommended these shares, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of our shares or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States and may be a criminal offence in other jurisdictions. In addition, the Indonesian Capital Markets Supervisory Agency (Badan Pengawas Pasar Modal or "BAPEPAM") does not declare its approval or disapproval of these securities, nor does it declare the accuracy or adequacy of this Offering Circular. Any statement to the contrary is a violation of Indonesian law. For the purposes of the Indonesian Offering, the formal offering document is the Indonesian prospectus.

This Offering Circular is strictly confidential and has been prepared by us solely for use in connection with the proposed International Offering. This Offering Circular is personal to each offeree and does not constitute an offer to any person or to the public generally to purchase, or otherwise acquire, the shares. Distribution of this Offering Circular to any person other than the 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 our prior written consent, is prohibited. Each prospective purchaser, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular and, if the offeree does not purchase shares or the International Offering is terminated, to return this Offering Circular to one of the International Selling Agents.

In making an investment decision, you must rely on your own examination of us and the terms of the International Offering, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have been afforded an opportunity to request from us and to review, and have received, all information that you consider necessary to verify the accuracy of, or to supplement, the information contained in this Offering Circular, (ii) you have not relied on any of the Underwriters or any of the International Selling Agents or any person affiliated with any of the Underwriters or any of the International Selling Agents in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision and (iii) no person has been authorized to give any information or to make any representation concerning us, the Selling Shareholder or our shares other than as contained in this Offering Circular and, if given or made, any such other information or representation may not be relied upon as having been authorized by us, the Selling Shareholder, any of the Underwriters or any of the International Selling Agents.

No representation or warranty, express or implied, is made by any of the International Selling Agents or the Underwriters as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of our shares shall, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Offering Circular or that any information contained herein is correct as of any date subsequent to the date hereof.

Neither we, the Selling Shareholder, the International Selling Agents, the Underwriters nor any affiliate or representative of us nor any of them is making any representation to any purchaser of shares regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in our shares for an indefinite period of time. You should consult with your own advisors as to the legal, tax, business, financial and related aspects of a purchase of shares.

By receiving this Offering Circular, you acknowledge that the financial statements it includes have been prepared in accordance with Indonesian generally accepted accounting principles ("Indonesian GAAP"), which differ in certain significant respects from United States generally accepted accounting principles ("U.S. GAAP"), are subject to Indonesian generally accepted auditing standards, and are not comparable to the financial statements of a U.S. company prepared under U.S. GAAP in accordance with U.S. generally accepted auditing standards. See "Principal Differences Between Indonesian GAAP and U.S. GAAP".

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of us, the International Selling Agents or the Underwriters or any affiliate or representative of any of us or them to purchase any of the shares, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. There are restrictions on the distribution of this Offering Circular and the making of solicitations pursuant thereto in certain jurisdictions, including, among others, the United States, the United Kingdom, Hong Kong, Singapore, Japan, Indonesia, Germany, Italy, Australia, France and The Netherlands, further details of which are set out under "Distribution and Solicitation Restrictions" and "Transfer Restrictions". Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

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RISK FACTORS

An investment in our shares involves a number of risks. You should carefully consider all the information contained in this Offering Circular including the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. The market price of our shares could decline due to any one of these risks and you may lose all or part of your investment.

Risks Relating to our Business

We are subject to the control of the Government

The Government currently owns all of our issued share capital and, notwithstanding its intention to privatize us, in part through the sale of a portion of its shares in the Global Offering, it is likely to continue to retain control over us. We have historically operated as a Government service provider and, accordingly, the Government has historically influenced, and is likely to continue to influence, our strategy and operations. The Government also has the ability to influence and control other Government-related entities we deal with, including PT Perusahaan Pertambangan Minyak Dan Gas Bumi Negara (Persero) ("Pertamina"), the Indonesian state oil and gas company, which is both our principal natural gas supplier and a potential competitor to us.

In addition, in common with its ownership of other privatized companies in Indonesia, the Government is likely to retain control of us through majority ownership and a Special Share, which gives the Government approval power with respect to matters such as the election and removal of Commissioners and Directors, amendments to our Articles of Association, changes in our capital structure and mergers, acquisitions, consolidation or liquidation. Currently, only one of our five Commissioners is independent, as defined by the rules of the JSX.

There can be no assurance that the Government will exercise its control and influence to our benefit or the benefit of our other shareholders. Furthermore, there can be no certainty that the Government will cease to be one of our shareholders or, even if we do cease to be Government-owned, that we will be able to exercise our independence effectively in making decisions concerning our business and prospects. 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 other Government-related entities such as Pertamina over ours, we could suffer a material adverse effect on our financial condition, liquidity and results of operations.

We may not be able to secure additional supplies of natural gas to meet expected demand

Our distribution business is dependent on our natural gas suppliers. We have experienced difficulty in our Jakarta, Medan and Surabaya distribution businesses in obtaining adequate supplies of natural gas to meet demand due to lack of availability and/or the volume delivered from our suppliers being less than contracted volumes. In addition, we understand from our suppliers that a number of the gas fields from which we currently receive supplies are becoming depleted. In the six months ended June 30, 2003, our distribution network had an average utilization rate of 31.5% (28.7% for the year ended December 31, 2002). Although we are negotiating with additional suppliers and are expanding our transmission network to increase access to new gas fields, there can be no assurance that we will be able to put in place the necessary infrastructure and supply contracts to secure sufficient additional supplies of natural gas to service our existing distribution customers or implement our growth strategy.

The expansion of our gas transmission and distribution networks will require substantial capital for which we may be unable to obtain sufficient financing

We have made, and plan to make, substantial capital expenditures for the construction of further transmission pipelines and new and expanded distribution networks. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet our requirements or, if debt or equity financing is available, that it will be on terms acceptable to us. As a Government-owned entity, we have been able in the past to obtain long-term borrowings either from the Government itself or through the Government and sourced from foreign quasi-governmental institutions (such as the Asian Development Bank ("ADB"), the Japan Bank for International Cooperation ("JBIC") or the European Investment Bank ("EIB")) on more favorable terms than would otherwise be available commercially. There can be no assurance that following

the Global Offering we will be able to source further funding from either the Government or such foreign quasi-governmental institutions on similar terms or at all. If adequate long-term funding is not available on satisfactory terms or at all, we may have to delay or abandon future capital-intensive projects, a number of which are fundamental to the future prospects and development of our transmission and distribution businesses. Moreover, future activities and expansion may require us to alter our capital structure. If we are unable to access sufficient capital for our operations, this could have a material adverse effect on our prospects and growth strategy.

Future financing may place restrictions on our operations

The additional funding we will need to raise in order to make our planned capital expenditures, if met by way of additional debt financing, may place restrictions on us which may, among other things:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to pursue our growth plans;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditure, working capital requirements and other general corporate purposes; and/or
- limit our flexibility in planning for, or reacting to, changes in our business and our industry, either through the imposition of restrictive financial or operational covenants or otherwise.

Our transmission business is dependent on two significant customers

Historically, our most significant customer for transmission services has been ConocoPhillips, a significant shareholder of Transgasindo. ConocoPhillips uses our Grissik-to-Duri pipeline to transport its gas to its downstream customer, PT Caltex Pacific Indonesia ("Caltex"). For the six months ended June 30, 2003, ConocoPhillips represented 14.8% of our total revenue (97.9% of our transmission business revenues) and 33.0% of our gross profit. For 2002, ConocoPhillips represented 17.4% of our total revenue (97.5% of our transmission business revenues) and 39.0% of our gross profit. The volume of natural gas we transport for ConocoPhillips is significantly impacted by the off-take volume demand from its downstream customer, Caltex. The off-take average daily volume from Caltex has been declining, leading to a decline in utilization of the Grissik-to-Duri pipeline. The volume transmitted through the Grissik-to-Duri pipeline in 2000, 2001, 2002 and the six months ended June 30, 2003 was 286.1 mmscfd, 284.0 mmscfd, 259.6 mmscfd and 268.4 mmscfd, respectively. This represents a utilization of the pipeline's capacity in the relevant years of 88.0%, 87.4%, 79.9% (based on a capacity of 325.0 mmscfd) and 62.4% (based on a capacity of 430.0 mmscfd, following the installation of the compressor stations), respectively.

Our Grissik-to-Singapore pipeline commenced initial commercial operations on September 10, 2003. We have a long-term gas transportation agreement relating to the Grissik-to-Singapore pipeline with ConocoPhillips and PetroChina. Accordingly, we expect that our transmission business will also depend upon revenues received from ConocoPhillips and PetroChina under the gas transportation agreement relating to the Grissik-to-Singapore pipeline.

To the extent that volumes transported through either the Grissik-to-Duri or Grissik-to-Singapore pipelines are above ship-or-pay levels, any decline in that volume may lead to a decline in revenues in respect of our transmission business. Further, our gas transportation agreements with ConocoPhillips and PetroChina contain provisions allowing for termination in the event of our default or of a force majeure event. If any of our gas transportation agreements are terminated or if either ConocoPhillips or PetroChina defaults under or refuses or is unable to perform its obligations under one of the gas transportation agreements, our revenues and results of operations could be materially adversely affected.

We conduct a major part of our current transmission business through a subsidiary, over which we do not have absolute control

We currently conduct a major part of our transmission business (our Grissik-to-Duri pipeline) through a 59.75%-owned subsidiary of PGN, Transgasindo. In addition, we intend to transfer our Grissik-to-Singapore transmission assets to Transgasindo by the end of 2003. Although we have control over the management of Transgasindo through the Strategic Partnership Agreement ("SPA") we entered into with Transgasindo's other major shareholder, Transasia Pipeline Company Pvt. Ltd. ("Transasia"), on November 12, 2002, certain

important corporate actions require supermajority or unanimous board or shareholder approval. Such corporate actions include amending the articles of association of Transgasindo, undertaking any activities other than those related to the Grissik-to-Duri and Grissik-to-Singapore pipelines, winding up the company, merging, increasing the registered share capital, transferring equity interests and pledging of assets. There is no assurance that we will not wish for Transgasindo to engage in certain of these corporate actions in the future or that, if we do, we will be able to obtain the consent of the other shareholders to such actions. In addition, there is a possibility that some or all of the other shareholders may have economic or business interests or goals which are inconsistent with ours, be unable or unwilling to fulfill their obligations under the SPA or other agreements relating to Transgasindo, or have financial difficulties which impact the management or operations of Transgasindo. Any such events may have an adverse effect on our business, financial conditions or results of operations.

We may face competition from other gas distributors

We currently face little competition from other gas distributors in Indonesia, although Pertamina has operations in the areas of transmission and the sale of natural gas to large customers. Despite requirements to obtain licenses from relevant authorities, barriers to entry in the gas distribution business may be lowered if we are required under the New Oil and Gas Law to allow third parties to use excess capacity in our network and new potential competitors (particularly those with their own sources of natural gas supply) could emerge in the future. Competition for customers who are situated close to a transmission line or a gas field is likely to be more intense, since less infrastructure is needed to connect these customers to a supply. There is no assurance that future competitors will not have a competitive advantage over us as a result of better supplies or services or more competitive pricing.

Our distribution network has operated at low levels of utilization

Utilization levels in our distribution network are low. In 2000, 2001 and 2002 and the six months ended June 30, 2003, utilization of the network was 22.6%, 25.0%, 28.7% and 31.5%, respectively. In addition, we are adding extra capacity to the network through our distribution network expansion program, which means we will need to increase throughput just to maintain current utilization levels. If we are unable to source supply for our new and existing networks or increase throughput to existing customers, utilization levels may remain low or decline further. If we are unable to increase our utilization levels, we will be unable to implement our growth strategy effectively.

Depreciation costs will rise as a result of our network expansion, and if this is not matched by increased utilization and so increased revenues, our results of operations would be materially adversely affected. In addition, under the New Oil and Gas Law third party access rights are available only in relation to unutilized capacity. The lower our utilization the more capacity would potentially be available for competitors to access.

We do not have direct contracts with some of our natural gas suppliers

Before the New Oil and Gas Law was enacted, we were unable to contract directly with any upstream suppliers other than Pertamina. Consequently, all but one of our gas purchase agreements are with Pertamina, even though some of them relate to supplies developed by third party PSC contractors. PSC contractors were formerly required to sell all gas production to Pertamina, who would resell it to us. In Surabaya, the volume of natural gas supplied by Pertamina has declined because the supply from a gas field operated by an affiliate of BP p.l.c. ("BP") under a PSC has declined. Although BP is contracted to supply natural gas under its contract with Pertamina, we are unable to enforce this contract directly or require Pertamina to enforce it.

In the future, we may not be able to secure sufficient customers for our natural gas

In recent years the demand for our natural gas has been driven to a large degree by the rise in the price of fuel oil. Fuel oil is our main competitor fuel and its price has historically been set and heavily subsidized by the Government. Beginning in 2001, the Government began progressively reducing the subsidies for, and consequently increasing the price of, fuel oil. This has made natural gas more attractively priced by comparison. However, we have no control over the price of alternative fuel sources and the Government may not continue with the removal of fuel oil price controls because of public opposition or otherwise. In the absence of a significant price differential between natural gas and existing fuel sources, new major industrial customers may be reluctant to incur the capital expenditure required to convert to natural gas. Accordingly, there can be no assurance that we will be able to secure additional customers to implement our growth strategy.

In addition, although our gas purchase agreements generally have a maximum term of between 10 and 25 years, our gas sale agreements with our industrial customers typically have a duration of only two to three years. This may make it easier for gas distribution competitors to conclude contracts with our customers, which could have a material adverse effect on our business.

Our provision for doubtful accounts is subject to estimations and assumptions

We provide for doubtful accounts based on a periodic review of the estimated collectibility of the individual receivable accounts. A full allowance (100.0% of the outstanding balance) is provided for customer receivables when the customer's gas meter is completely removed and a partial allowance (50.0% of the outstanding balance) is provided for customer receivables when supply to the customer is suspended. As of June 30, 2003, the total provision for doubtful accounts was Rp.9.0 billion (US\$1.1 million) while the amount of receivables that had been outstanding for more than one year was Rp.9.9 billion (US\$1.2 million). Our provision for doubtful accounts requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. If our provision for doubtful accounts is insufficient to cover amounts that are not recovered in future, this may adversely affect our financial condition and results of operations.

Indonesian corporate and other disclosure and accounting standards differ from those in the United States, countries in the European Union and other jurisdictions

There may be less publicly-available information about Indonesian public companies, including us, than is regularly disclosed by public companies in countries with more mature securities markets. Our consolidated financial statements are prepared in accordance with Indonesian GAAP, which differs in significant respects from U.S. GAAP. As a result, our consolidated financial statements and reported earnings could be significantly different from those which would be reported under U.S. GAAP. This Offering Circular does not contain a reconciliation of our consolidated financial statements to U.S. GAAP, and there is no assurance that such a reconciliation would not reveal material differences.

We deal with highly flammable materials

The natural gas we distribute is highly flammable and explosive. There is a significant risk of either accidents or leakage causing damage and/or injury. There can be no assurances that accidents will not occur and any accidents which are significant and for which we are at fault could have a material adverse effect on us.

We are subject to financial covenants under some of our loans

We are subject to financial covenants in respect of certain of our loans from the Government which were sourced from ADB and EIB which limit our ability to borrow additional funds and require us to maintain certain debt service coverage ratios. There can be no assurance that such restrictions will not materially and adversely affect our ability to finance our future operations or capital needs or successfully operate our business.

Expiry of rights to use land for our transmission pipelines could prevent us from operating the pipelines

Our use of certain land owned by the Government on which the Grissik-to-Duri transmission pipeline is built is permitted by two Forest Land Borrow and Use Agreements whereby the Government allows us to use its land without charge: One of these agreements expired on January 17, 2002 and we submitted our request for an extension to the Department of Forestry, Riau region on June 21, 2002, stating that our continuing use of the land is required to allow us to continue to operate the Grissik-to-Duri transmission pipeline. The Department of Forestry has stated in a letter dated September 27, 2002 that it has no objection to the extension subject to the Minister of Forestry's approval. However, there can be no assurance that either of the Forest Land Borrow and Use Agreements will be renewed either on terms that are favorable to us or at all. Our long-term land certificates relating to the land on the routes of our transmission pipelines expire after 30 years but may be renewed. To the extent that a valid arrangement is not in place allowing us the use of any part of the land under any of our transmission pipelines, the owner of such land would have the ability to prevent us from operating the pipeline.

Risks Relating to the Indonesian Gas Industry

The interpretation and application of the New Oil and Gas Law is uncertain and may adversely affect our business

The New Oil and Gas Law came into force in November 2001. See “Regulation of the Indonesian Oil and Gas Industry — New Oil and Gas Law”. The New Oil and Gas Law creates an over-arching statutory framework setting forth general principles that are expected to be further developed in a series of Government regulations, presidential decrees and ministerial decrees, few of which have been promulgated. The provisions of the New Oil and Gas Law are broad, and few sources of interpretive guidance are available. Implementing regulations are expected to be issued to elaborate the regulatory rules in respect of (among other matters), upstream and downstream industries (including matters concerning business licensing), tariff controls on natural gas transportation and end user sales prices for small customers and the rules governing the opening up to third parties of our natural gas transmission and distribution systems. Accordingly, the impact of the New Oil and Gas Law on our existing distribution and transmission networks, business activities, business opportunities and approvals, along with other key regulatory issues affecting us, are not known. The uncertainty surrounding the New Oil and Gas Law has increased the risks, and may increase the costs, of conducting oil and gas businesses in Indonesia.

We may not be granted approvals for certain of our planned transmission projects

Under Article 27 of the New Oil and Gas Law, the Ministry of Energy and Mineral Resources is to prepare a natural gas master plan for development of a national transmission and distribution network in Indonesia (the “Master Plan”). The Master Plan is to focus on the tendering, development and construction of new projects to build out the national gas transportation network. Once this plan is finalized and approved, tenders will be invited for the construction of new transmission projects. The Master Plan has not yet been finalized by the Ministry of Energy and Mineral Resources, nor has a draft been released.

Our planned Kalimantan-to-East Java and East Java-to-West Java transmission projects have not yet received approval from the Government. The Kalimantan-to-East Java and East Java-to-West Java projects are currently undergoing feasibility studies, which include evaluating them against alternatives such as LNG facilities. If we do not receive approvals for these projects they may be put out to tender under the Master Plan. If the projects are put out to tender and we do not win any of the tenders, our growth strategy for our transmission business could be materially and adversely affected.

Tariff regulation may adversely affect our distribution revenues

The New Oil and Gas Law requires the regulation of gas sales prices and distribution transportation tariffs for household and small-scale commercial customers whose natural gas utilization rate does not deviate significantly from that of household customers. Although we believe that these customers represented less than 1.5% by volume of the natural gas we distributed in the six months ended June 30, 2003, the exact categorization of customers by BPHMigas has not yet been settled. There can be no assurance that the definition of small customers to whom gas price regulation applies will not be wider than we currently envisage, or that it will not be widened in the future. If more customers are categorized as small customers, and if the regulated price we are required to charge such customers is lower than the prices currently charged or is reduced in the future, our distribution revenues could be materially and adversely affected.

The New Oil and Gas Law also requires the regulation of distribution transportation tariffs for natural gas supplied to our industrial customers and other customers not classified as small-scale customers, who, according to our current understanding of the New Oil and Gas Law’s classification of these customers, accounted for at least 98.5% of our natural gas supplied by volume for the six months ended June 30, 2003. Although the New Oil and Gas Law does not allow for regulation of the price of natural gas sold to these customers, the total sales price currently charged to these customers comprises a component relating to transportation costs which will be regulated and a component relating to the natural gas purchase price which will not be regulated. If the transportation component is reduced by BPHMigas, our customers may not agree to a corresponding increase in the gas price component to maintain the total amount charged, in which case our distribution revenues would be adversely affected.

Neither the details of the regulated tariff levels nor the mechanism by which they will be assessed have yet been set by BPHMigas.

Tariff regulation may adversely affect our transmission revenues or the rate of return on investment in new transmission infrastructure

The New Oil and Gas Law requires the regulation of transmission tariffs for all customers. Although the tariffs charged to existing customers under our existing gas transportation agreements will not be affected, tariff regulation will apply to all other transmission pipelines once built and to the Grissik-to-Duri and Grissik-to-Singapore pipelines once our existing agreements expire and in relation to any third party access. In relation to our existing pipelines, if tariff levels are set below those currently prevailing, our transmission revenues would be adversely affected.

The transmission tariffs for new projects subject to tender under the Master Plan are likely to be set as part of the bidding process. We may be unsuccessful in our bids for certain projects if rival bidders submit proposals with a lower rate of return on investment than is acceptable to us.

Open access rights under the New Oil and Gas Law for both transmission and distribution may be detrimental to us

The New Oil and Gas Law imposes an obligation on gas pipeline companies in Indonesia to open excess capacity on their transmission and distribution networks to third party suppliers against payment of tariffs. We do not yet have details of what is intended by way of tariffs, or the mechanism by which they will be assessed. There can be no assurance that BPHMigas or other regulatory or Government bodies will not seek to open our pipelines to third parties in such a manner and/or against payment of such tariffs as would be to our detriment.

To the extent that third parties access our distribution networks, this will result in competitive pressure on gas prices, which could reduce the price we are able to charge for our natural gas, adversely affecting our distribution revenues.

Open access to our transmission business may adversely affect our ability to grow our distribution business

Once tariff levels have been set and open access is effective in our transmission business, pursuant to the New Oil and Gas Law, we will be required to allow competitors to utilize the spare capacity in our transmission pipelines. Although we would earn transmission revenues from such access, it may limit our ability to increase the amount of natural gas supplied to our distribution networks in the event that demand in those networks increases. This could materially adversely affect our growth strategy in our distribution business.

Our failure to comply with the new regulatory regime would adversely affect us

Under the New Oil and Gas Law, BPHMigas is to regulate Indonesia's downstream gas transportation and trading regime. Any failure on our part to comply with the terms of our transmission and distribution licenses or approvals could result, under certain circumstances, in the revocation of such licenses or approvals which would have a material adverse effect on us. Our business and results of operations will continue to be materially affected by BPHMigas' regulation of us.

We may not be successful in tendering for new projects

Under the New Oil and Gas Law all new distribution or transmission projects in Indonesia will be subject to a broader Government approval process and will require the approval of BPHMigas following an open tender process. There can be no assurance that we will be able to tender for new transmission or distribution projects on terms comparable to existing arrangements, which are acceptable to us or which result in an adequate rate of return on investment.

Pertamina has competitive advantages

While Pertamina is expected to compete on an equal basis with other oil and gas companies under the New Oil and Gas Law, Pertamina's size, access to natural gas supply, wide-ranging experience in upstream activities and close relationship with the Government may provide it with competitive advantages over other oil and gas companies operating in Indonesia, including us. Pertamina's role under the New Oil and Gas Law is not clear, and there can be no assurance that its role will be consistent with its obligations to us under existing gas purchase contracts.

BPHMigas may favor new entrants to the industry over us in new distribution areas in order to promote competition

Given our dominant position in the Indonesian downstream natural gas industry as a result of our past status as a monopoly provider, there can be no assurance that BPHMigas or other regulatory authorities will not seek to favor new entrants and penalize us in order to promote competition in the industry. This could adversely affect our financial condition and results of operations.

Our business operations may be adversely affected by present or future environmental regulations

Our business is subject to certain Indonesian laws and regulations relating to the transportation of natural gas and construction of transmission and distribution pipelines, as well as environmental and safety matters. Construction of pipelines may be delayed or made more costly by environmental regulations. No assurance can be given that Indonesian environmental laws will not result in a curtailment of transmission, distribution or construction activities or a material increase in the costs of transmission or distribution activities, or otherwise materially and adversely affect us. In addition, the amendment of existing laws and regulations may impose additional or more stringent requirements and may materially and adversely affect us. See "Business — Safety and Environment".

The volatility in the prices of competing energy sources and the changing nature of new gas supply market dynamics could affect demand for natural gas as a fuel source

We currently sell most of our natural gas under fixed price contracts and so, in the short-term, revenue from gas sales is not subject to price volatility. However, the expected increase in demand for our natural gas, and hence the revenues expected to be generated by our future operations, will be dependent upon the relative prices of natural gas and those of competing alternative energy sources. To the extent that the market price of alternative fuel sources drops to and is sustained at a low level, or the well head price of gas supplies procured under future contracts materially increases, leading to an increase in our gas sales price, there may be less demand for our natural gas, which could adversely affect our revenues and cash flows.

Risks Relating to Indonesia

All of our assets and operations are located in Indonesia. We may be adversely affected by changes in Government policies, social instability or other political, economic, legal, regulatory or international developments in or affecting Indonesia which are not within our control, including those set forth below.

Changes in Government policies may adversely affect us

We have benefited from policies implemented by the Government to encourage fuel-oil substitution, private enterprise and economic development in Indonesia. We may be adversely affected by changes in Government policies including, among other things, changes in commitments to remove fuel oil price controls, tariff control policies for our natural gas distribution and transmission businesses; foreign exchange restrictions, currency controls and taxation policy. The planned removal of fuel price subsidies has in the past been delayed due to political controversy, and the removal of fuel oil price controls may not proceed as quickly as planned in the future. The impending national elections in 2004 may lead to a delay in the implementation of policies and a change in government could lead to a change in policies, either of which could materially adversely affect us. See "— Risks Relating to the Indonesian Gas Industry".

The inability or failure of the Government to implement reforms necessary to receive financial assistance from the IMF or the World Bank or debt rescheduling from such groups as the Paris Club could cause the economy and our business to be adversely affected

The Asian economic crisis which began in 1997 had a significant adverse impact on Indonesia, causing, among other adverse changes, a significant depreciation in the value of the Rupiah and depletion of the country's foreign currency reserves. The crisis caused the Government to turn to the International Monetary Fund (the "IMF") for financial assistance and in October 1997, the IMF agreed to provide relief contingent upon the implementation of economic reforms, such as the Government undertaking asset sales and abolishing subsidies for commodities and other consumer products. In addition to the IMF, the World Bank has been an important source of funding for the Government. Indonesia has received assistance from both the IMF and the World Bank

since late 1997. However, disbursements from both of these agencies have been delayed or reduced at various times over the last six years, in large part due to the Government having not complied with the terms upon which the disbursements of the assistance were predicated. The Government has announced that it will not renew its program with the IMF when it expires at the end of 2003. Total external indebtedness of the Government as well as private sector companies in Indonesia amounted to US\$128.8 billion as of December 31, 2002, which was approximately 74.5% of Indonesia's gross domestic product ("GDP") for that year. If the Government is not able to generate a fiscal budget surplus or secure alternative funding, it may default on its debts, which in turn is likely to have a material adverse impact on our business.

The members of the Paris Club and the Consultative Group on Indonesia ("CGI") are all important sources of funding for the Government. The Paris Club is an informal voluntary group of 19 creditor countries that seeks to coordinate solutions for payment difficulties experienced by debtor nations. CGI is a group of 19 donor countries and 13 international organizations that meet annually to coordinate donor assistance to Indonesia. Lending from the Paris Club members to the Government accounts for approximately one-third of the Government's total debt. Together, CGI members were owed approximately US\$45.8 billion by the Government as of December 31, 2002. In April 2002, the Paris Club decided to reschedule the Government's approximately US\$5.4 billion of principal and interest that is due to certain creditors between April 2002 and December 2003 by extending the Government's payment period. In determining whether to reschedule the debt, the Paris Club took into consideration the economic reform program carried out by the Government with support from the IMF. The Government has several times successfully rescheduled its foreign debt. However, the Paris Club publicly stated that from 2004 it will no longer reschedule debt owed to its members or to other creditors by the Government, as a result of the Government's decision to end the IMF program. CGI may also elect not to extend further aid should the Government depart from the precepts of the IMF program.

Given the impact of the Asian economic crisis which began in 1997, the inability or failure of the Government to implement reforms necessary to receive additional funding or creditor support for debt rescheduling could cause the Government, among other things, to default on its debts. The Government might also be unable to fund subsidies for staples such as food which, in turn, could have serious social, economic and political consequences. In the absence of funding from the IMF or the World Bank or similar agencies or creditor support for debt rescheduling, the Government may not be able to secure alternative funding and may default on its debts, resulting in an economic crisis which is likely to in turn have a material adverse impact on our business. The Government may, in connection with future agreements with the IMF or the World Bank or other lenders, undertake additional economic or structural initiatives the effects of which are presently unknown.

Social instability may adversely affect us

We may be adversely affected by social instability or other political or economic developments in or affecting Indonesia which are not within our control. Indonesia has from time to time experienced incidents of labor, political and ethnic disturbances as well as terrorist acts. A number of political and ethnic disturbances have occurred during recent years in both large urban areas as well as more remote areas demanding regional autonomy.

Separatist movements and clashes between religious and ethnic groups have also resulted in social and civil unrest in parts of Indonesia. In the provinces of Aceh and Papua (formerly Irian Jaya), there have been numerous clashes between supporters of separatist movements and the Indonesian military. In the province of Maluku (formerly known as the Spice Islands), clashes between religious groups have resulted in thousands of casualties and displaced persons over the past three years. The Government has attempted to resolve problems in these troubled regions with limited success. In May 2003, peace talks between Government officials and supporters of the separatist movement in Aceh collapsed. On May 18, 2003, the Government imposed martial law in Aceh, since which time clashes and significant military actions by the Government in the region have significantly intensified.

Social and civil conditions have and could continue to materially adversely affect business investment and confidence in the Indonesian economy. We cannot be certain that social and civil disturbances will not occur in the future. If these were to occur, such disturbances could lead to further political and economic instability as well as loss of confidence in Indonesian investment and so materially and adversely affect our business.

Political and economic instability, including that caused by social and civil unrest, could have adverse effects on the economy which in turn would affect our business

Indonesia in recent years has experienced political instability. As economic conditions in Indonesia worsened in 1998, many cities, including Jakarta, experienced rioting, unrest and destruction of property. This instability led to the resignation of President Suharto in May 1998. Promptly thereafter, Vice President Baharuddin Jusuf Habibie was sworn in as President and called for reforms and parliamentary elections to be held in October 1999. Following the elections, the People's Consultative Assembly, Majelis Permusyawaratan Rakyat, or MPR, elected Abdurrahman Wahid as President and Megawati Sukarnoputri as Vice President. In February 2001, a committee of the Indonesian parliament, the People's Representative Council, Dewan Perwakilan Rakyat, or DPR, alleged that President Wahid was involved in instances of corruption. In July 2001, the MPR voted to impeach President Wahid and elect Megawati Sukarnoputri in his place. Since taking office in July 2001, President Megawati has appointed a new cabinet, announced plans to improve economic conditions and has generally received positive support both domestically and internationally. However, political instability in the past has caused confidence in the Indonesian economy to remain low. Any uncertainty or political instability associated with the upcoming elections in 2004 may impact Indonesia's economy and our business. Should there be a resurgence of political instability, there are likely to be adverse effects on the Indonesian economy and our business.

Further, Indonesia has experienced frequent social and civil unrest arising from economic issues which has, on occasion, escalated into riots and violence. In June 2001, demonstrations and strikes affected at least 19 cities after the Government mandated a 30.0% increase in fuel prices. Similar demonstrations occurred in January 2003, when the Government tried to increase fuel prices, as well as electricity and telephone charges. In both instances, the Government was forced to drop or substantially reduce such proposed increases.

Terrorist activities in Indonesia could destabilize Indonesia, which could adversely affect our business

A massive bombing campaign struck religious buildings throughout Indonesia in 2000 and bombings have also occurred in the last three years at government buildings, foreign diplomatic facilities, shopping malls and business and financial centers, including the Jakarta Stock Exchange building and the Police Headquarters in Jakarta and Jakarta's Soekarno-Hatta International Airport.

On October 12, 2002, over 200 people were killed in a bombing at a tourist area in Bali, a region of Indonesia previously considered safe from the unrest affecting other parts of the country. Indonesian and U.S. government officials have indicated that this bombing may be linked to the international terrorist organization, al-Qaeda. On August 5, 2003, a bombing also occurred in the Marriott Hotel in Jakarta, killing at least 12 people and injuring up to 150 people. Indonesian and U.S. government officials have indicated that these bombings may be linked to the international terrorist organization, al-Qaeda.

There can be no assurance that further terrorist acts will not occur in the future. Such terrorist acts may, for example, be directed at foreigners in Indonesia or in relation to national elections scheduled for 2004. Following the commencement of hostilities in Iraq, a number of governments have issued warnings to their citizens in relation to a perceived increase in the possibility of terrorist activities in Indonesia, targeting foreign, particularly U.S., interests. Such terrorist acts could destabilize Indonesia and increase internal divisions within the Government as it considers responses to such instability and unrest. 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. In addition, although such acts have not in the past targeted our assets or those of our suppliers, there can be no assurance that they will not do so in the future. Any terrorist attack including damage to our infrastructure or that of our suppliers would cause interruption to our business and materially and adversely effect our financial condition and results of operations. We may not be covered under our current insurance policies for terrorist attacks.

Labor activism and unrest could affect our customers, and Indonesian companies in general, which in turn could adversely affect our business

Laws permitting the formation of labor unions, combined with weak economic conditions, have resulted, and may continue to result, in labor unrest and activism in Indonesia. In 2000, the Government enacted new labor regulations on the termination of employees. The new regulations increased the amount of severance, service and compensation payments payable to terminated employees.

On February 25, 2003 the Parliament of the Republic of Indonesia passed a new labor law (the "Labor Law"). The Labor Law took effect on March 25, 2003 and requires further implementing regulations which may substantively affect labor relations in Indonesia. The Labor Law requires bipartite forums with participation from employers and employees and the participation of more than 50.0% of the employees of a company in order for a collective bargaining agreement to be negotiated and creates procedures more permissive to the staging of strikes.

These labor laws may make it more difficult for businesses, including us, to downsize or have flexible labor policies.

Our business could be adversely affected by a slowdown in economic growth, or negative growth, in Indonesia

Our performance and the successful fulfillment of our strategy are necessarily dependent on the health of the overall Indonesian economy and its impact on the demand for energy generally and, in particular, for natural gas. The Asian economic crisis which began in 1997 resulted in real GDP declining in 1998 by 13.8% with 0.2%, 4.8%, 3.3% and 3.7% growth in 1999, 2000, 2001 and 2002, respectively. The Government estimates that the GDP growth for the first six months of 2003 was at an annual rate of 3.6%. Indonesia's economy remains significantly affected by the Asian economic crisis and substantially reliant on the support of the IMF, the World Bank and other international agencies to prevent sovereign debt defaults.

The economic difficulties faced by Indonesia during the Asian economic crisis resulted in, among other things, significant volatility in interest rates and the value of the Rupiah. See "— Future changes in the value of the Rupiah against the U.S. dollar or other currencies could adversely affect our business". The volatility had a material adverse impact on the ability of many Indonesian companies to meet their debt servicing obligations. In particular, depreciation of the Rupiah made it difficult for many Indonesian companies with Rupiah revenue streams and significant U.S. dollar or other foreign currency-denominated loans or costs to meet their obligations. High interest rates since 1997 have made it difficult for Indonesian companies to raise needed funding and to maintain payments on debt. The interest rate on one month Bank Indonesia Certificates (SBI) ranged from 10.5% in June 1997 to a peak of 70.8% in July 1998. The one month SBI interest rate was 12.9% on December 30, 2002 and 8.3% on December 3, 2003.

Indonesia continues to have a significant budget deficit, limited foreign currency reserves, a volatile Rupiah and a weak banking sector. High inflation continues to hinder economic recovery. During 2002, the inflation rate was 10.0%. Any continuation or worsening of economic conditions, including significant depreciation of the Rupiah or increase in interest rates, could materially and adversely affect our financial condition and results of operations, including our ability to grow and our ability to implement our business strategy and service our U.S. dollar debt.

Future changes in the value of the Rupiah against the U.S. dollar or other currencies could adversely affect our business

The Government's exchange rate policies and any future changes in the value of the Rupiah against the U.S. dollar and other currencies could adversely affect the financial condition of certain of our major customers, and hence our financial condition. Since July 1997, the Rupiah has been subject to significant depreciation and volatility against the U.S. dollar and other currencies. The value of the Rupiah relative to the U.S. dollar declined from a high of Rp.2,360 = US\$1.00 as of January 2, 1997 to a low of Rp.16,950 = US\$1.00 as of June 17, 1998. As of December 4, 2003, the exchange rate was Rp.8,488 = US\$1.00. There can be no assurance that the Rupiah will not be subject to depreciation and continued volatility, that the current exchange rate policy will remain the same, or that the Government will, or will be able to, act when necessary to stabilize, maintain or increase the value of the Rupiah, and will not act to devalue the Rupiah, or that any such action, if taken, will be successful.

We are exposed to the following exchange rate risks, among others:

- Our long-term debt, including US\$150.0 million of guaranteed notes issued on September 10, 2003 and most of the currently outstanding loans from the Government sourced from foreign quasi-government institutions, is denominated in U.S. dollars. The cash generated from distribution operations from which these loans mainly will be serviced are denominated partly in Rupiah.
- Our capital expenditure has historically been, and is expected to continue to be, denominated primarily in U.S. dollars. Although future capital expenditure is expected to be primarily financed by U.S. dollar

long-term debt, we also expect to fund capital expenditure partly from cash generated from operations and from the net proceeds we receive from the Global Offering. Cash generated from operations is partly denominated in Rupiah, and the net proceeds of the Global Offering will be wholly denominated in Rupiah.

- Our loan from JBIC of Yen 49.1 billion, which has been provided to assist in the development of the South Sumatra-to-West Java gas transmission pipeline, has yet to be drawn down, but will expose us to additional foreign exchange risk once we have drawn upon it.

We do not hedge our exchange rate risks. Accordingly, changes in the current exchange rate and Indonesian exchange rate policies may adversely affect our revenues and may further result in significantly higher domestic interest rates, liquidity shortages, capital or exchange controls and the withholding of additional financial assistance by multilateral institutions. This could result in a reduction of economic activity and economic recession. The foregoing consequences, if they occur, would have a material adverse effect on our financial condition and results of operations. In addition, continued volatility or significant depreciation of the Rupiah against the U.S. dollar or other currencies could cause investors to lose confidence in us.

We may be affected by uncertainty in the balance of power between local governments and the central government in Indonesia

Indonesian Law No. 25 of 1999 on fiscal decentralization and Law No. 22 of 1999 on regional autonomy were passed by the Indonesian parliament in 1999 and further implemented by Government Regulation No. 25 of 2000. Currently, there is uncertainty in respect of the balance between the local and the central governments and the procedures for obtaining land use rights, renewing licenses and approvals and monitoring compliance with environmental regulations and, in addition, some local authorities have sought to levy additional taxes or obtain other contributions. Our planned distribution operations in Jambi will be conducted through a joint venture in which the local government will own a share and in the future other local governments may require similar arrangements to be put in place. There can be no assurance that a balance between local governments and the central government will be effectively established or that our financial position or operations will not be adversely affected by dual compliance obligations and further uncertainty as to legal authority to levy taxes or promulgate other regulations affecting our business.

Downgrades of credit ratings of the Government and Indonesian companies could adversely affect our business

Beginning in 1997, certain international credit rating agencies, including Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch"), downgraded Indonesia's sovereign rating and the credit ratings of various credit instruments of the Government and a large number of Indonesian banks and other companies. Currently, Indonesia's sovereign foreign currency long-term debt is rated "B2" by Moody's, "B" by S&P and "B" by Fitch, and its foreign currency short-term debt was rated "NP" by Moody's, "B" by S&P and "B" by Fitch. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations, and its ability or willingness to meet its financial commitments as they become due. No assurance can be given that Moody's, S&P, Fitch or any other international credit rating agency will not further downgrade the credit ratings of Indonesia or Indonesian companies, including us. 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. Interest rates on floating rate Rupiah-denominated debt would also likely increase.

Risks Relating to Ownership of Our Shares

We have recently issued shares to the Government at a price below the offering price per share in the Global Offering and will issue additional shares to the Government on the same basis after the Global Offering. As a result, you may suffer dilution in your shareholding

The Government has in the past funded certain of our expansion projects for our distribution networks, in particular for the purpose of connecting household customers. We have from time to time converted these Government funds to shareholder capital and issued additional shares to the Government in exchange.

At an extraordinary shareholder meeting on November 3, 2003 (the "EGM"), our shareholder authorized the issuance of an additional 3.1 billion of our shares to the Government at the rate of Rp.500 per share to reflect the conversion to subscribed and fully paid capital of (a) Rp.57.5 billion (US\$6.9 million) of Government funds provided in connection with distribution network expansion from other paid-in capital, (b) Rp.935.8 billion (US\$113.0 million) of retained earnings and (c) Rp.556.7 billion (US\$67.2 million) arising from the revaluation of property, plant and equipment. The rate of Rp.500 per share used to convert these amounts to capital is significantly less than the offering price of Rp.1,500 per share in the Global Offering.

In addition, the EGM authorized the future issuance of an additional 329.3 million of our shares to the Government at the same rate of Rp.500 per share to reflect the conversion to capital of an additional Rp.164.7 billion (US\$19.9 million) of Government funds provided in connection with distribution network expansion. These funds will be converted and the shares will be issued following the Global Offering upon receipt of required Government approvals. If the additional shares to be issued upon this future conversion were to be issued immediately following the Global Offering, there would be an immediate dilution of the shareholdings of our public shareholders of 7.1%. See "Capitalization".

Conditions in the Indonesian securities market may affect the price or liquidity of our shares; the absence of a prior market in our shares may contribute to a lack of liquidity

We have made application to list our shares on the JSX and the SSX. There is currently no market for our shares. There can be no assurance that a market will develop for our shares. The Indonesian capital markets are less liquid and more volatile, and have different reporting standards, than markets in the United States and many other countries.

The ability to sell shares and settle trades on the JSX and the SSX may be subject to delays. In light of the foregoing, there can be no assurance that a holder of our shares will be able to dispose of its shares at prices, in amounts or at times at which such holder would be able to do so in more liquid markets or at all.

Even if our listing applications are approved, our shares will not be listed on the JSX and the SSX for approximately three days after the end of the allocation period for the Global Offering. During such period, investors will be exposed to movements in the price of our shares without the ability to dispose of the purchased shares through the JSX or the SSX. See "Indonesian Capital Markets — Developments — Scripless Trading" and "Description of our Shares".

The price of our shares may fluctuate widely

The price of our shares after the Global Offering may fluctuate widely, depending on many factors, including:

- differences between our actual financial and operating results and those expected by investors and analysts including the forecast contained herein;
- changes in analysts' recommendations or perceptions of us or Indonesia;
- changes in general economic or market conditions in Indonesia;
- changes in prices of equity securities of foreign (particularly Asian) and emerging markets companies; and
- broad stock market price fluctuations.

The price of our shares is denominated in Rupiah. Fluctuations in the exchange rate between the Rupiah and other foreign currencies will affect the amounts of any dividends, and the value of an investment in our shares, for investors who purchase or record investments in our shares in currencies other than the Rupiah, as well as the book value of foreign currency assets and liabilities, and income and expenses and cashflows in our financial statements.

The application of BAPEPAM conflict of interest rules may cause us to forego transactions that are in our best interests

In order to protect the rights of minority shareholders, the rules of BAPEPAM afford independent shareholders of Indonesian public companies the opportunity to vote to approve or disapprove any transactions, whether or not material, which entail a "conflict of interest" under the BAPEPAM rules unless the conflict existed before a company became listed on the JSX or the SSX and was fully disclosed in the relevant Indonesian share offering documents. Transactions between us and other Government-owned or controlled enterprises could constitute conflict of interest transactions under the BAPEPAM rule. As a result, the approval of holders of a majority-of shares not owned directly or indirectly by the Government ("disinterested shareholders") would have to be obtained if a conflict of interest were to exist. BAPEPAM has the power to enforce this rule and our shareholders may also be entitled to seek enforcement or bring enforcement action based on this BAPEPAM rule.

Given that our main supplier of natural gas and many of our customers are Government-related entities, the requirement to obtain independent shareholder approval could be burdensome to us in terms of time and expense and could cause us to forego entering into certain transactions which we might otherwise consider to be in our best interests. Moreover, there can be no assurance that approval of disinterested shareholders would be obtained if sought.

Future sales of our shares could adversely affect the market price of our shares

Sales in the future of substantial amounts of our shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our shares or our ability to raise capital through a public offering of additional equity or equity-linked securities. Immediately following the Global Offering, 70.0% of our outstanding shares (61.0% if the Over-subscription Option and Over-allotment Option are exercised in full and 63.8% if, in addition to the exercise of such options, the conversion to capital of Rp.164.7 billion (US\$19.9 million) of Government project funds in exchange for 329.3 million new shares issued to the Government, as described in "Capitalization", is made in full) are expected to be held directly by the Government, through the Ministry of State-Owned Enterprises. The Government has announced generally that it intends to privatize state-owned enterprises which may lead to the Government selling more of our shares in the future as part of its privatization plans. We and the Government have each agreed to certain restrictions on our respective abilities to transfer or otherwise dispose of our shares for limited periods following closing of the Global Offering. Nevertheless, future sales of large blocks of shares, or the perception that such sales could occur, could cause the price of our shares to decrease and make it more difficult for us to raise capital. See "Plan of Distribution".

Your right to participate in our rights offerings could be limited, which would cause dilution to your holdings

To the extent that we offer our shareholders rights to purchase or subscribe for shares or otherwise distribute shares to our shareholders, U.S. holders may be unable to exercise such rights for our shares unless a registration statement under the U.S. Securities Act is effective with respect to the new shares or an exemption from registration under the U.S. Securities Act is available.

Whenever we make a rights or similar offering of our shares, we will evaluate the costs and potential liabilities associated with, and our ability to comply with U.S. regulations, for any such registration statement and any other factors we consider appropriate. However, we may choose not to file any such registration statement. If we do not file a registration statement and no exemption from registration under the U.S. Securities Act is available, then U.S. holders of our shares would be unable to participate in rights or similar offerings and would suffer dilution of their shareholdings. Also, there may be similar restrictions in other jurisdictions that affect our ability to offer rights and make other share offerings in these jurisdictions. Consequently, we cannot assure you that you will be able to maintain your proportional equity interests in us. Because rights issues in Indonesia generally enable participants to purchase shares at a significant discount to the recent trading price, your inability to participate could cause you material economic harm.

You may not be able to enforce a judgment of a foreign court against us

We are a limited liability company incorporated under the laws of Indonesia. All of our Commissioners, Directors and executive officers reside in Indonesia. A substantial portion of our assets and the assets of such persons are located in Indonesia. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or such persons in the United States judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the

securities laws of the United States or any state or territory within the United States. Judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States, are not enforceable in Indonesian courts, and 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 the federal securities laws of the United States. As a result, holders of our shares may be required to pursue claims against us in Indonesia under Indonesian law.

The claims and remedies available under Indonesian law may not be as extensive as those available in other jurisdictions. No assurance can be given that the Indonesian courts will protect the interests of investors in the same manner or to the same extent as would U.S. courts.

Indonesia's legal system is a civil law system based on written statutes, and decided legal cases do not constitute binding precedent. The administration of laws and regulations by courts and Government agencies may be subject to considerable discretion. In addition, because relatively few disputes relating to commercial matters and modern financial transactions and instruments are brought before Indonesia's courts, such courts do not necessarily have the experience of courts in other countries. There is no certainty as to how long it will take for proceedings in Indonesian courts to be concluded, and the outcome of proceedings in Indonesian courts may be more uncertain than that of similar proceedings in other jurisdictions. Accordingly, it may not be possible for investors to obtain swift and equitable enforcement of their legal rights.

In addition, purchasers of our shares may have more difficulty in protecting their interests against actions by our Commissioners, Directors or principal shareholders than they might have as investors in shares in a corporation established under the laws of other jurisdictions.

You may be subject to limitations on minority shareholders rights

The obligations under Indonesian law of majority shareholders, Commissioners and Directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Indonesian law to the same extent as in certain other countries. Your rights as a shareholder may also be adversely affected by the Government's ownership of the Special Share. See "— Risks Relating to our Business — We are subject to the control of the Government". Principles of corporate law relating to such matters as the validity of corporate procedures, the fiduciary duties of our management, Directors, Commissioners and controlling shareholders, and the rights of our minority shareholders are governed by Indonesian law and our Articles of Association. Such principles of law differ from those that would apply if we were incorporated in a jurisdiction in the United States or in other jurisdictions. In particular, concepts relating to the fiduciary duties of management are untested in Indonesian courts. Derivative actions have almost never been brought on behalf of companies or been tested in Indonesian courts, and minority shareholders' rights have only been defined since 1995 and are unproven in practice. Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

DIVIDEND POLICY

Under Indonesian law the payment of dividends is required to be approved by the shareholders at the Annual General Meeting of Shareholders upon the recommendation of the Board of Directors. Our Articles of Association provide that if we make a net profit in any financial year, we may distribute dividends to our shareholders, based on a recommendation from our Board of Directors, upon obtaining the necessary approval from our shareholders. The decision to pay dividends is otherwise subject to our earnings, financial and liquidity condition, compliance with prevailing laws and regulations and any other factors considered relevant by our Board of Directors. To the extent a decision is made to pay dividends, dividends will be paid in Rupiah. Holders of shares on the applicable record dates will be entitled to the full amount of dividends approved, subject to any Indonesian withholding tax imposed, if any. The Board of Directors may change its dividend policy at any time, subject to approval of such change by a General Meeting of Shareholders. See "Description of Our Shares — Dividends".

Since 1999, we have made four cash dividend payments to our shareholder. These consisted of the following:

- We made payments of an aggregate amount of Rp.200.1 billion on July 5, 2000 and September 5, 2000 based on our profits in 1999.
- We made payments of an aggregate amount of Rp.97.4 billion on July 27, 2001 and December 13, 2001 based on our 2000 profits.
- We made a payment of Rp.158.6 billion (US\$19.1 million) on November 22, 2002, based on our 2001 profits.
- For 2002, we declared a dividend of Rp.414.6 billion (US\$50.0 million) on June 20, 2003. This dividend was paid in monthly installments from September 2003 to November 2003.

We intend to pay a final dividend in 2004 with respect to the year ending December 31, 2003. Holders of the shares on the record date, including shares issued in the Global Offering, will not be subject to any adjustments based on the amount of time shares are held by such holders.

It is the current intention of the management, subject to our financial performance and financial position, to pay dividends equal to a maximum of 50.0% of net income for each year. There can be no assurance our results of operations, financial condition or other factors affecting us will permit us to pay dividends at this rate or at all.

In accordance with Government policies for state-owned companies, we contribute 3.0% of our net income each year to fund the development of small business enterprises and cooperatives selected by us or determined by the Government. We have appropriated Rp.11.1 billion (US\$1.3 million) in 2003 from 2002 net income before restatement, Rp.4.8 billion in 2002 from 2001 net income before restatement, Rp.1.5 billion in 2001 from 2000 net income before restatement and Rp.12.0 billion in 2000 from 1999 net income for this purpose. The payments are treated as dividends paid to the Government, as our shareholder.

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

USE OF PROCEEDS

The net proceeds from the Global Offering are expected to amount to approximately Rp.1,886.1 billion (US\$227.7 million) after deduction of fees and commissions but prior to deduction of other expenses incurred in connection with the Global Offering. Net proceeds from the offering of outstanding shares owned by the Government, amounting to Rp.691.6 billion (US\$83.5 million) prior to the exercise of the Over-subscription Option and the Over-allotment Option (Rp.1,257.4 billion (US\$151.8 million) if the Over-subscription Option and Over-allotment Option are exercised in full), will accrue to the Government. We will receive the balance of the net proceeds of Rp.1,194.5 billion (US\$144.2 million) from the offering of new shares by us, which we intend to use primarily to finance a portion of the cost of the development of our gas transmission projects, including Phase II of the South Sumatra-to-West Java gas transmission project.

EXCHANGE RATE INFORMATION

Prior to August 14, 1997, Bank Indonesia maintained the value of the Rupiah based on a basket of currencies of Indonesia's main trading partners. In July 1997 the exchange rate band was widened, and on August 14, 1997, Bank Indonesia announced it would no longer intervene to maintain the exchange rate at any pre-determined level.

The following table shows the exchange rate of Rupiah for U.S. dollars based on the middle exchange rates at the end of each month for the periods indicated. The Rupiah middle exchange rate is calculated based on Bank Indonesia buying and selling rates. No representation is made that the Rupiah or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Rupiah, as the case may be, at any particular rate or at all.

	<u>At period end</u>	<u>Average⁽¹⁾</u>	<u>High⁽²⁾</u>	<u>Low⁽²⁾</u>
	(Rp. per US\$1.00)			
Year				
1997	4,650	2,952	4,650	2,396
1998	8,025	9,875	14,900	7,300
1999	7,100	7,809	8,950	6,726
2000	9,595	8,534	9,595	7,425
2001	10,400	10,266	11,675	8,865
2002	8,940	9,261	10,320	8,730
First quarter	9,655	10,055	10,320	9,655
Second quarter	8,730	8,944	9,316	8,730
Third quarter	9,015	8,997	9,108	8,867
Fourth quarter	8,940	9,050	9,233	8,940
2003				
January	8,876	8,897	8,968	8,836
February	8,905	8,895	8,970	8,863
March	8,908	8,930	9,120	8,863
April	8,675	8,811	8,906	8,665
May	8,279	8,434	8,675	8,165
June	8,285	8,229	8,337	8,170
July	8,505	8,336	8,665	8,166
August	8,535	8,503	8,618	8,380
September	8,389	8,462	8,503	8,389
October	8,495	8,441	8,583	8,365
November	8,537	8,496	8,537	8,474
December ⁽³⁾	8,488	8,494	8,509	8,488

Notes:

- (1) The average of the middle exchange rate announced by Bank Indonesia on the last day of each month during the period indicated.
- (2) The high and low amounts are determined based upon the month-end middle exchange rate announced by Bank Indonesia during the period indicated. The figures for January — October 2003 are determined based on the daily middle exchange rate.
- (3) Up to December 4, 2003, based on the daily middle exchange rate.

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

CAPITALIZATION

The table below sets forth our capitalization and indebtedness as of June 30, 2003 and (i) as adjusted to reflect (a) the issuance of US\$150 million of our guaranteed notes on September 10, 2003 (as described in footnote (1) to the table below) and (b) the issuance of 3.1 billion additional shares to the Government which was approved at the EGM (as described in footnote (1) to the table below) and (ii) as further adjusted to reflect the issue of new shares in connection with the Global Offering. This table has been extracted from, and should be read in conjunction with, the financial statements and related notes appearing elsewhere in this Offering Circular. There has been no material change to our total capitalization since June 30, 2003 other than as set forth below.

	As of June 30, 2003					
	Actual		As adjusted ⁽¹⁾		As further adjusted ⁽²⁾	
	(Rp. billion)	(US\$ million)	(Rp. billion)	(US\$ million)	(Rp. billion)	(US\$ million)
Short-term debt:						
Current maturities of long-term loans	<u>229.9</u>	<u>27.7</u>	<u>229.9</u>	<u>27.7</u>	<u>229.9</u>	<u>27.7</u>
Total short-term debt	<u>229.9</u>	<u>27.7</u>	<u>229.9</u>	<u>27.7</u>	<u>229.9</u>	<u>27.7</u>
Long-term debt:						
Long-term loans — net of current maturities	2,189.4	264.3	2,189.4	264.3	2,189.4	264.3
Guaranteed notes	—	—	1,242.8	150.0	1,242.8	150.0
Due to stockholder of the subsidiary	<u>220.8</u>	<u>26.6</u>	<u>220.8</u>	<u>26.6</u>	<u>220.8</u>	<u>26.6</u>
Total long-term debt ⁽³⁾⁽⁴⁾	<u>2,410.2</u>	<u>290.9</u>	<u>3,652.9</u>	<u>440.9</u>	<u>3,652.9</u>	<u>440.9</u>
Government project funds ⁽⁴⁾ ..	36.9	4.5	36.9	4.5	36.9	4.5
Equity:						
Subscribed and fully paid capital	200.0	24.1	1,750.0	211.2	2,160.5	260.8
Other paid-in capital ⁽⁵⁾	57.5	6.9	—	—	784.0	94.6
Unrealized gain from increased market value of securities held available for sale	2.4	0.3	2.4	0.3	2.4	0.3
Revaluation increment of property, plant and equipment	556.7	67.2	—	—	—	—
Difference in foreign currency translation	(113.1)	(13.6)	(113.1)	(13.6)	(113.1)	(13.6)
Difference in equity changes in a subsidiary	(76.4)	(9.2)	(76.4)	(9.2)	(76.4)	(9.2)
Retained earnings	<u>1,420.7</u>	<u>171.5</u>	<u>484.9</u>	<u>58.5</u>	<u>484.9</u>	<u>58.5</u>
Total equity	<u>2,047.7</u>	<u>247.2</u>	<u>2,047.7</u>	<u>247.2</u>	<u>3,242.2</u>	<u>391.3</u>
Total capitalization	<u>4,724.7</u>	<u>570.3</u>	<u>5,967.5</u>	<u>720.3</u>	<u>7,162.0</u>	<u>864.4</u>

Notes:

(1) Adjusted for the following events:

- The issuance, on September 10, 2003, through our wholly-owned subsidiary, PGN Euro Finance 2003 Limited, incorporated in Mauritius, of US\$150.0 million 7.5% guaranteed notes due 2013 (converted to Rupiah at the rate of Rp.8,285 = US\$1.00). The notes issued were listed on the Singapore Exchange Securities Trading Limited.
- The following adjustments to our share capital which were approved at the EGM:
 - The par value of our shares was decreased to Rp.500 per share from Rp.1.0 million per share.
 - Our authorized share capital was increased to Rp.7,000.0 billion (US\$844.9 million) from Rp.800.0 billion (US\$96.6 million).
 - Our subscribed and fully paid capital was increased to Rp.1,750.0 billion (US\$211.2 million) from Rp.200 billion (US\$24.1 million), through the issuance to our shareholder of 3.1 billion shares at a nominal amount of Rp.500 per share. Such shares were issued in exchange for (1) the conversion to subscribed and fully paid capital of Rp.57.5 billion (US\$6.9 million) of Government project funds provided in connection with distribution network expansion, previously recorded as other paid-in capital, (2) the capitalization of Rp.556.7 billion (US\$67.2 million) arising from the revaluation of property, plant and equipment and (3) the capitalization of retained earnings of Rp.935.8 billion (US\$113.0 million).

- (2) Adjusted for the issue of 820,987,000 new shares of par value Rp.500 per share in connection with the Global Offering.
- (3) A loan sourced from JBIC of Yen 49.1 billion, which has been provided to assist in the development of the South Sumatra-to-West Java gas transmission pipeline, has yet to be drawn down. Similarly, the loan sourced from EIB and part of the loan sourced from ADB, each in connection with the development of the Grissik-to-Singapore gas transmission pipeline, have yet to be fully drawn down.
- (4) As of September 30, 2003, we had drawn down further on loans from ADB and EIB, and Government project funds had increased to Rp.120.3 billion (US\$14.5 million).
- (5) Reflects net proceeds of Rp.1,194.5 billion of the Global Offering in excess of par value of Rp.500 per share.

In addition to the issuance of 3.1 billion shares to the Government which was approved at the EGM and is reflected in the "as adjusted" column of the capitalization table above, the EGM also authorized the future conversion to capital of a further Rp.164.7 billion (US\$19.9 million) of Government project funds provided in connection with distribution network expansion and the issuance to the Government of an additional 329.3 million shares in exchange at the rate of Rp.500 per share. These funds will be converted, and the additional shares will be issued, following the Global Offering upon receipt of required Government approvals. We have obtained in principle approvals as well as independent audits for the first tranche amounting to Rp.28.5 billion (US\$3.4 million), which represents funds received in 1999, 2000 and 2001. The conversion, however, will not take place until we receive the government regulation, which needs to be signed by the President after consultation with the Parliament. For the second tranche of Rp.136.2 billion (US\$16.4 million), no approvals have been obtained. If the entire Rp.164.7 billion (US\$19.9 million) of Government funds were to be converted to shareholder capital immediately following the Global Offering, there would be an immediate dilution of 7.1% to the shareholdings of our public shareholders as a result of the issuance of these additional shares to the Government.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth certain selected financial and operating data for PGN as of the dates and for each of the periods indicated. The selected financial data as of and for the years ended December 31, 2000, 2001 and 2002 and as of and for the six months ended June 30, 2003 has been derived from our financial statements prepared in accordance with Indonesian GAAP for the three years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003 which are included elsewhere in this Offering Circular. Our financial statements for the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003 have been audited by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young, independent public accountants. The financial statements of Transgasindo, the subsidiary, for the six months ended June 30, 2003 were audited by Drs. Hadi Sutanto & Rekan, PricewaterhouseCoopers. The financial data as of and for the six months ended June 30, 2002 has been derived from our unaudited financial statements which are included elsewhere in this Offering Circular. Such unaudited financial statements have been reviewed by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young and, in our opinion, have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments necessary for such financial information to be presented on a basis consistent with the financial statements for the six months ended June 30, 2003. For the year ended December 31, 2002 and the six months ended June 30, 2002 and 2003 our financial statements are presented on a consolidated basis. For the years ended December 31, 2000 and 2001 our financial statements are presented on a company only basis as our subsidiary, Transgasindo, was only established on February 1, 2002. Financial data for 2002 and the six months ended June 30, 2003 has been translated into U.S. dollars for convenience only based on the prevailing exchange rate on June 30, 2003 of Rp.8,285 = US\$1.00. See "Conventions Which Apply To This Offering Circular".

We have presented our financial statements included in this Offering Circular for December 31, 2000, 2001 and 2002 and the six months ended June 30, 2002 and 2003 using consistent accounting policies and principles. All financial information relating to us is stated in accordance with Indonesian GAAP. Indonesian GAAP differs in certain significant respects from U.S. GAAP. See "Principal Differences Between Indonesian GAAP and U.S. GAAP". We have not quantified or identified the impact of the differences between Indonesian GAAP and U.S. GAAP as they relate to our financial statements. The following information should be read in conjunction with, and is qualified in its entirety by reference to, our financial statements and the notes thereto included elsewhere in this Offering Circular.

	Year ended December 31,				Six months ended June 30,		
	2000 As Restated	2001 As Restated	2002 As Restated	2002	2002	2003	2003
	(Audited) (Rp. billion)			(US\$ million)	(Unaudited) (Rp. billion)	(Audited) (US\$ million)	
Consolidated income statement data:							
Revenues:							
Distribution	1,574.3	2,122.4	2,585.3	312.0	1,268.7	1,464.9	176.8
Transmission	601.0	650.6	561.6	67.8	303.2	261.5	31.6
Sale of LPG	6.5	7.2	4.9	0.6	2.6	2.3	0.3
Total revenues	<u>2,181.8</u>	<u>2,780.3</u>	<u>3,151.8</u>	<u>380.4</u>	<u>1,574.4</u>	<u>1,728.8</u>	<u>208.7</u>
Cost of revenues	<u>(1,110.7)</u>	<u>(1,601.4)</u>	<u>(1,747.4)</u>	<u>(210.9)</u>	<u>(873.1)</u>	<u>(952.4)</u>	<u>(114.9)</u>
Gross profit	1,071.1	1,178.9	1,404.4	169.5	701.3	776.4	93.7
Operating expenses	<u>(473.8)</u>	<u>(454.1)</u>	<u>(590.4)</u>	<u>(71.3)</u>	<u>(252.7)</u>	<u>(276.3)</u>	<u>(33.3)</u>
Income from operations	597.4	724.8	813.9	98.2	448.6	500.1	60.4
Other charges (income) — net	<u>568.9</u>	<u>291.1</u>	<u>(876.4)</u>	<u>(105.8)</u>	<u>(162.8)</u>	<u>(81.2)</u>	<u>(9.8)</u>
Income before tax expense	28.5	433.7	1,690.3	204.0	611.4	581.4	70.2
Tax expense — net	<u>21.9</u>	<u>121.1</u>	<u>564.9</u>	<u>68.2</u>	<u>182.5</u>	<u>152.9</u>	<u>18.5</u>
Income before minority interest	6.6	312.6	1,125.4	135.8	428.9	428.5	51.7
Minority interest	—	—	(9.7)	(1.2)	(0.5)	(6.3)	(0.8)
Net income	<u>6.6</u>	<u>312.6</u>	<u>1,115.7</u>	<u>134.7</u>	<u>428.4</u>	<u>422.2</u>	<u>51.0</u>

	As of December 31,				As of June 30,		
	2000	2001	2002	2002	2002	2003	2003
	As Restated	As Restated	As Restated		(Unaudited)	(Audited)	(Audited)
	(Rp. billion)	(Rp. billion)	(Rp. billion)	(US\$ million)	(Rp. billion)	(Rp. billion)	(US\$ million)
Consolidated balance sheet data:							
Assets:							
Current assets	1,193.6	1,576.2	1,807.8	218.2	1,551.7	1,456.4	175.8
Non-current assets	2,140.7	2,737.9	3,962.3	478.2	2,896.6	4,668.0	563.4
Total assets	3,334.3	4,314.2	5,770.1	696.5	4,448.3	6,124.4	739.2
Liabilities:							
Current liabilities	499.2	632.5	1,200.3	144.9	1,066.3	1,408.1	170.0
Long-term debt	2,234.7	2,221.0	1,772.6	214.0	1,784.7	2,189.4	264.3
Due to stockholder of the subsidiary	—	—	177.4	21.4	—	220.8	26.6
Other non-current liabilities	50.7	—	8.5	1.0	8.4	8.3	1.0
Minority interest	—	—	334.5	40.4	0.5	213.2	25.7
Government project funds	79.4	46.1	28.5	3.4	28.5	36.9	4.5
Equity	470.3	1,414.5	2,248.3	271.4	1,560.0	2,047.7	247.2
Total liabilities and equity	3,334.3	4,314.2	5,770.1	696.5	4,448.3	6,124.4	739.2

	Year ended December 31,				Six months ended June 30,		
	2000	2001	2002	2002	2002	2003	2003
	(Audited)			(US\$ million unless otherwise indicated)	(Unaudited)	(Audited)	
(Rp. billion unless otherwise indicated)			(Rp. billion unless otherwise indicated)		(US\$ million unless otherwise indicated)		
Other financial data:							
EBITDA ⁽¹⁾	864.5	971.9	1,120.7	135.3	596.0	631.7	76.2
EBITDA/Revenue (%)	39.6	35.0	35.6	35.6	37.9	36.5	36.5
EBITDA/Gross profit (%)	80.7	82.4	79.8	79.8	85.0	81.4	81.4
EBITDA/Interest ⁽²⁾	5.4x	4.4x	9.5x	9.5x	10.2x	8.7x	8.7x
Depreciation and amortization ⁽³⁾	267.1	247.2	306.8	37.0	147.3	131.6	15.9
EBIT ⁽⁴⁾	597.4	724.8	813.9	98.2	448.6	500.1	60.4
EBIT/Revenue (%)	27.4	26.1	25.8	25.8	28.5	28.9	28.9
EBIT/Gross profit (%)	55.8	61.5	58.0	58.0	64.0	64.4	64.4

Notes:

- (1) EBITDA means earnings before interest, taxes, depreciation, amortization, provision for doubtful accounts, gain or loss on foreign exchange and net miscellaneous income as calculated under Indonesian GAAP. EBITDA is not a standard measure under Indonesian GAAP. EBITDA is an indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cashflows, earnings or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cashflows generated by operating, investing or financing activities. EBITDA fails to account for taxes, interest expense and other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenues and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because management believes it is a useful supplement to cashflow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly-titled measures presented by other companies. For a reconciliation of EBITDA as used in this Offering Circular to our net income calculated under Indonesian GAAP, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures".
- (2) EBITDA divided by gross interest expense, including capitalized interest, expressed as a ratio.
- (3) Includes provision for doubtful accounts.
- (4) EBIT is income from operations.

	As of and for the year ended December 31,			As of and for the six months ended June 30,	
	2000	2001	2002	2002	2003
Operating data:					
Distribution business: ⁽¹⁾					
Network length (km)	2,419	2,506	2,547	2,527 ⁽⁹⁾	2,562 ⁽¹⁰⁾
Capacity (mmscfd)	831.3	831.3	831.3	831.3	831.3
Average daily volume sold (mmscfd)	187.5	208.2	238.6	235.4	262.2
Capacity utilization (%)	22.6	25.0	28.7	28.3	31.5
Realized average sales price ⁽²⁾ (US\$ per mscf) ⁽³⁾	2.70	2.72	3.21	2.98	3.57
Realized average cost of gas ⁽⁴⁾ (US\$ per mscf) ⁽³⁾	1.89	2.04	2.16	2.04	2.31
Realized average transportation tariff ⁽⁵⁾ (US\$ per mscf) ⁽³⁾ ...	0.80	0.67	1.04	0.93	1.25
Transmission business: ⁽⁶⁾					
Network length (km)	603	603	603	603	603
Capacity (mmscfd)	410.0	410.0	410.0	410.0	515.0
Volume transported (mmscfd)	369.8	354.4	321.4	340.4	315.9
Capacity utilization (%)	90.2	86.4	78.4	83.0	61.3
Realized average tariff ⁽⁷⁾ (US\$ per mscf) ⁽³⁾	0.52	0.49	0.52	0.49	0.53
Rupiah to U.S. dollar exchange rate (Rp.) ⁽⁸⁾	8,534	10,266	9,261	9,499	8,655

Notes:

- (1) Excludes LPG.
- (2) Distribution revenue divided by volume sold.
- (3) Translated at a month-end average Rupiah to U.S. dollar exchange rate over the period.
- (4) Distribution cost of revenue divided by volume sold.
- (5) Distribution revenue less cost of revenue divided by volume sold.
- (6) Excludes Jakarta transmission business, with the exception of throughput volumes.
- (7) Transmission revenue divided by volume transported.
- (8) Month-end average over the period.
- (9) Estimate only, based on one half of the increase in the network for 2002.
- (10) Estimate only, based on one half of the budgeted increase in the network for 2003.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements, including the notes thereto, included elsewhere in this Offering Circular. We have prepared this discussion using our financial statements prepared in accordance with Indonesian GAAP for the three years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003. Our financial statements for the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003 have been audited by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young, independent public accountants. The financial statements of Transgasindo, the subsidiary, for the six months ended June 30, 2003 were audited by Drs. Hadi Sutanto & Rekan, PricewaterhouseCoopers. The financial data as of and for the six months ended June 30, 2002 has been derived from our unaudited financial statements which are included elsewhere in this Offering Circular. Such unaudited financial statements have been reviewed by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young and, in our opinion, have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments necessary for such financial information to be presented on a basis consistent with the financial statements for the six months ended June 30, 2003. For the year ended December 31, 2002 and the six months ended June 30, 2002 and 2003 our financial statements are presented on a consolidated basis. For the years ended December 31, 2000 and 2001 our financial statements are presented on a company only basis as our subsidiary, Transgasindo, was only established on February 1, 2002. Financial data for 2002 and the six months ended June 30, 2003 has been translated into U.S. dollars for convenience only based on the prevailing exchange rate on June 30, 2003 of Rp.8,285 = US\$1.00. See "Conventions Which Apply To This Offering Circular".

We have presented our financial statements included in this Offering Circular for December 31, 2000, 2001 and 2002 and the six months ended June 30, 2002 and 2003 using consistent accounting policies and principles. All financial information relating to us is stated in accordance with Indonesian GAAP. Indonesian GAAP differs in certain significant respects from U.S. GAAP. See "Principal Differences Between Indonesian GAAP and U.S. GAAP". We have not quantified or identified the impact of the differences between Indonesian GAAP and U.S. GAAP as they relate to our financial statements.

Introduction

Overview

We are Indonesia's leading natural gas utility, dominating the gas distribution market while also serving as the leading provider of gas transmission services. Our distribution business covers six urban markets and supplies natural gas principally to industrial customers. For the six months ended June 30, 2003 we distributed an average of 262.2 mmscfd of natural gas (238.6 mmscfd for the year ended December 31, 2002). Our transmission business transported an average of 315.9 mmscfd of natural gas for the six months ended June 30, 2003 (321.4 mmscfd for the year ended December 31, 2002).

We derive substantially all of our revenue from the distribution and transmission of natural gas. For the six months ended June 30, 2003, we had revenue of Rp.1,728.8 billion (US\$208.7 million), gross profit of Rp.776.4 billion (US\$93.7 million) and EBITDA of Rp.631.7 billion (US\$76.2 million). For the year ended December 31, 2002, we had revenue of Rp.3,151.8 billion (US\$380.4 million), gross profit of Rp.1,404.4 billion (US\$169.5 million) and EBITDA of Rp.1,120.7 billion (US\$135.3 million).

In the period from January 1, 2000 to June 30, 2003, the contribution of our distribution business to our revenue and gross profit has increased substantially, from 72.2% of revenue and 43.8% of gross profit in 2000 to 84.7% of revenue and 66.3% of gross profit in the six months ended June 30, 2003 (76.3% and 44.7% in 2001 and 82.0% and 60.0% in 2002, respectively). This principally reflects the growth of our distribution business during this period and to a lesser extent reduced volumes of natural gas being transported in our transmission business. Demand for natural gas has been increasing in Indonesia, in part as a result of the progressive reduction of fuel oil subsidies which began in 2001 and which caused fuel oil prices to increase. Although our transmission revenue will be boosted in 2004 due to the commencement of operation of the Grissik-to-Singapore transmission pipeline, over time we expect new transmission pipelines we construct to feed the further growth of our distribution business. As such, we anticipate that as we further develop our transmission network, which will increase the amount of natural gas available to our distribution business, the percentage of our revenue and gross

profit accounted for by our distribution business will continue to increase. See “— Capital Expenditure” and “Business — Gas Transmission Business — Transmission Business Expansion”.

Historically, our results of operations have been driven by a number of factors. In the case of our distribution business, our results are mainly determined by the volume of natural gas we distribute and the margin between the price we pay for the natural gas we distribute and the price at which we sell that natural gas. The primary drivers of our transmission business are the volume of natural gas we transport and the transportation tariff we are able to charge for that service. The ship-or-pay provisions in our gas transportation agreements have also been a factor in our transmission results in recent years. See “— Distribution” and “— Transmission”.

In addition, our results of operations are affected by fluctuations in the exchange rate between the Rupiah and the U.S. dollar. Since the Asian economic crisis which began in 1997, the value of the Rupiah has fluctuated significantly against other currencies, particularly the U.S. dollar, hitting a low of Rp.16,950 per U.S. dollar on June 17, 1998. The Rupiah to U.S. dollar exchange rate was Rp.8,285 per U.S. dollar on June 30, 2003. A significant portion of our revenue from our distribution and transmission businesses and most of our natural gas purchases are denominated in U.S. dollars, whereas our financial statements, including our statements of income, are expressed in Rupiah. In addition, the majority of our long-term borrowings are denominated in U.S. dollars. Our subsidiary, Transgasindo, has adopted the U.S. dollar as its reporting currency as from January 1, 2003. As Transgasindo currently holds a major portion of our consolidated assets, through its ownership of the Grissik-to-Duri transmission assets, and will, once the transfer of the Grissik-to-Singapore transmission assets has been completed, hold the majority of our consolidated assets, we believe the change of functional currency will increase the impact on our results of operations of fluctuations in the Rupiah to U.S. dollar exchange rate. See “— Exchange Rates”.

Operating expenses also have significantly affected our results of operations, with depreciation expense on our distribution and transmission networks being the most significant of these expenses. We account for depreciation expense using the double-declining method of depreciation on all property, plant and equipment (including pipelines) other than buildings and improvements for which straight line depreciation is used. This has the effect of expensing a significant amount of depreciation in the initial years of a particular asset's life. In preparation for the transfer of our Grissik-to-Duri transmission assets to Transgasindo, we revalued these assets in September 2001 to Rp.2,029.4 billion from Rp.1,912.9 billion. This resulted in an increase in the book value of the assets to the new historical cost of Rp.2,029.4 billion from the previous depreciated book value of Rp.1,297.9 billion, causing a significant increase both in our total assets and the related depreciation expense in the following year. We expect to continue to develop our distribution and transmission networks in the coming years and, accordingly, we anticipate that depreciation expense will continue to have a significant impact on our results of operations.

In February 2002, we established Transgasindo as a 99.75%-owned subsidiary. The subsequent transfer to Transgasindo of our Grissik-to-Duri transmission assets, combined with our sale of a 40.0% interest in Transgasindo to Transasia, a consortium of international oil and gas companies, also significantly impacted our results of operations in 2002 and the six months ended June 30, 2003. See “— Transmission” and “Transgasindo”.

Finally, as part of the Government's policy to encourage the use of natural gas and reduce reliance on oil, the regulatory environment governing our gas distribution and transmission businesses is undergoing significant changes intended to open this sector to competition and to establish a national integrated transmission and distribution network for piped natural gas. Much of the New Oil and Gas Law, introduced in November 2001, remains to be implemented and we expect that its implementation will have a significant impact on our business in the future. See “— Regulatory Environment” and “Risk Factors — Risks Relating to the Indonesian Gas Industry”.

Distribution

Our distribution business involves purchasing natural gas from upstream gas suppliers and reselling it to industrial, commercial and household customers through our distribution infrastructure. We have distribution networks in Jakarta, Surabaya, Medan, Bogor, Cirebon and Palembang with a combined 2,547 km of pipelines and a capacity of 831.3 mmscfd as of December 31, 2002. Most of our distribution networks have operated below full capacity in recent years due to supply constraints. Demand generally has exceeded the volume of

natural gas which could be transported to our distribution networks due to the limitations of the existing gas transmission infrastructure in Indonesia.

A majority of Indonesia's natural gas is currently exported in the form of LNG and a large part of the remainder is supplied directly to large consumers by upstream suppliers through transmission pipelines.

We expect that construction of our planned new transmission pipelines will assist in reducing existing gas supply constraints and allow us to increase utilization of our distribution network, as well as constraining upward pressure on gas supply prices. See "Business — Gas Transmission Business — Transmission Business Expansion" and "— Capital Expenditure". Demand for natural gas in Indonesia has been increasing, in part as a result of the progressive reduction of fuel oil subsidies which began in 2001 and which has made natural gas an attractive alternative fuel. In order to meet this demand, we have plans to expand our distribution business to include networks in six new markets strategically located in close proximity to the new transmission pipelines, as well as to expand our other existing networks, including Jakarta and Surabaya.

For the six months ended June 30, 2003, our distribution business accounted for Rp.1,464.9 billion (US\$176.8 million), or 84.7%, of our revenue and Rp.514.6 billion (US\$62.1 million), or 66.3%, of our gross profit. Our distribution business accounted for Rp.2,585.3 billion (US\$312.0 million), or 82.0%, of our revenue for the year ended December 31, 2002 and Rp.842.2 billion (US\$101.7 million), or 60.0%, of our gross profit.

Unless otherwise stated, distribution revenues given throughout this Offering Circular are expressed net of sales adjustments. Sales adjustments are changes which we agree with customers, after they have been invoiced, to the volume of natural gas consumption for which they are billed in a particular period. These changes may be made if the customer disagrees with the metered volume of gas or with the calorific value used to convert the volume in cubic meters to mmbtu for U.S. dollar billing purposes.

Distribution revenue. Our distribution revenue reflects the Rupiah equivalent of the amount we are paid by our customers for the natural gas we deliver to them. While we bill our industrial customers both a U.S. dollar component and a Rupiah component for natural gas, for the purposes of maintaining our financial statements, all U.S. dollar revenue is converted into Rupiah using the prevailing Rupiah to U.S. dollar exchange rate. These revenues are highly dependant on our natural gas sales prices and volumes. For the period from January 1, 2000 to June 30, 2003 the realized average sales price of our natural gas in Rupiah terms per mscf has increased from Rp.23,003 in 2000 to Rp.30,871 (US\$3.57 per mscf) in the six months ended June 30, 2003 (Rp.27,923 in 2001 and Rp.29,689 (US\$3.21 per mscf) in 2002). For each of 2000, 2001 and 2002, the daily average volume of natural gas we have sold has increased, from 187.5 mmscfd in 2000 to 262.2 mmscfd in the six months ended June 30, 2003 (208.2 mmscfd in 2001 and 238.6 mmscfd in 2002). We also sell LPG, which only accounted for 0.1% of our revenue for the six months ended June 30, 2003 (0.2% for the year ended December 31, 2002).

We classify our customers into three main categories, industrial, commercial and household. The industrial category comprises establishments such as factories and power stations. Commercial customers include enterprises such as restaurants, hotels, hospitals and shopping malls and retail outlets. The categorization as between industrial and commercial customers varies slightly among our different networks. The final category is household, which comprises residential premises.

We generally sign sale contracts with our industrial customers with a duration of approximately two to three years. The sales price for the natural gas supplied is fixed for the duration of the gas sales agreement and a minimum and maximum sales volume is specified. The customer must pay for the minimum specified volume even if the natural gas is not taken, and higher sales prices apply if the customer takes more than the contracted maximum volume. The take-or-pay provisions are not subject to make-up rights, meaning that if our customers are required to pay for, but are unable to take delivery of, any contracted quantities, we are not required to deliver natural gas without payment in respect of such shortfall in subsequent periods. Rates for the natural gas supplied include a U.S. dollar component and a Rupiah component. The U.S. dollar component is intended to "pass through" to our customers the purchase price we pay (also in U.S. dollars) to the upstream supplier and associated costs and, subject to timing differences between settlement of supply and distribution contracts, we believe this provides a partial currency hedge for us. The Rupiah component is intended to recover our operating and capital costs (notwithstanding that some of these costs may have a U.S. dollar component) and incorporates a profit margin. A portion of the sales price charged to the customer corresponding to the cost of transporting natural gas will be regulated by BPHMigas once the New Oil and Gas Law is fully implemented. This transportation cost must also be paid to us by any third party using our network under the open access provisions

of the New Oil and Gas Law. BPHMigas has yet to publish tariffs or to indicate the methodology it will use to set them.

Household and commercial customers are not on fixed-term contracts. These customers pay an initial deposit and subsequently are billed monthly in Rupiah at spot prices for the natural gas consumed based on monthly meter readings. Commercial customers sign a one-time contract requiring a fixed minimum daily average consumption volume. The New Oil and Gas Law requires the regulation of gas prices and distribution transportation tariffs for household customers and certain other categories of small customers. No specific regulations have yet been issued, although we believe that regulated tariffs are likely to be at or below current levels.

As of June 30, 2003, we had over 650 industrial customers, accounting for 98.5% of natural gas supplied by volume and 97.7% of distribution revenue for the six months ended June 30, 2003 and over 1,300 commercial and approximately 53,000 household customers, together accounting for 1.5% of natural gas supplied by volume and 2.3% of distribution revenue for the six months ended June 30, 2003. For the six months ended June 30, 2003, we estimate that the largest five customers of our distribution business represented approximately 18.0% of our total volume. For 2002, we estimate that our largest five customers represented approximately 21.0% of our total volume. We make little or no profit on sales to household customers, and revenues from these customers may fall even further once sales prices for these customers are regulated by BPHMigas under the New Oil and Gas Law. Accordingly, we do not expect this customer segment to grow as a proportion of our total customers. We expect that industrial customers will continue to contribute the vast majority of our distribution business revenue.

Distribution cost of revenue. Our distribution cost of revenue reflects the Rupiah equivalent of the amount we pay for natural gas purchased from Pertamina and other upstream gas suppliers. This cost is substantially influenced both by the Rupiah to U.S. dollar exchange rate, since the purchase price is fixed in U.S. dollars, and by the volume of natural gas we purchase. For the period from January 1, 2000 to June 30, 2003 the realized average cost of gas per mscf purchased increased from Rp.16,144 in 2000 to Rp.20,027 (US\$2.31 per mscf) in the six months ended June 30, 2003 (Rp.20,983 in 2001 and Rp.20,017 (US\$2.16 per mscf) in 2002). For each of 2000, 2001, 2002 and 2003, the daily average volume of natural gas purchased has increased from 178.4 mmscfd in 2000 to 255.2 mmscfd in the six months ended June 30, 2003 (208.6 mmscfd in 2001 and 229.7 mmscfd in 2002).

Prior to the enactment of the New Oil and Gas Law, we were unable to contract directly with any upstream suppliers other than Pertamina. Consequently, all but one of our current gas purchase agreements are with Pertamina, even though some of them relate to supplies developed by third party PSC contractors. On July 19, 2003 we signed a short-term preliminary contract with Lapindo Brantas, Inc., an upstream supplier operating the Wunut gas field, although gas purchases from Lapindo Brantas, Inc. had begun in 2002. This short-term preliminary contract was replaced by the final agreement on December 2, 2003. This was our first direct contract with a PSC contractor. Under the old system, PSC contractors were required to sell all gas produced to Pertamina, who would resell it to us or directly to customers. Pursuant to the New Oil and Gas Law, Badan Pelaksana Minyak dan Gas Bumi ("BPMigas") will appoint authorized sellers for gas supplies (which will include Pertamina and PSC contractors) and we will contract directly with such authorized sellers. Our existing contracts with Pertamina will remain in force for their remaining terms.

Our gas purchase agreements generally have a maximum duration of between 10 and 25 years. The volume of natural gas supplied under each of our gas purchase agreements is fixed, while the purchase price (in U.S. dollars or Rupiah) is either (i) fixed for the term, (ii) set for the early years of the agreement with prices in later years to be determined by subsequent agreement between the parties or (iii) set in the initial year and subject to indexing in later years. Factors taken into account when negotiating purchase prices include contracted volumes, take-or-pay clauses and market pricing estimates, including consideration of competitive natural gas substitutes such as fuel-oil. The take-or-pay provisions in our gas purchase agreements are typically subject to make-up rights, allowing us to require our suppliers to deliver without additional charge natural gas we paid for in previous years but did not take, once the minimum volume for the relevant period has been reached and subject to certain limits. If the amount of natural gas delivered falls below the take-or-pay level under any gas purchase agreement, we record the difference on our balance sheet as an asset under "advances", reflecting the value of our make-up rights. The advances are reduced by any make-up gas delivered. This means that, in any year, we may record on our balance sheet as an asset the cost of natural gas not then received or conversely we may receive natural gas for which we have already paid in previous years. In most of our networks, our demand for

natural gas under our gas purchase agreements has generally exceeded the take-or-pay clauses, with the exception of a period of approximately one year during the Asian economic crisis that began in 1997. We have been required to provide security to Pertamina in the form of standby letters of credit for certain of our gas purchase agreements. Our gas purchase agreements also include reserve clauses, which guarantee dedicated reserve volumes which the supplier must set aside to be sold to us. In each of our distribution networks, our aggregate take-or-pay obligations to suppliers under our gas purchase agreements are exceeded by the aggregate take-or-pay obligations of our customers under our gas sales agreements.

For the years ended December 31, 2000, 2001, 2002 and the six months ended June 30, 2003, gross advance payments for natural gas amounted to US\$2.4 million, zero, US\$2.7 million and zero, respectively. As of June 30, 2003, the cumulative gas volume we had paid in advance amounted to 3,539,780 mmbtu (approximately 3,539 mmscf). This situation arose as demand in Surabaya and East Java was lower than initially anticipated when we entered into the gas supply agreements for these areas. We are unable to reduce this amount through the usual make-up gas arrangements since supply under the relevant gas purchase agreement remains below the take-or-pay level due to depletion of the field. We are currently discussing with Pertamina the timing for reducing these advances.

Transmission

Our transmission business currently involves transporting natural gas which is owned by third parties through our high pressure transmission pipelines from upstream suppliers for delivery directly to industrial customers of the upstream suppliers. Our transmission business has until recently been based on our Grissik-to-Duri transmission pipeline in Sumatra as well as small transmission operations in Medan and in Jakarta. A pipeline from Grissik to Singapore commenced initial commercial operations on September 10, 2003. The Grissik-to-Duri, Grissik-to-Singapore and Medan transmission systems consist of 1,079 km of pipelines, while the Jakarta transmission system utilizes our existing distribution pipelines.

We do not generally use our transmission network to supply our distribution business, as supply is sourced from gas fields local to each network. In the future, however, we intend to source natural gas from other gas fields which we will transport through our own transmission network and deliver to our distribution networks. For example, the Grissik-to-Singapore pipeline would supply our planned network in Batam, the South Sumatra-to-West Java pipeline would supply our networks in West Java, including the planned Banten network, the planned network in Jambi would source natural gas through the Grissik-to-Duri pipeline and the proposed Duri-to-Medan pipeline would supply our network in Medan. To the extent that the transmission business of Transgasindo supplies our distribution network, PGN will pay Transgasindo for the transportation of natural gas. Where a transmission pipeline owned by PGN is involved, such as the planned South Sumatra-to-West Java pipeline, our distribution business will pay a transportation fee to our transmission business.

We established Transgasindo on February 1, 2002 as a 99.75%-owned subsidiary to take over our Grissik-to-Duri and Grissik-to-Singapore transmission assets. On March 9, 2002, PGN transferred the Grissik-to-Duri gas transmission pipeline in central Sumatra to Transgasindo for US\$227.2 million. This consideration reflected a revaluation of the underlying transmission assets in September 2001 (as depreciated for the period from September 2001 to March 2002) to Rp.2,029.4 billion from Rp.1,912.9 billion. This resulted in an increase in the book value of the assets to the new historical cost of Rp.2,029.4 billion from the previous depreciated book value of Rp.1,297.9 billion. The transfer of assets also incurred value added tax of Rp.216.2 billion (US\$26.1 million), which PGN advanced to Transgasindo on November 13, 2002 in exchange for promissory notes for the same amount issued by Transgasindo. Rp.187.4 billion (US\$22.6 million) of this amount was subsequently recovered from the Indonesian taxation office in September 2003, with the difference of Rp.28.8 billion (US\$3.5 million) being set-off with VAT liability on sales during 2002. The transfer of assets further incurred transfer tax of Rp.94.1 billion (US\$11.4 million), which was not recoverable.

On November 12, 2002, we sold 40.0% of the issued share capital of Transgasindo to Transasia for US\$130.0 million (or equivalent to Rp.1.2 billion, of which Rp.825.9 billion, net of consultants' fees of Rp.35.9 billion, represented a gain on the sale of such shares). Transasia has also agreed to commit up to a further US\$57.6 million and we have agreed to commit up to a further US\$86.4 million (each based on the estimated construction cost) by way of shareholder loans or equity for completion of construction of the Grissik-to-Singapore transmission pipeline, to be paid in installments as construction milestones were achieved. In addition, we and Transasia have each committed to contribute by way of shareholder loans pro rata to our respective shareholdings in Transgasindo in an amount of up to US\$15.0 million to cover funding shortfalls.

Pursuant to an Asset Transfer Agreement dated November 12, 2002, between PGN, Transgasindo and Transasia (the "Grissik-to-Singapore Asset Transfer Agreement"), it has been agreed that PGN will transfer to Transgasindo the Grissik-to-Singapore natural gas transmission assets. See "Transgasindo — Grissik-to-Singapore Transfer". We intend to transfer the Grissik-to-Singapore transmission assets and the Grissik-to-Duri compressor facilities to Transgasindo for US\$470.0 million, which figure includes US\$55.0 million for the two compressor stations installed on the Grissik-to-Duri pipeline, by the end of 2003. Payment, some of which has already been made, consists of the issuance and assumption of promissory notes, the contribution of shareholder loans and equity and the payment of cash. The promissory notes will be structured to effectively transfer the obligations in respect of our long-term loans from foreign quasi-governmental institutions relating to the Grissik-to-Singapore transmission pipeline to Transgasindo. The transfer of assets will incur value added tax of 10.0% of the value of the assets transferred to be paid by Transgasindo, as assessed by the Indonesian tax office, as well as transfer tax of 5.0%, paid by each of PGN and Transgasindo. The funding of the value added tax and transfer tax is being discussed by PGN, Transasia and Transgasindo. We expect to recover the majority of the value added tax paid from the Indonesia taxation office, although the transfer tax will not be recoverable. Following the transfer of the Grissik-to-Singapore transmission assets and the Grissik-to-Duri compressor facilities, we do not currently intend to transfer further transmission assets to Transgasindo. In conjunction with the transfer of the Grissik-to-Singapore pipeline to Transgasindo, the gas transportation agreement between PGN, ConocoPhillips and PetroChina relating to the Grissik-to-Singapore pipeline will be transferred to Transgasindo from PGN.

In addition to our existing transmission network, we have also begun the development of Phase I of the South Sumatra-to-West Java pipeline and have received approval for Phase II of the South Sumatra-to-West Java pipeline and a transmission pipeline from Duri to Medan. We have also applied for approvals to construct a number of other natural gas pipeline projects, including the East Kalimantan-to-West Java and East Java-to-West Java pipelines. We also plan to seek approvals for other proposed natural gas pipeline projects provided that we believe they will be economically viable. New approvals will be issued for these projects by BPHMigas under special rights or after public tender as part of the Government's plan to develop Indonesia's integrated gas transmission and distribution network. See "Business — Gas Transmission Business — Transmission Business Expansion" and "— Capital Expenditure".

For the six months ended June 30, 2003, our transmission business accounted for Rp.261.5 billion (US\$31.6 million), or 15.1%, of our revenue and Rp.261.5 billion (US\$31.6 million), or 33.7%, of our gross profit. Our transmission business accounted for Rp.561.6 billion (US\$67.8 million), or 17.8%, of our revenue for the year ended December 31, 2002 and Rp.561.6 billion (US\$67.8 million), or 40.0%, of our gross profit. Transmission revenue represents a higher contribution to gross profit than to gross revenues or income from operations because, unlike our distribution business, it has no associated expenses recorded under the cost of revenue line item. The costs associated with the transmission business largely comprise depreciation and maintenance costs related to the pipelines, each of which are components of operating expenses.

While we are able to allocate the operating expenses which relate directly to each of our businesses, we are not able to allocate the operating expenses which relate to the operations of our head office. These head office operating expenses remain as a separate unallocated line item in the segmental discussion below. However, otherwise we believe that this allocation does provide a measure of the contribution of each of our businesses to our income from operations. See "— Segment Information".

Transmission revenue. Our transmission revenue is primarily dependent on the volume of natural gas we transport and the tariff we charge for this service. Our most significant customer for transmission services is ConocoPhillips, a shareholder of Transgasindo. ConocoPhillips is currently the sole user of the Grissik-to-Duri pipeline, which transports natural gas to its downstream customer, Caltex. Natural gas, mainly from the Corridor Block PSC area, is transported through the Grissik-to-Duri pipeline on behalf of ConocoPhillips pursuant to two main gas transportation agreements between us, ConocoPhillips and Pertamina. These two gas transportation agreements were executed in 1997 and 2000. The 1997 agreement covers the operating period 1998 to 2018 and has been transferred from PGN to Transgasindo. The minimum ship-or-pay volumes for which ConocoPhillips is required to pay us are equivalent to Caltex's take-or-pay volumes under its gas sale agreement with ConocoPhillips and Pertamina. The tariff is set in U.S. dollars per mscf and is fixed for the term of the contract. The 2000 agreement covers the operating period 2001 to 2021 and has not yet been transferred from PGN to Transgasindo. Minimum ship-or-pay volumes are approximately 70.0% of scheduled transportation volumes under the gas sales agreement. There are two tiers of agreed tariffs, both based in U.S. dollars per mscf, which are charged depending on the volume of gas transported and which are fixed for the duration of the agreement. There is also a third gas transportation agreement between Transgasindo, ConocoPhillips and Pertamina, which

provides for the transmission of only approximately 1.3 mmscfd over a four-year term. For the six months ended June 30, 2003, ConocoPhillips accounted for 14.8% of our total revenue (97.9% of our transmission business revenue) and 33.0% of our gross profit. For 2002, ConocoPhillips accounted for 17.4% of our total revenue (97.5% of our transmission business revenue) and 39.0% of our gross profit. The volume of natural gas we transport for ConocoPhillips is significantly impacted by the off-take volume demand from its downstream customer, Caltex, although there are take-or-pay requirements. The natural gas is primarily used by Caltex as part of its enhanced oil recovery process in its Duri fields. We expect the natural gas transported in the future through the Grissik-to-Duri pipeline under the contracts with ConocoPhillips to remain near current levels. We are exploring other options for utilizing the capacity of the Grissik-to-Duri pipeline, including linking it to the proposed Duri-to-Medan pipeline. See "Risk Factors — Risks relating to our Business — Our transmission business is dependent on two significant customers".

For each of 2000, 2001 and 2002, the volume of natural gas we transported decreased, from an average of 369.8 mmscfd in 2000 to 321.4 mmscfd in 2002 (354.4 mmscfd in 2001). For the six months ended June 30, 2003 we transmitted an average of 315.9 mmscfd. The decline in transmission volume was due largely to a decline in off-take volumes by Caltex from ConocoPhillips. For the period from January 1, 2000 to June 30, 2003 the realized average tariff in Rupiah terms for the transportation of natural gas per mscf increased marginally from Rp.4,453 in 2000 to Rp.4,574 million (US\$0.53 per mscf) in the six months ended June 30, 2003 (Rp.5,030 in 2001 and Rp.4,788 (US\$0.52 per mscf) in 2002).

Transmission services are contracted under long-term gas transportation agreements between us and Pertamina, ConocoPhillips and other upstream gas suppliers. Each of the two major gas transportation agreements relating to the Grissik-to-Duri pipeline and the gas transportation agreement relating to the Grissik-to-Singapore pipeline provide for a 20-year operating term and contract for pipeline capacity access rights as well as minimum ship-or-pay gas volumes, whereby our customers are required to pay for the transportation of a minimum specified volume of natural gas even if it is not actually transported. The ship-or-pay provisions are subject to make-up rights, allowing our customers to require us to transport without charge natural gas they paid for in previous years but which was not transported, once the minimum volume for the relevant period has been reached and subject to certain limits. Fees received under ship-or-pay provisions are recorded as current liabilities on our balance sheet under "other payables", representing the value of the make-up rights owed to the customer. These liabilities are reduced when make-up gas is delivered. This means that, in any year, we may record a liability for natural gas not transported until future years or conversely we may transport natural gas for which a liability may have already been booked in previous years. For the years ended December 31, 2000, 2001, 2002 and the six months ended June 30, 2003, the transportation fees received in advance of gas delivered amounted to zero, US\$2.3 million, US\$2.7 million and US\$4.8 million, respectively. As of June 30, 2003, the cumulative gas volume paid for in advance by ConocoPhillips was US\$4.8 million (equivalent to 7,720,451 mmscf).

Transmission tariffs are currently negotiated and set to allow us to achieve an acceptable rate of return on our investment in the transmission infrastructure, and therefore depend on a number of variables including cost of construction, cost of finance, operating cost and depreciation charges. Our required rate of return varies on a project-by-project basis. Tariffs are typically U.S. dollar denominated and are fixed for the life of the agreement. Transmission tariffs may vary between sections of the transmission network, depending on a number of factors including the gas transportation distance on the network.

Under the New Oil and Gas Law, existing gas transportation agreements remain valid and terms will be recognized by BPHMigas. Consequently, the transmission tariffs set under existing agreements relating to the Grissik-to-Duri and Grissik-to-Singapore pipelines will not be affected. However, transmission tariffs under new gas transportation agreements we sign as well as open access tariffs for our pipelines, including the Grissik-to-Duri and Grissik-to-Singapore pipelines, will be regulated by BPHMigas, although to date BPHMigas has not published tariffs or indicated the methodology it will use to set them.

Exchange Rates

Since the Asian economic crisis which began in 1997, the value of the Rupiah has fluctuated significantly against other currencies, particularly the U.S. dollar, hitting a low of Rp.16,950 per U.S. dollar on June 17, 1998. In recent months the Rupiah has strengthened against the U.S. dollar. The exchange rate was Rp.8,285 per U.S. dollar on June 30, 2003. See "Risk Factors — Risks Relating to Indonesia — Future changes in the value of the Rupiah against the U.S. dollar or other currencies could adversely affect our business" and "Exchange Rate Information".

Substantially all of our revenue and most of our costs are denominated in U.S. dollars, although for the purposes of our financial statements we express these amounts in Rupiah. In addition, the majority of our long-term borrowings are denominated in U.S. dollars and our subsidiary, Transgasindo, has adopted the U.S. dollar as its functional currency, both of which increase the impact on our results of operations of fluctuations in the Rupiah to U.S. dollar exchange rate. Depreciation in the value of the Rupiah tends to have a beneficial effect on our revenue and a detrimental effect on our costs (particularly the purchase price of natural gas) in Rupiah terms. Conversely, appreciation in the value of the Rupiah tends to have a detrimental effect on our revenue and a beneficial effect on our costs (in particular the purchase price of natural gas in Rupiah terms). Movements in the Rupiah to U.S. dollar exchange rate can have a significant influence on a number of line items in our financial statements including revenue, cost of revenue, trade payables and receivables, long-term loans and cash flows from operations. In particular, we record our trade payables and receivables in Rupiah and adjust the amounts due and owing on a monthly basis in the case of PGN and on a quarterly basis in the case of our consolidated financial statements, depending on the prevailing exchange rate. Upon the actual payment of these accounts either in U.S. dollars or in Rupiah (at the then prevailing exchange rate), there may be discrepancies between the amounts shown in our accounts and the actual cash flows, which will be recorded as a foreign exchange gain or loss as part of other charges (income) in our financial statements. For the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003, our net foreign exchange loss (gain) was Rp.475.7 billion, Rp.132.8 billion, Rp.(159.5 billion) (US\$(19.2 million)) and Rp.(118.1 billion) (US\$(14.3 million)), respectively.

Adverse economic conditions in Indonesia linked to or incidental to the depreciation of the value of the Rupiah could increase natural gas prices for our customers in Rupiah terms, reduce overall demand for natural gas and reduce our customers' ability to pay for gas purchases. In addition, as of June 30, 2003, we had long-term U.S. dollar debt (net of current maturities) of US\$258.2 million, which represented 97.7% of our total outstanding long-term debt (net of current maturities), and which was incurred as part of our capital expenditure program. It is expected that a substantial portion of our capital expenditure for future expansion programs may be financed in foreign currencies, mainly U.S. dollars but also including Yen. Any depreciation of the Rupiah against the U.S. dollar or other foreign currencies used to finance our capital expenditures would increase our financing costs in Rupiah terms.

Regulatory Environment

Pursuant to the New Oil and Gas Law, transmission tariffs for existing long-term contracts will remain in effect for the life of the respective contracts. Transmission tariffs for third party access and new projects will be subject to regulation, which is still to be determined. Distribution transportation tariffs will also be subject to regulation. For industrial and other customers not classified as small-scale customers (who, for the six months ended June 30, 2003, represented at least 98.5% of our sales volumes), while the transportation component of the amount charged to customers will be regulated, the component relating to the cost of natural gas will not. Accordingly, the total price charged to industrial and other customers not classified as small-scale customers of our distribution business will not be fixed by regulation, but will be commercially negotiated. Distribution gas prices and transportation rates for household and other small-scale customers will both be regulated, but sales to these customers accounted for less than 1.5% of our sales volume for the six months ended June 30, 2003.

The New Oil and Gas Law requires pipeline companies in Indonesia, such as PGN and Transgasindo, to open their transmission and distribution networks to third party access for any unutilized capacity. The tariffs for this open access use will be determined by BPHMigas and paid to the pipeline owner by the relevant third party. We do not yet have details of what is intended by way of charges for use of our transmission network nor the means by which they will be calculated. In relation to our distribution business, the absence of any wholesale gas pooling arrangements means that we expect that the opening up of our distribution network to third party trading is unlikely to occur in the foreseeable future, although we may face competition from affiliates of upstream suppliers, including Pertamina. See "Risk Factors — Risks relating to our Business — We may face competition from other gas distributors".

To promote the use of natural gas, the Government has indicated its plans to establish a national integrated transmission and distribution network for piped natural gas. This integrated transmission and distribution network is expected to consist of pipelines that will connect gas fields and customers from North Sumatra through Java to East Kalimantan. In order to plan for and develop this network, the Government is proposing a natural gas Master Plan, which will include the development of new transmission and distribution projects. All new projects under the Master Plan will be subject to an open tender process, but this process will not impact projects for which approvals have been obtained before the issue of the Master Plan. We intend to compete for the rights to develop, own and operate selected new projects under the Master Plan. Notwithstanding the Master

Plan, we have already received licences for all our currently planned new distribution projects, and have begun development of Phase I of the South Sumatra-to-West Java transmission project. We have also received approval for Phase II of the South Sumatra-to-West Java transmission pipeline project and a transmission pipeline from Duri to Medan. We have also applied for approvals to construct other natural gas pipeline projects, including the East Kalimantan-to-West Java and East Java-to-West Java pipelines, which, if such approvals were granted, would then be excluded from the Master Plan and would not be subject to an open tender process. See "Regulation of the Indonesian Oil and Gas Industry".

Results of Operations

The following table sets out certain income and expense items from our financial statements for the periods indicated:

	Year ended December 31,				Six months ended June 30,		
	2000	2001	2002	2002	2002	2003	2003
		(Audited)			(Unaudited)	(Audited)	
	(Rp. billion)		(US\$ million)		(Rp. billion)	(US\$ million)	
Revenue:							
Gas distribution	1,574.3	2,122.4	2,585.3	312.0	1,268.7	1,464.9	176.8
Gas transmission	601.0	650.6	561.6	67.8	303.2	261.5	31.6
Sale of LPG	6.5	7.2	4.9	0.6	2.6	2.3	0.3
Total revenue	2,181.8	2,780.3	3,151.8	380.4	1,574.4	1,728.8	208.7
Cost of revenue	(1,110.7)	(1,601.4)	(1,747.4)	(210.9)	(873.1)	(952.4)	(114.9)
Gross profit	1,071.1	1,178.9	1,404.4	169.5	701.3	776.4	93.7
Operating expenses	(473.8)	(454.1)	(590.4)	(71.3)	(252.7)	(276.3)	(33.3)
Income from operations	597.4	724.8	813.9	98.2	448.6	500.1	60.4
Other charges (income) — net	568.9	291.1	(876.4)	(105.8)	(162.8)	(81.2)	(9.8)
Income before tax expense	28.5	433.7	1,690.3	204.0	611.4	581.4	70.2
Tax expense — net	21.9	121.1	564.9	68.2	182.5	152.9	18.5
Income before minority interest	6.6	312.6	1,125.4	135.8	428.9	428.5	51.7
Minority interest	—	—	(9.7)	(1.2)	(0.5)	(6.3)	(0.8)
Net income	6.6	312.6	1,115.7	134.7	428.4	422.2	51.0

The following table shows income and expense items as a percentage of revenue:

	Year ended December 31,			Six months ended June 30,	
	2000	2001	2002	2002	2003
		(Audited)		(Unaudited)	(Audited)
		(%)		(%)	(%)
Revenue:					
Gas distribution	72.2	76.3	82.0	80.6	84.7
Gas transmission	27.5	23.4	17.8	19.3	15.1
Sale of LPG	0.3	0.3	0.2	0.2	0.1
Total revenue	100.0	100.0	100.0	100.0	100.0
Cost of revenue	(50.9)	(57.6)	(55.4)	(55.5)	(55.1)
Gross profit	49.1	42.4	44.6	44.5	44.9
Operating expenses	(21.7)	(16.3)	(18.7)	(16.0)	(16.0)
Income from operations	27.4	26.1	25.8	28.5	28.9
Other charges (income) — net	26.1	10.5	(27.8)	(10.3)	(4.7)
Income before tax expense	1.3	15.6	53.6	38.8	33.6
Tax expense — net	(1.0)	(4.4)	(17.9)	(11.6)	(8.8)
Income before minority interest	0.3	11.2	35.7	27.2	24.8
Minority interest	—	—	(0.3)	—	(0.4)
Net income	0.3	11.2	35.4	27.2	24.4

Key line items in our results of operations are revenue, cost of revenue, operating expenses, other charges (income) and tax expense. A brief description of each of these line items is set out below.

Revenue consists of revenue earned on sales of natural gas, gas transmission and sales of LPG. Revenue from gas distribution and toll fees from gas transmission are recognized when the gas is distributed or transmitted to the users based on the gas meter readings. Revenue from the sale of LPG is recognized upon delivery to the customers. If a customer has not reached its minimum purchase level, payments in excess of the gas distributed are recognized as revenues when the customer's rights to the gas purchases expire. Our distribution revenue depends substantially on the average U.S. dollar selling price of natural gas, the volume of natural gas we are able to sell and the prevailing Rupiah to U.S. dollar exchange rate. Our transmission revenue depends substantially on the level of transmission tariffs, charged in U.S. dollars, the volume of gas we transport and the prevailing Rupiah to U.S. dollar exchange rate.

We set out below details of our average selling prices, volumes and exchange rates (exchange rates are those used for the purpose of preparing our financial statements) for each of 2000, 2001, 2002 and the six months ended June 30, 2003:

	Year ended December 31,			Six months ended June 30,
	2000	2001	2002	2003
Distribution:⁽¹⁾				
Revenue (Rp. billion)	1,574.3	2,122.4	2,585.3	1,464.9
Cost of gas sold	(1,104.9)	(1,594.9)	(1,743.1)	(950.3)
Gross profit	469.4	527.5	842.2	514.6
Average daily volume sold (mmscfd)	187.5	208.2	238.6	262.2
Realized average sales price ⁽²⁾				
Rp. per mscf	23,003	27,923	29,689	30,871
US\$ per mscf ⁽³⁾	2.70	2.72	3.21	3.57
Realized average cost of gas ⁽⁴⁾				
Rp. per mscf	16,144	29,983	20,017	20,027
US\$ per mscf ⁽³⁾	1.89	2.04	2.16	2.31
Realized average transportation tariff ⁽⁵⁾				
Rp. per mscf	6,858	6,940	9,762	10,844
US\$ per mscf ⁽³⁾	0.80	0.67	1.04	1.25
Transmission:⁽⁶⁾				
Revenue (Rp. billion)	601.0	650.6	561.6	261.5
Volume transported (mmscfd)	369.8	354.4	321.4	315.9
Realized average tariff ⁽⁷⁾				
Rp. per mscf	4,453	5,030	4,788	4,574
US\$ per mscf ⁽³⁾	0.52	0.49	0.52	0.53
Rupiah to U.S. dollar exchange rate (Rp.) ⁽⁸⁾	8,534	10,266	9,261	8,655

Notes:

- (1) Does not include LPG.
- (2) Distribution revenue divided by volume sold.
- (3) Translated at a month-end average Rupiah to U.S. dollar exchange rate over the period.
- (4) Distribution cost of revenue divided by volume sold.
- (5) Distribution revenue less cost of revenue divided by volume sold.
- (6) Excludes Jakarta transmission business, with the exception of throughput volumes.
- (7) Transmission revenue divided by volume transported.
- (8) Month-end average over the period.

Cost of revenue represents the cost of natural gas and LPG purchased from upstream suppliers. Our cost of revenue is substantially impacted by the U.S. dollar price of natural gas purchased, the volume of natural gas purchased and the prevailing Rupiah to U.S. dollar exchange rate.

Operating expenses include expenses relating to distribution and transmission, general and administrative expenses and marketing expenses. Major expenses within each of these three segments include depreciation, salaries, wages and employee benefits, repairs and maintenance, rental, traveling and transportation expenses, insurance expenses, professional fees (which include consultant, audit and legal fees), and representation and entertainment expenses (which include corporate sponsorships and donations).

Other charges (income) includes interest income, interest expense, gains or losses on foreign exchange and in certain years significant miscellaneous items such as the gain recorded with respect to our sale of a 40.0% interest in Transgasindo in 2002. Interest income includes interest income generated by our time deposits. Interest expense comprises interest charges on our long-term borrowings sourced through the Government from foreign quasi-governmental institutions (ADB, JBIC, EIB and the International Bank for Reconstruction and Development (“IBRD”)), and the Government directly and Transasia’s shareholder loans to Transgasindo. Interest payments on the long-term borrowings sourced from the quasi-governmental institutions are made through administering banks, such as Bank Mandiri, and then on to the quasi-governmental institutions. Gains or losses on foreign exchange arise mainly from our foreign currency denominated loans, trade receivables or payables and other foreign currency transactions.

Taxation expense includes current tax expense (corporate income tax) payable by us in Indonesia and deferred income tax. See “— Taxation”.

Six Months ended June 30, 2003 Compared to Six Months ended June 30, 2002

Revenue

Our net revenue increased by 9.8% to Rp.1,728.8 billion (US\$208.7 million) in the six months ended June 30, 2003 from Rp.1,574.4 billion in the six months ended June 30, 2002. The increase in revenue was principally a result of an increase of 15.5% in sales of natural gas before sales adjustments to Rp.1,466.3 billion (US\$177.0 million) in the six months ended June 30, 2003 from Rp.1,269.3 billion in the six months ended June 30, 2002. Details of the breakdown of our revenue for these periods are set out below:

	Six months ended June 30,		
	2002 (Rp. billion)	2003 (Rp. billion)	2003 (US\$ million)
Gas distribution ⁽¹⁾	1,269.3	1,466.3	177.0
Gas transmission	303.2	261.5	31.6
Sale of LPG	2.6	2.3	0.3
Total	1,575.0	1,730.1	208.8
Sales adjustments ⁽²⁾	(0.6)	(1.2)	(0.2)
Net	1,574.4	1,728.8	208.7

Notes:

(1) Before sales adjustments.

(2) Relate to post-invoice reconciliations of gas consumption agreed with customers.

Gas distribution. Our sales of natural gas before sales adjustments increased by 15.5% to Rp.1,466.3 billion (US\$177.0 million) in the six months ended June 30, 2003 from Rp.1,269.3 billion in the six months ended June 30, 2002 primarily due to an increase by value in sales of natural gas to industrial customers. Sales of natural gas were derived from the following customer categories:

	Six months ended June 30,		
	2002 (Rp. billion)	2003 (Rp. billion)	2003 (US\$ million)
Industrial	1,242.2	1,433.0	173.0
Commercial	12.5	14.4	1.7
Fuel gas filling stations	7.0	6.1	0.7
Households	4.8	8.3	1.0
Minimum sales ⁽¹⁾	2.8	4.3	0.5
Others	—	0.1	—
Total	1,269.3	1,466.3	177.0

Note:

(1) Reflects the amount paid by customers who do not take the minimum amount of natural gas as required under their contracts with us.

Our sales of natural gas to industrial customers increased by 15.4% to Rp.1,433.0 billion (US\$173.0 million) in the six months ended June 30, 2003 from Rp.1,242.2 billion in the six months ended June 30, 2002.

This increase was mainly due to an 11.5% increase in average sales volume of natural gas to industrial customers to 258.2 mmscfd in the six months ended June 30, 2003 from 231.6 mmscfd in the six months ended June 30, 2002 principally due to increased sales in Jakarta and Surabaya. In addition, the realized average sales price of natural gas per mscf for industrial customers increased by 3.4% to Rp.30,659 (US\$3.54) in the six months ended June 30, 2003 from Rp.29,639 in the six months ended June 30, 2002 notwithstanding an appreciation of the Rupiah against the U.S. dollar. Based on the Rupiah to U.S. dollar exchange rate used to prepare our financial statements, the Rupiah appreciated to Rp.8,655 per U.S. dollar in the six months ended June 30, 2003 from Rp.9,499 per U.S. dollar in the six months ended June 30, 2002.

Our sales of natural gas to other customers (including commercial sector customers, fuel gas filling stations and households) increased by 22.7% to Rp.33.3 billion (US\$4.0 million) in the six months ended June 30, 2003 from Rp.27.1 billion in the six months ended June 30, 2002. This increase was mainly due to a 20.3% increase in the realized average sales price of natural gas per mscf for such customers to Rp.46,306 (US\$5.35) in the six months ended June 30, 2003 from Rp.38,489 in the six months ended June 30, 2002. In addition, average sales volume of natural gas for such customers increased by 2.6% to 4.0 mmscfd in the six months ended June 30, 2003 from 3.9 mmscfd in the six months ended June 30, 2002.

Geographically, this growth in sales volume arose primarily from our Surabaya, Jakarta and Bogor distribution networks which experienced growth in volume terms of 17.2%, 6.4% and 26.7%, respectively. Surabaya's average sales volume grew to 87.2 mmscfd for the six months ended June 30, 2003 from 74.4 mmscfd for the six months ended June 30, 2002, while in Jakarta average sales volume grew to 130.9 mmscfd for the six months ended June 30, 2003 from 123.0 mmscfd for the six months ended June 30, 2002 and in Bogor average sales volume grew to 21.9 mmscfd for the six months ended June 30, 2003 from 17.3 mmscfd for the six months ended June 30, 2002.

Gas transmission. Revenue generated by gas transmission decreased by 13.7% to Rp.261.5 billion (US\$31.6 million) in the six months ended June 30, 2003 from Rp.303.2 billion in the six months ended June 30, 2002. This decrease was primarily due to a decrease in the average volume of natural gas transported to 315.9 mmscfd in the six months ended June 30, 2003 from 340.4 mmscfd in the six months ended June 30, 2002. The reduced volume reflected the reduced demand of Caltex for natural gas from ConocoPhillips. In addition, the realized average transmission tariff decreased by 7.0% to Rp.4,574 (US\$0.53) per mscf in the six months ended June 30, 2003 from Rp.4,922 per mscf in the six months ended June 30, 2002.

Sale of LPG. Our sales of LPG decreased by 10.5% to Rp.2.3 billion (US\$0.3 million) in the six months ended June 30, 2003 from Rp.2.6 billion in the six months ended June 30, 2002. This decrease resulted primarily from the decrease in our sales volume for these periods due to the transfer to two co-operatives of our ex-employees of our LPG distribution businesses in Surabaya and Bandung in February and May 2002, respectively.

Cost of Revenue

Our cost of revenue increased by 9.1% to Rp.952.4 billion (US\$114.9 million) in the six months ended June 30, 2003 from Rp.873.1 billion in the six months ended June 30, 2002 mainly due to increased purchases of natural gas, which increased 9.2% by value of gas purchased. The following table sets out the components of our cost of revenue:

	Six months ended June 30,		
	2002	2003	2003
	(Rp. billion)	(Rp. billion)	(US\$ million)
Natural gas purchases	870.6	950.3	114.7
LPG purchases	2.5	2.0	0.2
Total	<u>873.1</u>	<u>952.4</u>	<u>114.9</u>

Our purchases of natural gas increased by 9.2% to Rp.950.3 billion (US\$114.7 million) in the six months ended June 30, 2003 from Rp.870.6 billion in the six months ended June 30, 2002. This increase was mainly due to an 11.4% increase in average volume purchases of natural gas to 255.2 mmscfd in the six months ended June 30, 2003 from 229.1 mmscfd in the six months ended June 30, 2002.

Gross Profit

Our gross profit increased by 10.7% to Rp.776.4 billion (US\$93.7 million) in the six months ended June 30, 2003 from Rp.701.3 billion in the six months ended June 30, 2002. This increase was mainly due to increased revenue from gas distribution and reflected a gross margin (gross profit as a percentage of revenue) of 44.9% in the six months ended June 30, 2003 compared with a gross margin of 44.5% in the six months ended June 30, 2002. In the six months ended June 30, 2003 and the six months ended June 30, 2002, our distribution business contributed 66.3% and 56.8%, respectively of our gross profit, while our transmission business contributed the balance of 33.7% and 43.2%, respectively. The increase in the contribution of our distribution business to the gross profit was due to a substantial growth in distribution revenue coupled with a decline in transmission revenue.

Operating Expenses

Our operating expenses increased by 9.3% to Rp.276.3 billion (US\$33.3 million) in the six months ended June 30, 2003 from Rp.252.7 billion in the six months ended June 30, 2002 primarily as a result of an increase in general and administrative expenses of 29.5%. The following table sets out the components of our operating expenses:

	Six months ended June 30,		
	2002	2003	2003
	(Rp. billion)	(Rp. billion)	(US\$ million)
Distribution and transmission	178.7	182.1	22.0
General and administrative	67.5	87.3	10.5
Marketing	6.5	6.9	0.8
Total	<u>252.7</u>	<u>276.3</u>	<u>33.3</u>

Distribution and transmission. Our distribution and transmission expenses increased by 1.8% to Rp.182.1 billion (US\$22.0 million) in the six months ended June 30, 2003 from Rp.178.7 billion in the six months ended June 30, 2002. The following table sets out the components of our distribution and transmission expenses:

	Six months ended June 30,		
	2002	2003	2003
	(Rp. billion)	(Rp. billion)	(US\$ million)
Depreciation	140.9	124.1	15.0
Repairs and maintenance	18.1	37.0	4.5
Salaries, wages and employee benefits	12.5	13.2	1.6
Rental	4.3	3.8	0.5
Professional fees	0.1	0.5	0.1
Others ⁽¹⁾	2.7	3.5	0.4
Total	<u>178.7</u>	<u>182.1</u>	<u>22.0</u>

Note:

- (1) Includes expenses relating to traveling and transportation, fuel and chemicals, communication, utilities, tools and spare parts, office supplies, entertainment, training and education, taxes and licenses, insurance and others.

Our depreciation expenses decreased by 11.9% to Rp.124.1 billion (US\$15.0 million) in the six months ended June 30, 2003 from Rp.140.9 billion in the six months ended June 30, 2002. This decrease was mainly due to the use of the double-declining method of depreciation which over time normally results in decreasing levels of depreciation when there are no significant additions to property, plant and equipment.

Our repairs and maintenance expenses increased by 103.7% to Rp.37.0 billion (US\$4.5 million) in the six months ended June 30, 2003 from Rp.18.1 billion in the six months ended June 30, 2002. This increase was mainly due to the expense, amounting to US\$3.1 million in the six months ended June 30, 2003, of maintaining a margin of linepacked gas in the Grissik-to-Duri pipeline in accordance with the gas transportation agreements with ConocoPhillips.

Our salaries, wages and employee benefits increased by 5.1% to Rp.13.2 billion (US\$1.6 million) in the six months ended June 30, 2003 from Rp.12.5 billion in the six months ended June 30, 2002. This increase was mainly due to an increase in salaries and an increase in the number of employees.

Our rental expenses decreased by 12.7% to Rp.3.8 billion (US\$0.5 million) in the six months ended June 30, 2003 from Rp.4.3 billion in the six months ended June 30, 2002. This decrease was mainly due to a decrease in vehicle rental expense.

Our professional fees expenses increased by 243.0% to Rp.0.5 billion (US\$0.1 million) in the six months ended June 30, 2003 from Rp.0.1 billion in the six months ended June 30, 2002. This increase was mainly due to the outsourcing of certain security and administration functions.

Our other distribution and transmission expenses increased by 29.5% to Rp.3.5 billion (US\$0.4 million) in the six months ended June 30, 2003 from Rp.2.7 billion in the six months ended June 30, 2002. This increase was mainly due to an increase in travel and transportation expenses.

General and administrative. Our general and administrative expenses increased by 29.5% to Rp.87.3 billion (US\$10.5 million) in the six months ended June 30, 2003 from Rp.67.5 billion in the six months ended June 30, 2002. This increase was mainly due to a 69.8% increase in salaries, wages and employee benefits in the six months ended June 30, 2003 compared to the six months ended June 30, 2002. The following table sets out the components of our general and administrative expenses:

	Six months ended June 30,		
	2002 (Rp. billion)	2003 (Rp. billion)	2003 (US\$ million)
Depreciation	5.4	3.9	0.5
Salaries, wages and employee benefits	24.1	40.9	4.9
Rental	4.2	8.9	1.1
Travel and transportation	3.3	4.9	0.6
Representation and entertainment	3.3	3.6	0.4
Insurance	7.3	2.3	0.3
Repairs and maintenance	1.3	1.9	0.2
Professional fees	10.2	6.5	0.8
Others ⁽¹⁾	8.3	14.4	1.7
Total	<u>67.5</u>	<u>87.3</u>	<u>10.5</u>

Note:

(1) Includes expenses relating to training and education, promotion, tools and spare parts, communication, utilities, fuel and chemicals, provision for doubtful accounts, office equipment, fuel and chemicals, taxes and licenses and others.

Our depreciation expenses decreased by 28.0% to Rp.3.9 billion (US\$0.5 million) in the six months ended June 30, 2003 from Rp.5.4 billion in the six months ended June 30, 2002. This decrease was mainly due to the use of the double-declining method of depreciation which over time normally results in decreasing levels of depreciation when there are no significant additions to property, plant and equipment.

Our salaries, wages and employee benefits increased by 69.8% to Rp.40.9 billion (US\$4.9 million) in the six months ended June 30, 2003 from Rp.24.1 billion in the six months ended June 30, 2002. This increase was mainly due to salaries payable to expatriates seconded to Transgasindo by Transasia's shareholders.

Our rental expenses increased by 109.9% to Rp.8.9 billion (US\$1.1 million) in the six months ended June 30, 2003 from Rp.4.2 billion in the six months ended June 30, 2002. This increase was mainly due to vehicle rent expenses.

Our traveling and transportation expenses increased by 48.0% to Rp.4.9 billion (US\$0.6 million) in the six months ended June 30, 2003 from Rp.3.3 billion in the six months ended June 30, 2002. This increase was mainly due to business trips in connection with the signing of a loan agreement with JBIC in the six months ended June 30, 2003.

Our representation and entertainment expenses increased by 11.0% to Rp.3.6 billion (US\$0.4 million) in the six months ended June 30, 2003 from Rp.3.3 billion in the six months ended June 30, 2002. This increase was mainly due to the disbursement of contributions made to the Government towards the expenses of the preparation of the New Oil and Gas Law.

Our insurance expenses decreased by 69.0% to Rp.2.3 billion (US\$0.3 million) in the six months ended June 30, 2003 from Rp.7.3 billion in the six months ended June 30, 2002. This decrease was mainly due to the increased expensing of insurance premium relating to our pension fund in 2002.

Our repairs and maintenance expenses increased by 45.0% to Rp.1.9 billion (US\$0.2 million) in the six months ended June 30, 2003 from Rp.1.3 billion in the six months ended June 30, 2002. This increase was mainly due to an increase in repairs and maintenance expenses relating to our office buildings.

Our professional fees expenses decreased by 36.1% to Rp.6.5 billion (US\$0.8 million) in the six months ended June 30, 2003 from Rp.10.2 billion in the six months ended June 30, 2002. This decrease was mainly due to the recording of one-time expenses relating to the establishment of Transgasindo in the six months ended June 30, 2002.

Our other general and administrative expenses increased by 74.0% to Rp.14.4 billion (US\$1.7 million) in the six months ended June 30, 2003 from Rp.8.3 billion in the six months ended June 30, 2002. This increase was mainly due to an increase in the provision for doubtful accounts.

Marketing. Our marketing expenses increased by 6.6% to Rp.6.9 billion (US\$0.8 million) in the six months ended June 30, 2003 from Rp.6.5 billion in the six months ended June 30, 2002. This increase was mainly due to a 167.0% increase in rental expense from the six months ended June 30, 2002 to the six months ended June 30, 2003 reflecting an increase in vehicle rental expenses.

Income from Operations

Our income from operations increased by 11.5% to Rp.500.1 billion (US\$60.4 million) in the six months ended June 30, 2003 from Rp.448.6 billion in the six months ended June 30, 2002. This increase was mainly due to the growth in our revenue from natural gas distribution and the increase in our gross margin, which were partially offset by reduced revenue from transmission in the six months ended June 30, 2003 compared to the six months ended June 30, 2002 as discussed above.

Other Charges (Income)

Our other charges (income) produced a gain of Rp.81.2 billion (US\$9.8 million) in the six months ended June 30, 2003 compared to a gain of Rp.162.8 billion in the six months ended June 30, 2002. The gain for the six months ended June 30, 2003 resulted from a foreign exchange gain of Rp.118.1 billion, interest income of Rp.5.5 billion and a miscellaneous net gain of Rp.5.3 billion, which was partially offset by interest expense of Rp.47.6 billion. The gain for the six months ended June 30, 2002 arose primarily from a foreign exchange gain of Rp.207.6 billion plus interest income of Rp.16.2 billion, partially offset by interest expense of Rp.58.4 billion and a miscellaneous net charge of Rp.2.6 billion. The following table sets out the components of other charges (income):

	Six months ended June 30,		
	2002 (Rp. billion)	2003 (Rp. billion)	2003 (US\$ million)
Interest income	(16.2)	(5.5)	(0.7)
Interest expense	58.4	47.6	5.7
Loss/(gain) on foreign exchange — net	(207.6)	(118.1)	(14.3)
Miscellaneous	2.6	(5.3)	(0.6)
Other charges (income) — net	<u>(162.8)</u>	<u>(81.2)</u>	<u>(9.8)</u>

Our interest income decreased by 66.3% to Rp.5.5 billion (US\$0.7 million) in the six months ended June 30, 2003 from Rp.16.2 billion in the six months ended June 30, 2002. This decrease was mainly due to an 86.1% decrease in our average deposits in Rupiah terms (based on the average of month end balances in the period) to Rp.69.8 billion in the six months ended June 30, 2003 from Rp.502.8 billion in the six months ended June 30, 2002 and a decrease in the average interest rates on such deposits from 5.9% to 4.2% over the same period.

Our interest expense decreased by 18.5% to Rp.47.6 billion (US\$5.7 million) in the six months ended June 30, 2003 from Rp.58.4 billion in the six months ended June 30, 2002. This decrease was mainly due to the capitalization of interest related to the sundry costs of the Grissik-to-Singapore pipeline amounting to Rp.25.3 billion in the six months ended June 30, 2003 compared to no such capitalization in 2002. The capitalized interest was recorded on our balance sheet as an addition to the cost of property, plant and equipment. Its effect was partially offset by an 8.5% increase in our average outstanding loans in Rupiah terms (based on a daily weighted average) to Rp.2,391.3 billion (US\$288.6 million) in the six months ended June 30, 2003 from Rp.2,204.2 billion in the six months ended June 30, 2002. Most of our loans are in U.S. dollars and the average outstanding U.S. dollar loans increased by 21.3% in U.S. dollar terms for the six months ended June 30, 2003 compared with the six months ended June 30, 2002, which increase was partially offset by the 8.9% appreciation of the Rupiah to an average of Rp.8,655 per U.S. dollar in the six months ended June 30, 2003 from an average of Rp.9,499 per U.S. dollar in the six months ended June 30, 2002.

Our gain on foreign exchange (net) decreased by 43.1% to Rp.118.1 billion (US\$14.3 million) in the six months ended June 30, 2003 from Rp.207.6 billion in the six months ended June 30, 2002. This decrease was mainly due to the reduced rate of appreciation of the Rupiah against the U.S. dollar of 7.3% in the six months ended June 30, 2003, compared to the 16.1% rate of appreciation in the six months ended June 30, 2002.

Our miscellaneous charges (income) increased to a net gain of Rp.5.3 billion (US\$0.6 million) in the six months ended June 30, 2003 from a net loss of Rp.2.6 billion in the six months ended June 30, 2002. This gain in the six months ended June 30, 2003 was mainly due to the recording of a penalty payment received by us from a contractor due to late completion of work on the Grissik-to-Singapore pipeline.

Income before tax expense (benefit) — net

Our income before tax expense (benefit) decreased by 4.9% to Rp.581.4 billion (US\$70.2 million) in the six months ended June 30, 2003 from Rp.611.4 billion in the six months ended June 30, 2002. The 11.5% increase in income from operations in the six months ended June 30, 2003 was offset by the reduced gain in other charges (income), due to the reduced gain on foreign exchange in the six months ended June 30, 2003 compared to the six months ended June 30, 2002.

Tax expense — net

Our net tax expense decreased by 16.2% to Rp.152.9 billion (US\$18.5 million) in the six months ended June 30, 2003 from Rp.182.5 billion in the six months ended June 30, 2002 due to a reduced tax expense relating to Transgasindo because of a loss made by Transgasindo in the six months ended June 30, 2003.

Minority Interest

The minority interest as of June 30, 2002 represented a 0.25% minority stockholders' interest in assets of Transgasindo while as of June 30, 2003 it represented a 40.25% minority stockholders' interest.

Net income

As a result of the foregoing, our net income decreased by 1.4% to Rp.422.2 billion (US\$51.0 million) in the six months ended June 30, 2003 from Rp.428.4 billion in the six months ended June 30, 2002.

2002 Compared to 2001

Revenue

Our net revenue increased by 13.4% to Rp.3,151.8 billion (US\$380.4 million) in 2002 from Rp.2,780.3 billion in 2001. The increase in revenue was principally a result of an increase of 21.8% in sales of natural gas before sales adjustments to Rp.2,587.0 billion (US\$312.3 million) in 2002 from Rp.2,124.5 billion in 2001, while revenue from gas transmission and the sale of LPG decreased by 13.7% and 32.8%, respectively. Details of the breakdown of our revenue for these years are set out below:

	Year ended December 31,		
	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)
Gas distribution ⁽¹⁾	2,124.5	2,587.0	312.3
Gas transmission	650.6	561.6	67.8
Sale of LPG	7.2	4.9	0.6
Total	2,782.4	3,153.5	380.6
Sales adjustments ⁽²⁾	(2.1)	(1.7)	(0.2)
Net	2,780.3	3,151.8	380.4

Notes:

(1) Before sales adjustments.

(2) Relate to post-invoice reconciliations of gas consumption agreed with customers.

Gas distribution. Our sales of natural gas before sales adjustments increased by 21.8% to Rp.2,587.0 billion (US\$312.3 million) in 2002 from Rp.2,124.5 billion in 2001, almost entirely due to increases in the sale of natural gas to industrial customers. Sales of natural gas were derived from the following customer categories:

	Year ended December 31,		
	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)
Industrial	2,076.8	2,530.6	305.4
Commercial	20.5	26.3	3.2
Fuel gas filling stations	16.4	13.9	1.7
Households	6.3	10.6	1.3
Minimum sales ⁽¹⁾	4.4	5.5	0.7
Others	0.1	0.1	—
Total	2,124.5	2,587.0	312.3

Note:

(1) Reflects the amount paid by customers who do not take the minimum amount of natural gas as required under their contracts with us.

Our sales of natural gas to industrial customers increased by 21.8% to Rp.2,530.6 billion (US\$305.4 million) in 2002 from Rp.2,076.8 billion in 2001. This increase was mainly due to a 14.6% increase in average sales volume of natural gas to industrial customers to 234.6 mmscfd in 2002 from 204.7 mmscfd in 2001 with growth in sales volume to virtually all of our customer segments. In addition, the realized average sales price of natural gas for the industrial customers increased by 6.3% to Rp.29,549 (US\$3.19) per mscf in 2002 from Rp.27,802 per mscf in 2001, notwithstanding an appreciation of the Rupiah against the U.S. dollar, principally due to increases in the purchase price of natural gas which were passed on to customers. Based on the Rupiah to U.S. dollar exchange rate used to prepare our financial statements, the Rupiah appreciated to Rp.9,261 per U.S. dollar in 2002 from Rp.10,266 per U.S. dollar in 2001.

Our sales of natural gas to other customers (including commercial sector customers, fuel gas filling stations and households) increased by 18.4% to Rp.56.4 billion (US\$6.8 million) in 2002 from Rp.47.7 billion in 2001. This increase was mainly due to an 8.3% increase in average sales volume of natural gas to such customers to 3.9 mmscfd in 2002 from 3.6 mmscfd in 2001 principally due to increased sales to commercial customers in Jakarta and Surabaya and to household customers in Jakarta. In addition, the realized average sales price of natural gas per mscf for such customers increased by 7.3% to Rp.39,123 (US\$4.22) in 2002 from Rp.36,473 in 2001.

Geographically, this growth in sales volume arose primarily from our Jakarta and Surabaya distribution networks which experienced year on year growth in volume terms of 11.0% and 24.8%, respectively.

Jakarta's average daily sales volume grew to 121.9 mmscfd in 2002 from 109.7 mmscfd in 2001, while in Surabaya average daily sales volume grew to 77.2 mmscfd in 2002 from 61.8 mmscfd in 2001.

Gas transmission. Revenue generated by gas transmission decreased by 13.7% to Rp.561.6 billion (US\$67.8 million) in 2002 from Rp.650.6 billion in 2001. This decrease was primarily due to a decrease in the average volume of gas transported to 321.4 mmscfd in 2002 from 354.4 mmscfd in 2001. The reduced volume reflected the reduced demand of Caltex for natural gas from ConocoPhillips. In addition, the realized average transmission tariff decreased by 4.8% to Rp.4,788 (US\$0.52) per mscf in 2002 from Rp.5,030 per mscf in 2001.

Sale of LPG. Our sales of LPG decreased by 32.8% to Rp.4.9 billion (US\$0.6 million) in 2002 from Rp.7.2 billion in 2001. This decrease resulted primarily from the transfer to a co-operative of our LPG distribution businesses in Surabaya and Bandung in February and May 2002, respectively.

Cost of Revenue

Our cost of revenue increased by 9.1% to Rp.1,747.4 billion (US\$210.9 million) in 2002 from Rp.1,601.4 billion in 2001 primarily due to increased purchases of natural gas. The following table sets out the components of our cost of revenue:

	Year ended December 31,		
	2001	2002	2002
	(Rp. billion)	(Rp. billion)	(US\$ million)
Natural gas purchases	1,594.9	1,743.1	210.4
LPG purchases	6.6	4.3	0.5
Total	<u>1,601.4</u>	<u>1,747.4</u>	<u>210.9</u>

Our purchases of natural gas increased by 9.3% to Rp.1,743.1 billion (US\$210.4 million) in 2002 from Rp.1,594.9 billion in 2001. This increase was mainly due to a 10.1% increase in average volume purchases of natural gas to 229.7 mmscfd in 2002 from 208.6 mmscfd in 2001. In addition, the realized average cost of natural gas per mscf decreased by 4.6% to Rp.20,017 (US\$2.16) in 2002 from Rp.20,983 in 2001, notwithstanding an appreciation of the Rupiah against the U.S. dollar.

Gross Profit

Our gross profit increased by 19.1% to Rp.1,404.4 billion (US\$169.5 million) in 2002 from Rp.1,178.9 billion in 2001. This increase was mainly due to increased revenue from gas distribution and reflected a gross margin (gross profit as a percentage of revenue) of 44.6% in 2002 compared with a gross margin of 42.4% in 2001. In 2002 and 2001, our distribution business contributed 60.0% and 44.7%, respectively of our gross profit, while our transmission business contributed the balance of 40.0% and 55.2%, respectively. The increase in the contribution of our distribution business to the gross profit was due to a substantial growth in distribution revenue coupled with a decline in transmission revenue.

Operating Expenses

Our operating expenses increased by 30.0% to Rp.590.4 billion (US\$71.3 million) in 2002 from Rp.454.1 billion in 2001 primarily as a result of an increase in distribution and transmission expenses of 28.4% and an increase in our general and administrative expenses of 36.8%. The following table sets out the components of our operating expenses:

	Year ended December 31,		
	2001	2002	2002
	(Rp. billion)	(Rp. billion)	(US\$ million)
Distribution and transmission	312.5	401.3	48.4
General and administrative	127.3	174.2	21.0
Marketing	14.2	14.9	1.8
Total	<u>454.1</u>	<u>590.4</u>	<u>71.3</u>

Distribution and transmission. Our distribution and transmission expenses increased by 28.4% to Rp.401.3 billion (US\$48.4 million) in 2002 from Rp.312.5 billion in 2001 primarily due to increases in depreciation expenses (25.3%) and repairs and maintenance expenses (48.0%). The following table sets out the components of our distribution and transmission expenses:

	Year ended December 31,		
	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)
Depreciation	232.1	291.0	35.1
Repairs and maintenance	41.8	61.8	7.5
Salaries, wages and employee benefits	22.9	29.0	3.5
Rental	8.7	9.7	1.2
Professional fees	0.2	0.6	0.1
Others ⁽¹⁾	6.9	9.2	1.1
Total	<u>312.5</u>	<u>401.3</u>	<u>48.4</u>

Note:

(1) Includes expenses relating to traveling and transportation, fuel and chemicals, communication, utilities, tools and spare parts, office supplies, entertainment, training and education, taxes and licenses, insurance and others.

Our depreciation expenses increased by 25.3% to Rp.291.0 billion (US\$35.1 million) in 2002 from Rp.232.1 billion in 2001. This increase was mainly due to the revaluation of our Grissik-to-Duri gas transmission assets in September 2001, the book value of which increased to Rp.2,029.4 billion from Rp.1,297.9 billion as a result. This increase, combined with the use of the double-declining method of depreciation on certain assets, resulted in significant growth in depreciation expense.

Our repairs and maintenance expenses increased by 48.0% to Rp.61.8 billion (US\$7.5 million) in 2002 from Rp.41.8 billion in 2001. This increase was mainly due to the expenses, amounting to US\$2.4 million in 2002, of maintaining a margin of linepacked gas in the Grissik-to-Duri pipeline in accordance with the gas transportation agreements with ConocoPhillips.

Our salaries, wages and employee benefits increased by 26.9% to Rp.29.0 billion (US\$3.5 million) in 2002 from Rp.22.9 billion in 2001. This increase was mainly due to the introduction of a performance-based salary and bonus scheme in mid-2002 pursuant to which, while there were no changes in base salaries, significant performance-related payments were paid monthly.

Our rental expenses increased by 11.6% to Rp.9.7 billion (US\$1.2 million) in 2002 from Rp.8.7 billion in 2001. This increase was mainly due to vehicle rental expenses incurred by Transgasindo.

Our professional fees expenses increased by 204.2% to Rp.0.6 billion (US\$0.1 million) in 2002 from Rp.0.2 billion in 2001. This increase was mainly due to the outsourcing of certain security and administration functions.

Our other distribution and transmission expenses increased by 33.1% to Rp.9.2 billion (US\$1.1 million) in 2002 from Rp.6.9 billion in 2001. This increase was mainly due to an increase in allowance of Rp.2.1 billion for inventories obsolescence relating to damaged technical parts.

General and administrative. Our general and administrative expenses increased by 36.8% to Rp.174.2 billion (US\$21.0 million) in 2002 from Rp.127.3 billion in 2001. This increase was mainly due to a 32.8% increase in salaries, wages and employee benefits to Rp.72.6 billion (US\$8.8 million) in 2002 from Rp.54.7 billion in 2001. The following table sets out the components of our general and administrative expenses.

	Year ended December 31,		
	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)
Depreciation	9.2	12.4	1.5
Salaries, wages and employee benefits	54.7	72.6	8.8
Rental	8.0	9.5	1.1
Travel and transportation	5.9	7.9	1.0
Representation and entertainment	6.8	10.8	1.3
Insurance	12.9	20.2	2.4
Repairs and maintenance	2.9	7.5	0.9
Professional fees	4.9	10.6	1.3
Others ⁽¹⁾	22.1	22.7	2.7
Total	<u>127.3</u>	<u>174.2</u>	<u>21.0</u>

Note:

(1) Includes expenses relating to training and education, promotion, tools and spare parts, communication, utilities, provision for doubtful accounts, office equipment, fuel and chemicals, taxes and licenses and others.

Our depreciation expenses increased by 34.9% to Rp.12.4 billion (US\$1.5 million) in 2002 from Rp.9.2 billion in 2001. This increase was mainly due to the revaluation of the Grissik-to-Duri transmission assets in September 2001 in preparation for their transfer to Transgasindo, which impacted the full year in 2002 compared to only the last three months in 2001.

Our salaries, wages and employee benefits increased by 32.8% to Rp.72.6 billion (US\$8.8 million) in 2002 from Rp.54.7 billion in 2001. This increase was mainly due to the introduction of a performance-based salary and bonus scheme in mid-2002, pursuant to which significant performance-related payments were paid monthly.

Our rental expenses increased by 18.6% to Rp.9.5 billion (US\$1.1 million) in 2002 from Rp.8.0 billion in 2001. This increase was mainly due to an increase in vehicle rentals.

Our travel and transportation expenses increased by 34.2% to Rp.7.9 billion (US\$1.0 million) in 2002 from Rp.5.9 billion in 2001. This increase was mainly due to costs connected with the negotiations related to the funding and development contracts for the Grissik-to-Singapore pipeline.

Our representation and entertainment expenses increased by 59.9% to Rp.10.8 billion (US\$1.3 million) in 2002 from Rp.6.8 billion in 2001. This increase was mainly due to increased corporate sponsorships and donations in 2002.

Our insurance expenses increased by 56.1% to Rp.20.2 billion (US\$2.4 million) in 2002 from Rp.12.9 billion in 2001. This increase was mainly due to the allocation of insurance costs relating to amortization of a pension insurance premium in full to general and administrative expenses in 2002 instead of to other areas.

Our repairs and maintenance expenses increased by 158.2% to Rp.7.5 billion (US\$0.9 million) in 2002 from Rp.2.9 billion in 2001. This increase was mainly due to the purchase of new software for the maintenance of inventory.

Our professional fees increased by 118.8% to Rp.10.6 billion (US\$1.3 million) in 2002 from Rp.4.9 billion in 2001. This increase was mainly due to professional fees relating to our sale of a 40.0% interest in Transgasindo in November 2002.

Our other general and administrative expenses increased marginally to Rp.22.7 billion (US\$2.7 million) in 2002 from Rp.22.1 billion in 2001.

Marketing. Our marketing expenses increased by 5.0% to Rp.14.9 billion (US\$1.8 million) in 2002 from Rp.14.2 billion in 2001. This increase was mainly due to a 19.8% increase in salaries, wages and employee benefits from 2001 to 2002, although depreciation expense decreased by 28.8% over the same period.

Income from Operations

Our income from operations increased by 12.3% to Rp.813.9 billion (US\$98.2 million) in 2002 from Rp.724.8 billion in 2001. This increase was mainly due to the growth in our revenue from natural gas distribution and an increase in our gross margin, which was partially offset by reduced revenue from transmission and increased operating expenses (particularly depreciation and repairs and maintenance expenses largely relating to the establishment of Transgasindo).

Other Charges (Income)

Our other charges (income) produced a gain of Rp.876.4 billion (US\$105.8 million) in 2002 compared to a loss of Rp.291.1 billion in 2001. This gain in other charges (income) was due primarily to miscellaneous income of Rp.806.4 billion (US\$97.3 million) in 2002 compared to only Rp.8.1 billion in 2001 and a foreign exchange gain in 2002 of Rp.159.5 billion (US\$19.2 million) compared to a foreign exchange loss of Rp.132.8 billion in 2001. The following table sets out the components of other charges (income):

	Year ended December 31,		
	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)
Interest income	(52.0)	(28.0)	(3.4)
Interest expense	218.3	117.5	14.2
Loss/(gain) on foreign exchange — net	132.8	(159.5)	(19.2)
Miscellaneous	(8.1)	(806.4)	(97.3)
Other charges (income) — net	<u>291.1</u>	<u>(876.4)</u>	<u>(105.8)</u>

Our interest income decreased by 46.2% to Rp.28.0 billion (US\$3.4 million) in 2002 from Rp.52.0 billion in 2001. This decrease was mainly due to a 53.1% decrease in our average deposits in Rupiah terms (based on the average of month end balances in the period) to Rp.353.9 billion in 2002 from Rp.754.2 billion in 2001 and a decrease in the weighted average interest rates on such deposits from 7.4% in 2001 to 6.2% in 2002. As most of our deposits were in U.S. dollars for these periods, the appreciation of the Rupiah from Rp.10,266 per U.S. dollar in 2001 to Rp.9,261 per U.S. dollar in 2002, also impacted our recorded Rupiah interest income.

Our interest expense decreased by 46.2% to Rp.117.5 billion (US\$14.2 million) in 2002 from Rp.218.3 billion in 2001. This decrease was mainly due to a 9.0% decrease in our average outstanding loans in Rupiah terms (based on a daily weighted average) to Rp.2,288.9 billion in 2002 from Rp.2,514.0 billion in 2001. As most of our loans were in U.S. dollars in these periods, the appreciation of the Rupiah to Rp.9,261 per U.S. dollar in 2002 from Rp.10,266 per U.S. dollar in 2001 also impacted our recorded Rupiah interest expense, as did a decrease in the weighted average interest rates on such loans from 8.7% in 2001 to 5.1% in 2002.

We recorded a net gain on foreign exchange of Rp.159.5 billion (US\$19.2 million) in 2002 compared with a net loss of Rp.132.8 billion in 2001. This gain in 2002 was mainly due to the appreciation of the Rupiah during 2002 from Rp.10,400 per U.S. dollar to Rp.8,940 per U.S. dollar while the loss in 2001 was mainly due to an 8.4% depreciation during 2001 of the Rupiah to Rp.10,400 per U.S. dollar from Rp.9,595 per U.S. dollar.

Our miscellaneous charges (income) increased by 9,916.2% to Rp.(806.4 billion) (US\$(97.3 million)) in 2002 from Rp.(8.1 billion) in 2001. This increase was mainly due to the gain of Rp.(825.9 billion), net of consultants' fees of Rp.(35.9 billion) recognized on the sale of 40.0% of the issued shares in Transgasindo to Transasia in November 2002 for US\$130 million. We also recognized Rp.32.8 billion (US\$4.0 million) in expenses in 2002 relating to the establishment of Transgasindo and a further Rp.16.9 billion (US\$2.0 million) relating to our late payment of value added tax arising from the transfer of the Grissik-to-Duri transmission assets to Transgasindo.

Income before tax expense (benefit)

Our income before tax expense (benefit) increased 289.7% to Rp.1,690.3 billion (US\$204.0 million) in 2002 from Rp.433.7 billion in 2001. Although income from operations increased by 12.3% in 2002 from 2001, the increase in income before tax expense (benefit) was primarily due to the gain of US\$100.7 million recognized from our sale of a 40.0% interest in Transgasindo and a net gain due to foreign exchange of Rp.159.5 billion (US\$19.2 million) in 2002 compared to a loss of Rp.132.8 billion in 2001.

Tax expense

Our tax expense increased by 366.4% to Rp.564.9 billion (US\$68.2 million) in 2002 from Rp.121.1 billion in 2001. This increase was largely due to an increase in corporate income tax to Rp.553.2 billion (US\$66.8 million) in 2002 from Rp.126.4 billion in 2001, reflecting the significant capital gain we recognized on the sale of shares in Transgasindo and the growth in our other taxable income year on year.

Minority interests

In 2002, we recognized a minority interest for the first time, representing a 40.25% minority stockholders' interest in assets of Transgasindo.

Net income

As a result of the foregoing, our net profit increased by 256.9% to Rp.1,115.7 billion (US\$134.7 million) in 2002 from Rp.312.6 billion in 2001.

2001 Compared to 2000

Revenue

Our net revenue increased by 27.4% to Rp.2,780.3 billion in 2001 from Rp.2,181.8 billion in 2000. The increase in revenue was principally a result of an increase of 34.8% in sales of natural gas before sales adjustments to Rp.2,124.5 billion in 2001 from Rp.1,575.9 billion in 2000. Details of the breakdown of our revenue for these years are set out below:

	Year ended December 31,	
	2000	2001
	(Rp. billion)	(Rp. billion)
Gas distribution ⁽¹⁾	1,575.9	2,124.5
Gas transmission	601.0	650.6
Sale of LPG	6.5	7.2
Total	2,183.3	2,782.4
Sales adjustments ⁽²⁾	(1.6)	(2.1)
Net	<u>2,181.8</u>	<u>2,780.3</u>

Notes:

- (1) Before sales adjustments.
- (2) Relate to post-invoice reconciliations of gas consumption agreed with customers.

Gas distribution. Our sales of natural gas increased by 34.8% to Rp.2,122.4 billion in 2001 from Rp.1,574.3 billion in 2000, almost entirely due to increases in the sale of natural gas to industrial customers, which increased by 35.1% by value of the sale of natural gas. Sales of natural gas were derived from the following customer categories:

	Year ended December 31.	
	2000 (Rp. billion)	2001 (Rp. billion)
Industrial	1,537.2	2,076.8
Commercial	15.2	20.5
Fuel gas filling stations	16.3	16.4
Households	5.0	6.3
Minimum sales ⁽¹⁾	2.2	4.4
Others	—	0.1
Total	<u>1,575.9</u>	<u>2,124.5</u>

Note:

(1) Reflects the amount paid by customers who do not take the minimum amount of natural gas as required under their contracts with us.

Our sales of natural gas to industrial customers increased by 35.1% to Rp.2,076.8 billion in 2001 from Rp.1,537.2 billion in 2000. This increase was mainly due to an 11.1% increase in average sales volume of natural gas to industrial customers to 204.7 mmscfd in 2001 from 184.3 mmscfd in 2000 with growth in sales volume to virtually all of our customer segments. In addition, the realized average sales price of natural gas per mscf for industrial customers increased by 21.6% to Rp.27,802 in 2001 from Rp.22,858 in 2000. Based on the Rupiah to U.S. dollar exchange rate used to prepare our financial statements, the Rupiah depreciated 20.3% to Rp.10,266 per U.S. dollar in 2001 from Rp.8,534 per U.S. dollar in 2000.

Our sales of natural gas to other customers (including commercial sector customers, fuel gas filling stations and households) increased by 23.3% to Rp.47.7 billion in 2001 from Rp.38.7 billion in 2000. This increase was mainly due to a 9.8% increase in average sales volume of natural gas to such customers to 3.6 mmscfd in 2001 from 3.3 mmscfd in 2000, principally due to increased sales to commercial customers in Jakarta and household customers in Surabaya, coupled with an increase in the realized average sales price of natural gas per mscf for such customers of 12.3% to Rp.36,473 in 2001 from Rp.32,488 in 2000, due primarily to the depreciation of the Rupiah discussed above.

Geographically, this growth in sales volume arose primarily from our Jakarta and Surabaya distribution networks, which experienced year on year growth in volume terms of 5.2% and 20.3%, respectively. Jakarta's average daily sales volume grew to 109.7 mmscfd in 2001 from 104.3 mmscfd in 2000, while average sales volume in Surabaya grew to 61.8 mmscfd in 2001 from 51.4 mmscfd in 2000.

Gas transmission. Revenue generated by gas transmission increased by 8.3% to Rp.650.6 billion in 2001 from Rp.601.0 billion in 2000. This increase occurred even though there was a decrease in the average volume of gas transported to 354.4 mmscfd in 2001 from 369.8 mmscfd in 2000. The reduced volume reflected the reduced demand of Caltex for natural gas from ConocoPhillips. However, the realized average transmission tariff increased in Rupiah terms by 13.0% to Rp.5,030 per mscf in 2001 from Rp.4,453 per mscf in 2000, due primarily to the depreciation of the Rupiah discussed above.

Sale of LPG. Our sales of LPG increased by 12.0% to Rp.7.2 billion in 2001 from Rp.6.5 billion in 2000. This increase resulted primarily from the increase in sales of LPG to commercial and industrial sectors from Rp.1.0 billion to Rp.3.5 billion notwithstanding a fall in LPG sales to households from Rp.5.5 billion in 2000 to Rp.3.4 billion in 2001.

Cost of Revenue

Our cost of revenue increased by 44.2% to Rp.1,601.4 billion in 2001 from Rp.1,110.7 billion in 2000 primarily due to increased purchases of natural gas, which increased 44.3% by value. The following table sets out the components of our cost of revenue:

	Year ended December 31,	
	2000	2001
	(Rp. billion)	(Rp. billion)
Natural gas purchases	1,104.9	1,594.9
LPG purchases	5.7	6.6
Total	<u>1,110.7</u>	<u>1,601.4</u>

Our purchases of natural gas increased by 44.3% to Rp.1,594.9 billion in 2001 from Rp.1,104.9 billion in 2000. This increase was mainly due to a 16.9% increase in average purchase volume of natural gas to 208.6 mmscfd in 2001 from 178.4 mmscfd in 2000. In addition, the realized average cost of natural gas per mscf increased by 30.0% to Rp.20,983 in 2001 from Rp.16,144 in 2000, due primarily to the depreciation of the Rupiah discussed above.

Gross Profit

Our gross profit increased by 10.1% to Rp.1,178.9 billion in 2001 from Rp.1,071.1 billion in 2000. This increase was mainly due to increased distribution revenue and notwithstanding gross margins (gross profit as a percentage of revenue) decreased to 42.4% in 2001 compared with a gross margin of 49.1% in 2000. The decrease in gross margins was largely due to depreciation of the Rupiah against the U.S. dollar, as most of our expenses were U.S. dollar denominated but not all of our revenue was U.S. dollar denominated. In 2001 and 2000, our distribution business contributed 44.7% and 43.8%, respectively of our gross profit, while our transmission business contributed the balance of 55.2% and 56.1%, respectively.

Operating Expenses

Our operating expenses decreased by 4.2% to Rp.454.1 billion in 2001 from Rp.473.8 billion in 2000 primarily as a result of a decrease in general and administrative expenses of 20.5%. The following table sets out the components of our operating expenses:

	Year ended December 31,	
	2000	2001
	(Rp. billion)	(Rp. billion)
Distribution and transmission	299.6	312.5
General and administrative	160.2	127.3
Marketing	14.0	14.2
Total	<u>473.8</u>	<u>454.1</u>

Distribution and transmission. Our distribution and transmission expenses increased marginally to Rp.312.5 billion in 2001 from Rp.299.6 billion in 2000. The following table sets out the components of our distribution and transmission expenses:

	Year ended December 31,	
	2000 (Rp. billion)	2001 (Rp. billion)
Depreciation	231.7	232.1
Repairs and maintenance	26.2	41.8
Salaries, wages and employee benefits	26.2	22.9
Rental	8.1	8.7
Professional fees	0.3	0.2
Others ⁽¹⁾	7.2	6.9
Total	<u>299.6</u>	<u>312.5</u>

Note:

(1) Includes expenses relating to traveling and transportation fuel and chemicals, communication, utilities, tools and spare parts, office supplies, entertainment, training and education, taxes and licenses, insurance and others.

Our depreciation expenses increased marginally to Rp.232.1 billion in 2001 from Rp.231.7 billion in 2000. Increased depreciation expense was mainly due to the revaluation of our Grissik-to-Duri gas transmission assets in the last three months of 2001.

Our repairs and maintenance expenses increased by 59.7% to Rp.41.8 billion in 2001 from Rp.26.2 billion in 2000. This increase was mainly due to increased repair and maintenance related to the Grissik-to-Duri pipeline.

Our salaries, wages and employee benefits decreased by 12.6% to Rp.22.9 billion in 2001 from Rp.26.2 billion in 2000. This decrease was mainly due to the employee bonus given in relation to 2000, which was recorded in 2001, being lower than that in the previous year. The bonus was lower due to lower profits.

Our rental expenses increased by 6.6% to Rp.8.7 billion in 2001 from Rp.8.1 billion in 2000. This increase was mainly due to increased rental expense of a helicopter used for pipeline maintenance.

Our professional fees expenses remained almost unchanged at Rp.0.2 billion in 2001 compared to Rp.0.3 billion in 2000.

Our other distribution and transmission expenses decreased by 3.6% to Rp.6.9 billion in 2001 from Rp.7.2 billion in 2000. This decrease was mainly due to a decrease in communications expenses.

General and administrative. Our general and administrative expenses decreased by 20.5% to Rp.127.3 billion in 2001 from Rp.160.2 billion in 2000. This decrease was mainly due to a 23.6% decrease in salaries, wages and employee benefits from 2000 to 2001. The following table sets out the components of our general and administrative expenses:

	Year ended December 31,	
	2000	2001
	(Rp. billion)	(Rp. billion)
Depreciation	5.4	9.2
Salaries, wages and employee benefits	71.6	54.7
Rental	7.9	8.0
Travel and transportation	7.0	5.9
Representation and entertainment	5.0	6.8
Insurance	8.5	12.9
Repairs and maintenance	4.3	2.9
Professional fees	5.0	4.9
Others ⁽¹⁾	45.5	22.1
Total	160.2	127.3

Note:

(1) Includes expenses relating to training and education, promotion, tools and spare parts, communication, utilities, office equipment, fuel and chemicals, taxes and licenses and others.

Our depreciation expenses increased by 69.3% to Rp.9.2 billion in 2001 from Rp.5.4 billion in 2000. This increase was mainly due to the revaluation of the Grissik-to-Duri gas transmission assets in September 2001.

Our salaries, wages and employee benefits decreased by 23.6% to Rp.54.7 billion in 2001 from Rp.71.6 billion in 2000. This decrease was mainly due to the employee bonus given in relation to 2000, which was recorded in 2001, being lower than that in the previous year. The bonus was lower due to lower profits.

Our rental expenses remained almost unchanged at Rp.8.0 billion in 2001 compared to Rp.7.9 billion in 2000.

Our travel and transportation expenses decreased by 15.6% to Rp.5.9 billion in 2001 from Rp.7.0 billion in 2000. This decrease was mainly due to some traveling costs relating to the construction of the Grissik-to-Singapore pipeline which were capitalized as part of the project cost in 2001.

Our insurance expenses increased by 52.3% to Rp.12.9 billion in 2001 from Rp.8.5 billion in 2000. This increase was mainly due to an increase in a pension insurance premium.

Our representation and entertainment expenses increased by 33.8% to Rp.6.8 billion in 2001 from Rp.5.0 billion in 2000. This increase was mainly due to the disbursement of contributions made to the Government towards the expenses of the preparation of the New Oil and Gas Law.

Our repairs and maintenance expenses decreased by 32.5% to Rp.2.9 billion in 2001 from Rp.4.3 billion in 2000. This decrease was mainly due to decreases in repairs of information technology equipment.

Our professional fees expenses remained almost unchanged at Rp.4.9 billion in 2001 compared to Rp.5.0 billion in 2000.

Our other general and administrative expenses decreased by 51.4% to Rp.22.1 billion in 2001 from Rp.45.5 billion in 2000. This decrease was mainly due to a decrease in the amortization of deferred charges from Rp.25.1 billion in 2000 to Rp.1.3 billion in 2001. This resulted from a change in accounting treatment to comply with Indonesian GAAP, which requires us to expense such deferred charges fully.

Marketing. Our marketing expenses increased marginally to Rp.14.2 billion in 2001 from Rp.14.0 billion in 2000.

Income from Operations

Our income from operations increased by 21.3% to Rp.724.8 billion in 2001 from Rp.597.4 billion in 2000. This increase was mainly due to a 27.4% growth in our revenue which was partially offset by decreased gross margin year on year.

Other Charges (Income)

Our other charges (income) produced a loss of Rp.291.1 billion in 2001 compared to a loss of Rp.568.9 billion in 2000. These losses were due primarily to foreign exchange losses and interest expenses in those years. The following table sets out the components of other charges (income):

	Year ended December 31,	
	2000	2001
	(Rp. billion)	(Rp. billion)
Interest income	(30.2)	(52.0)
Interest expense	125.1	218.3
Loss/(gain) on foreign exchange — net	475.7	132.8
Miscellaneous	(1.7)	(8.1)
Other charges (income) — net	<u>568.9</u>	<u>291.1</u>

Our interest income increased by 72.0% to Rp.52.0 billion in 2001 from Rp.30.2 billion in 2000. This was mainly due to a 66.5% increase in our average deposits in Rupiah terms (based on the average of month end balances in the period) to Rp.754.2 billion in 2001 from Rp.453.0 billion in 2000 and an increase in the weighted average interest rates on such deposits from 6.4% in 2000 to 7.4% in 2001. As most of our deposits were in U.S. dollars for these periods, the depreciation of the Rupiah from Rp.8,534 per U.S. dollar in 2000 to Rp.10,266 per U.S. dollar in 2001 also impacted our recorded Rupiah interest income.

Our interest expense increased by 74.5% to Rp.218.3 billion in 2001 from Rp.125.1 billion in 2000. This was mainly due to a 10.3% increase in our average outstanding loans in Rupiah terms (based on a daily weighted average) to Rp.2,514.0 billion in 2001 from Rp.2,280.0 billion in 2000. As most of our loans were in U.S. dollars in these periods, the 20.3% depreciation of the Rupiah to an average of Rp.10,266 per U.S. dollar in 2001 from an average of Rp.8,534 per U.S. dollar in 2000 also impacted our recorded Rupiah interest expense.

Our net losses on foreign exchange decreased by 72.1% to Rp.132.8 billion in 2001 from Rp.475.7 billion in 2000. This was mainly due to a 35.0% depreciation of the Rupiah during 2000, from Rp.7,100 per U.S. dollar to Rp.9,595 per U.S. dollar, compared to an 8.4% depreciation during 2001, to Rp.10,400 per U.S. dollar from Rp.9,595 per U.S. dollar.

Our miscellaneous charges (income) produced a net gain of Rp.8.1 billion in 2001, 378.7% greater than the net gain of Rp.1.7 billion in 2000. In 2001 we recorded miscellaneous income of Rp.11.0 billion relating to additional tax liability and penalties assessed as due by the Indonesian taxation office for value added tax arising from 1999 and for which we lodged an objection in August 2000, which objection was largely accepted by the Indonesian taxation office in August 2001.

Income before tax expense (benefit)

Our income before tax expense (benefit) increased by 1,421.3% to Rp.433.7 billion in 2001 from Rp.28.5 billion in 2000, primarily due to a 21.3% increase in income from operations and a greatly reduced loss on foreign exchange in 2001.

Tax expense (benefit) — net

Our tax expense increased by 453.3% to Rp.121.1 billion in 2001 from Rp.21.9 billion in 2000, largely reflecting the very significant increase in our taxable income.

Net income

As a result of the foregoing, our net profit increased by 4,623.6% to Rp.312.6 billion in 2001 from Rp.6.6 billion in 2000.

Segment Information

We operate two primary businesses, our distribution business and our transmission business. We also operate a small LPG distribution business. As the LPG distribution is small, the segmental discussion below focuses only on our distribution business and our transmission business. We caution investors that historical segment financial data may be unreliable as a measure of the economic efficiency of these businesses. Our consolidated results of operations for the six months ended June 30, 2002 have not been audited.

We are able to allocate the operating expenses which relate directly to each of our businesses. However, a portion of our operating expenses relates to the operation of our head office, and is not allocated. These head office operating expenses remain as a separate unallocated line item. Otherwise we believe this allocation does provide a measure of the contribution of each of our businesses to our operating income.

We set out below details of our revenues and operating expenses for each of our businesses for the periods set out below:

	Year ended December 31,				Six months ended June 30,		
	2000 (Rp. billion)	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)	2002 (Rp. billion)	2003 (Rp. billion)	2003 (US\$ million)
Distribution revenues	1,574.3	2,122.4	2,585.3	312.0	1,268.7	1,464.9	176.8
Cost of revenues	(1,104.9)	(1,594.9)	(1,743.1)	(210.4)	(870.7)	(950.3)	114.7
Distribution operating expenses:							
Salaries and employee benefits	(52.9)	(45.0)	(56.4)	(6.8)	(24.6)	(21.6)	(2.6)
Depreciation	(36.3)	(43.3)	(43.0)	(5.2)	(22.4)	(20.0)	(2.4)
Repair and maintenance	(6.4)	(8.6)	(11.1)	(1.3)	(2.5)	(2.8)	(0.3)
Others	(16.0)	(19.0)	(26.5)	(3.2)	(9.6)	(16.3)	(2.0)
Net contribution	357.7	411.7	705.2	85.1	338.9	453.9	54.8
Transmission revenues	601.0	650.6	561.6	67.8	303.2	261.5	31.6
Transmission operating expenses:							
Salaries and employee benefits	(3.9)	(5.0)	(7.9)	(1.0)	(2.9)	(19.2)	(2.3)
Depreciation	(199.1)	(197.6)	(257.1)	(31.0)	(123.1)	(107.1)	(12.9)
Repair and maintenance	(21.6)	(34.7)	(53.3)	(6.4)	(16.5)	(35.2)	(4.2)
Others	(15.8)	(14.0)	(18.4)	(2.2)	(7.3)	(12.9)	(1.6)
Net contribution	360.7	399.3	224.9	27.1	153.4	87.2	10.5
Other revenues	6.5	7.2	4.9	0.6	2.6	2.3	0.3
Cost of revenues	(5.7)	(6.6)	(4.3)	(0.5)	(2.4)	(2.0)	(0.2)
Other operating expenses:							
Salaries and employee benefits	(0.5)	(0.3)	(0.7)	(0.1)	(0.3)	(0.2)	—
Depreciation	(0.2)	(1.1)	(0.1)	—	—	(0.1)	—
Repair and maintenance	(0.1)	(0.2)	(0.2)	—	(0.1)	(0.1)	—
Other	(1.1)	(1.4)	(1.3)	(0.2)	(0.5)	(1.2)	(0.1)
Net contribution	(1.2)	(2.3)	(1.8)	(0.2)	(0.8)	(1.2)	(0.1)
Other unallocated expenses	(119.8)	(84.0)	(114.4)	(13.8)	(42.9)	(39.8)	(4.8)
Total income from operations	597.4	724.8	813.9	98.2	448.6	500.1	60.4

Distribution

The results of our distribution business are mainly determined by the volume of natural gas we distribute and the margin between the price we pay for the natural gas we distribute and the price at which we sell that natural gas. In addition, the contribution of our distribution business to our operating income is affected by operating expenses relating to distribution, primarily salaries and employee benefits, depreciation of our distribution assets and repair and maintenance expenses.

Six months ended June 30, 2003 Compared to six months ended June 30, 2002

Operating expenses

Salaries and employee benefits. Our salaries and employee benefits for our distribution business decreased by 12.3% to Rp.21.6 billion (US\$2.6 million) in the six months ended June 30, 2003 from Rp.24.6 billion in the six months ended June 30, 2002. The principal reason for the decrease was that an employee bonus in relation to 2001 was paid in the first six months of 2002, whereas the bonus in relation to 2002 was paid in July 2003.

Depreciation. Our total depreciation expense for our distribution business decreased by 10.9% to Rp.20.0 billion (US\$2.4 million) in the six months ended June 30, 2003 from Rp.22.4 billion in the six months ended June 30, 2002. The principal reason for the decrease was the use of the double-declining method of depreciation which over time normally results in decreasing levels of depreciation when there are no significant additions to property, plant and equipment.

Repair and maintenance expenses. Our repair and maintenance expenses for our distribution business increased by 14.5% to Rp.2.8 billion (US\$0.3 million) in the six months ended June 30, 2003 from Rp.2.5 billion in the six months ended June 30, 2002. The principal reason for the increase was an increase in pipeline repair and maintenance expenses relating to our distribution network.

Other operating expenses. Our other operating expenses for our distribution business increased by 70.1% to Rp.16.3 billion (US\$2.0 million) in the six months ended June 30, 2003 from Rp.9.6 billion in the six months ended June 30, 2002. The principal reason for the increase was an increase in the provision for doubtful accounts.

Net contribution to operating income

The net contribution of our distribution business to our operating income increased by 34.0% to Rp.453.9 billion (US\$54.8 million) in the six months ended June 30, 2003 from Rp.338.9 billion in the six months ended June 30, 2002.

Year ended December 31, 2002 Compared to year ended December 31, 2001

Operating expenses

Salaries and employee benefits. Our salaries and employee benefits for our distribution business increased by 25.4% to Rp.56.4 billion (US\$6.8 million) in 2002 from Rp.45.0 billion in 2001. The principal reason for the increase was the introduction of a performance-based salary and bonus scheme in mid-2002 pursuant to which, while there were no changes in base salaries, significant performance-related payments were paid monthly.

Depreciation. Our total depreciation expense for our distribution business decreased marginally to Rp.43.0 billion (US\$5.2 million) in 2002 from Rp.43.3 billion in 2001. The principal reason for the decrease was the use of the double-declining method of depreciation which over time normally results in decreasing levels of depreciation when there are no significant additions to property, plant and equipment.

Repair and maintenance expenses. Our repair and maintenance expenses for our distribution business increased by 28.7% to Rp.11.1 billion (US\$1.3 million) in 2002 from Rp.8.6 billion in 2001. The principal reason for the increase was an increase in pipeline repair and maintenance expenses relating to our distribution network.

Other operating expenses. Our other operating expenses for our distribution business increased by 40.0% to Rp.26.5 billion (US\$3.2 million) in 2002 from Rp.19.0 billion in 2001. The principal reason for the increase was an increase in vehicle related expense.

Net contribution to operating income

The net contribution of our distribution business to our operating income increased by 71.3% to Rp.705.2 billion (US\$85.1 million) in 2002 from Rp.411.7 billion in 2001.

Year ended December 31, 2001 Compared to year ended December 31, 2000

Operating expenses

Salaries and employee benefits. Our salaries and employee benefits for our distribution business decreased by 14.9% to Rp.45.0 billion in 2001 from Rp.52.9 billion in 2000. The principal reason for the decrease was the employee bonus given in relation to 2000, which was recorded in 2001, being lower than that given the previous year. The bonus was lower due to lower profits.

Depreciation. Our total depreciation expense for our distribution business increased by 19.1% to Rp.43.3 billion in 2001 from Rp.36.3 billion in 2000. The principal reason for the increase was increased depreciation for machinery and equipment.

Repair and maintenance expenses. Our repair and maintenance expenses for our distribution business increased by 33.9% to Rp.8.6 billion in 2001 from Rp.6.4 billion in 2000. The principal reason for the increase was an increase in pipeline repair and maintenance expenses relating to our distribution network.

Other operating expenses. Our other operating expenses for our distribution business increased by 18.6% to Rp.19.0 billion in 2001 from Rp.16.0 billion in 2000. The principal reason for the increase was increased vehicle rental expense.

Net contribution to operating income

The net contribution of our distribution business to our operating income increased by 15.1% to Rp.411.7 billion in 2001 from Rp.357.7 billion in 2000.

Transmission

The primary drivers of our transmission business are the volume of natural gas we transport and the transportation tariff we are able to charge for that service. The operating costs relating to our transmission business consist primarily of depreciation of our transmission assets and repair and maintenance expenses.

Six months ended June 30, 2003 Compared to six months ended June 30, 2002

Operating expenses

Salaries and employee benefits. Our salaries and employee benefits for our transmission business increased by 565.7% to Rp.19.2 billion (US\$2.3 million) in the six months ended June 30, 2003 from Rp.2.9 billion in the six months ended June 30, 2002. The principal reason for the increase was salaries payable to expatriates seconded to Transgasindo.

Depreciation. Our total depreciation expense for our transmission business decreased by 13.0% to Rp.107.1 billion (US\$13.0 million) in the six months ended June 30, 2003 from Rp.123.1 billion in the six months ended June 30, 2002. The principal reason for the decrease was the use of the double-declining method of depreciation which over time normally results in decreasing levels of depreciation when there are no significant additions to property, plant and equipment.

Repair and maintenance expenses. Our repair and maintenance expenses for our transmission business increased by 113.2% to Rp.35.2 billion (US\$4.2 million) in the six months ended June 30, 2003 from Rp.16.5 billion in the six months ended June 30, 2002. The increase was principally due to the expense, amounting to US\$3.1 million in the six months ended June 30, 2003, of maintaining a margin of linepacked gas in the Grissik-to-Duri pipeline in accordance with the gas transportation agreements with ConocoPhillips.

Other operating expenses. Our other operating expenses for our transmission business increased by 75.7% to Rp.12.9 billion (US\$1.6 million) in the six months ended June 30, 2003 from Rp.7.3 billion in the six months

ended June 30, 2002. The principal reason for the increase was an increase in rental payments for housing of Transgasindo staff.

Net contribution to operating income

The net contribution of our transmission business to our operating income decreased by 43.1% to Rp.87.2 billion (US\$10.5 million) in the six months ended June 30, 2003 from Rp.153.4 billion in the six months ended June 30, 2002.

Year ended December 31, 2002 Compared to year ended December 31, 2001

Operating expenses

Salaries and employee benefits. Our salaries and employee benefits for our transmission business increased by 58.8% to Rp.7.9 billion (US\$0.9 million) in 2002 from Rp.5.0 billion in 2001. The principal reason for the increase was the introduction of a performance-based salary and bonus scheme in mid-2002 pursuant to which, while there were no changes in base salaries, significant performance-related payments were paid monthly.

Depreciation. Our total depreciation expense for our transmission business increased by 30.1% to Rp.257.1 billion (US\$31.0 million) in 2002 from Rp.197.6 billion in 2001. The principal reason for the increase was the revaluation of our Grissik-to-Duri gas transmission assets in September 2001, whose book value increased to Rp.2,029.4 billion from Rp.1,297.9 billion as a result.

Repair and maintenance expenses. Our repair and maintenance expenses for our transmission business increased by 53.6% to Rp.53.3 billion (US\$6.4 million) in 2002 from Rp.34.7 billion in 2001. This increase was mainly due to the expenses, amounting to US\$2.4 million in 2002, of maintaining a margin of linepacked gas in the Grissik-to-Duri pipeline in accordance with the gas transportation agreements with ConocoPhillips.

Other operating expenses. Our other operating expenses for our transmission business increased by 31.1% to Rp.18.4 billion (US\$2.2 million) in 2002 from Rp.14.0 billion in 2001. The principal reason for the increase was due to expenses relating to the procurement of materials.

Net contribution to operating income

The net contribution of our transmission business to our operating income decreased by 43.7% to Rp.224.9 billion (US\$27.1 million) in 2002 from Rp.399.3 billion in 2001.

Year ended December 31, 2001 Compared to year ended December 31, 2000

Operating expenses

Salaries and employee benefits. Our salaries and employee benefits for our transmission business increased by 29.1% to Rp.5.0 billion in 2001 from Rp.3.9 billion in 2000. The principal reason for the increase was an increase in the number of employees.

Depreciation. Our total depreciation expense for our transmission business decreased marginally to Rp.197.6 billion in 2001 from Rp.199.1 billion in 2000. Increased depreciation expense for Transgasindo was offset by reduced depreciation expense on other assets due to the use of the double-declining method of depreciation on these assets.

Repair and maintenance expenses. Our repair and maintenance expenses for our transmission business increased by 60.9% to Rp.34.7 billion in 2001 from Rp.21.6 billion in 2000. The principal reason for the increase was repair and maintenance related to the Grissik-to-Duri pipeline.

Other operating expenses. Our other operating expenses for our transmission business decreased by 10.9% to Rp.14.0 billion in 2001 from Rp.15.8 billion in 2000. The principal reason for the increase was due to communication expenses.

Net contribution to operating income

The net contribution of our transmission business to our operating income increased by 10.7% to Rp.399.3 billion in 2001 from Rp.360.7 billion in 2000.

Taxation

The corporate income tax rate in Indonesia is 30.0%. Prior to 2001, our tax expense was determined based on the estimated taxable income for the year. No deferred tax was provided for the temporary differences in the recognition of income and expenses for commercial and fiscal reporting purposes. Effective January 1, 2001, we changed our accounting policy for income tax, in accordance with Indonesian Statement of Financial Accounting Standards No. 46, "Accounting for Income Taxes". Deferred income tax is provided to reflect the tax effects of the temporary differences between commercial and fiscal reporting bases of assets and liabilities, and accumulated tax loss carry-forwards.

We incurred value added tax and transfer tax on the transfer of the Grissik-to-Duri transmission assets to Transgasindo in 2002. Indonesian value added tax on asset transfers is 10.0%. The value added tax of Rp.216.2 billion (US\$26.1 million) was paid by Transgasindo in connection with the Grissik-to-Duri transfer in three tranches in August, September and November 2002. Of this, Rp.187.4 billion (US\$22.6 million) was recovered from the Indonesia taxation office on September 15, 2003. We expect that in respect of the transfer of the Grissik-to-Singapore transmission assets to Transgasindo that although value added tax will again be initially payable, we will be able to largely reclaim the value added tax payable in connection with that transfer. Indonesian value added tax is recoverable on the transfer of operating assets but not for transfers of assets identified by the Indonesian taxation office as non-operating assets. Indonesian transfer tax on asset transfers is 5.0% and is non-recoverable. On the transfer of the Grissik-to-Duri transmission assets we incurred transfer tax of Rp.94.1 billion (US\$11.4 million). We would expect that any transfer tax payable on the transfer of the Grissik-to-Singapore transmission assets would similarly not be recoverable.

For each of 2000 and 2001, we have in subsequent years successfully claimed for tax refunds from the Indonesian taxation office, amounting to Rp.64.5 billion and Rp.10.2 billion, respectively, which we recorded as cash received, being a reversal of tax advance payments. We pay corporate tax on a monthly basis, reflecting the corporate tax we estimate is payable based on our annual budget for a given year. On the completion of a tax year, the Indonesian taxation office will issue a tax assessment for the completed tax year and determine, on the basis of our final results, whether we need to pay additional corporate tax or if we are entitled to a tax refund. In addition, in 2001 we recorded miscellaneous income of Rp.11.0 billion relating to additional tax liability and penalties assessed as due by the Indonesian taxation office for value added tax arising from 1999 and for which we lodged an objection in August 2000, which objection was largely accepted by the Indonesian taxation office in August 2001.

Liquidity and Capital Resources

Historically our operations, capital expenditure and working capital requirements have been funded from cash generated from operations and from borrowings, primarily long-term. Our primary cash inflows relate to cash receipts from customers (including deposits), cash from long-term funding arrangements with the Government and foreign quasi-governmental institutions and, more recently, cash from the sale of shares in Transgasindo to Transasia and cash injections provided by Transasia. We generated an aggregate of Rp.1,811.2 billion (US\$218.6 million) of cash from operations in the three and half years ended June 30, 2003 and had aggregate capital expenditures of Rp.2,627.0 billion (US\$317.1 million) in the same period.

Our cash generated from operations grew from 2000 to 2001, but was impacted in 2002 and the six months ended June 30, 2003 by tax payments due to our sale of a 40.0% interest in Transgasindo to Transasia, which resulted in a gain booked from such transfer of Rp.825.9 billion, net of consultants' fees of Rp.35.9 billion. The maximum tax rate on such gain was 30.0%, although the actual tax payable was calculated as part of our overall corporate tax expense and so was subject to various adjustments. The transfer of the Grissik-to-Duri transmission assets to Transgasindo also resulted in value added and transfer taxes of Rp.310.3 billion (US\$37.5 million). A part of these tax payments was prepaid in 2002, with additional payments made in the six months ended June 30, 2003. The transfer of the Grissik-to-Singapore transmission assets is expected to have a comparable effect to these two events on the tax payable in respect of the year ended December 31, 2003, although future tax payments not related to operating revenue are expected to decrease assuming the absence of further asset transfers similar to those made to Transgasindo and no additional sale of shares in operating subsidiaries.

For the six months ended June 30, 2003, cash generated from operations decreased by 4.8% compared with the similar period in 2002. This was primarily due to an increase in payments for operating expenses partially offset by a decrease in payments for taxes. During 2002, our cash generated from operations decreased by 53.5% as compared to 2001, primarily due to an increase in payments of taxes to Rp.286.3 billion (US\$34.6 million) in 2002 from Rp.141.1 billion in 2001. There was an increase in cash payments for operating expenses and other operating activities to Rp.166.6 billion in 2002 from Rp.141.7 billion in 2001, partially offset by a decrease in interest expense. For 2001, our cash generated from operations increased by 12.4% as compared to 2000. Year on year, cash receipts from customers increased by 31.4% which increase was partially offset by a 42.4% increase in cash payments for operating expenses and other operating activities and a 42.0% increase in payments to suppliers and increases in other cash outflows, including a 74.3% increase in interest expense.

Our primary cash outflows relate to operations and working capital requirements (including the purchase of natural gas), fixed asset purchases and other capital expenditures, repayments of long-term debt facilities, dividend payments and tax payments. In addition to our operating and working capital requirements, we fund significant capital expenditures through a mixture of cash generated from operations and long-term borrowings. For further details in relation to our capital expenditure program and future expected capital expenditure, see “— Capital Expenditure”.

A significant proportion of our long-term borrowings are loans provided by foreign quasi-governmental institutions to the Government and then on lent by the Government to us for the purpose of funding a specific development project. As of June 30, 2003, the long-term portion of such borrowings was Rp.2,189.4 billion (US\$264.3 million). While no collateral is required as part of the agreements between the Government and such lenders or in the related loan agreements between the Government and ourselves, a number of these facilities do include financial and other restrictive covenants.

The following table sets out a summary of our long-term loan facilities sourced from foreign quasi-governmental institutions:

Lender	Purpose	Amount of Facility as of June 30, 2003	Amount Outstanding as of June 30, 2003
ADB	Construction of the Grissik-to-Duri and Grissik-to-Singapore transmission pipelines.	US\$218 million	US\$142.6 million (Rp.1,181.7 billion)
JBIC	Construction of the South Sumatra-to-West Java transmission pipeline and distribution expansion in West Java.	Yen 49.1 billion	As of June 30, 2003, we had not drawn down on this facility
	Construction of the Grissik-to-Duri and part of Grissik-to-Singapore transmission pipelines.	US\$195 million	US\$90.3 million (Rp.748.0 billion)
EIB	Construction of the Grissik-to-Duri and Grissik-to-Singapore transmission pipelines and Batam distribution network.	Euro 70 million or equivalent	As of June 30, 2003, we had not drawn down on this facility
	Construction of the Grissik-to-Duri and part of the Grissik-to-Singapore transmission pipelines.	ECUs 46 million or equivalent	US\$48.6 million (Rp.402.8 billion)
IBRD	Distribution and transmission network expansion in Surabaya and Medan.	US\$66.3 million or equivalent	Rp.81.6 billion
	Financing technical assistance/consultancy services in connection with South Sumatra-to-West Java pipeline construction.	US\$2 million	US\$0.6 million (Rp.5.2 billion)

Certain of these loans include financial covenants, including the following:

- The loan from ADB and associated project agreement include financial covenants requiring us to maintain a debt service ratio of not less than 1.3:1 and a debt to-equity ratio of not more than 70:30.

- The loans from EIB include financial covenants requiring us to maintain a debt service ratio of not less than 1.3:1 and debt to equity ratios ranging from not more than 3:1 (at present) to not more than 2:1 (after December 31, 2005).

As of June 30, 2003, our debt service ratio calculated as required by these loan agreements was 4:1 and our debt to equity ratio (similarly calculated) was 67:33.

Generally, we are able to draw down on such loans upon the completion of certain pre-designated stages of the relevant project and as such the project is funded through a mixture of cash from operations and funds from draw downs on such loans. Funding provided by ADB and EIB for the Grissik-to-Singapore pipeline has been subject to some delays due to the delay in securing a strategic investor in Transgasindo until November 2002. To date, funding for this project has been substantially provided by us from cash from operations and from Transasia. Since December 2002, we have been drawing down on these two loan facilities from ADB and EIB. As of June 30, 2003, we had drawn down US\$61.3 million and a further US\$119.7 million was still to be drawn down.

We have also received funds from the Government directly for the development of our gas distribution network in several provinces in Indonesia. The Government has provided us with these funds, pursuant to its policy of encouraging the use of natural gas for residential customers, in order to facilitate the construction of distribution infrastructure for residential customers that might not otherwise be economically viable for us to construct. As of June 30, 2003, the outstanding balance of such funds was Rp.36.9 billion (US\$4.5 million). However, instead of being required to repay such funds, on completion of the relevant project, the Government has approved that the funds provided for such projects may be treated as part of our paid in capital. The EGM authorized the conversion of Rp.57.5 billion (US\$6.9 million) of such funds, which had already been classified as other paid-in capital, to subscribed and fully paid capital in exchange for the issuance of 11.5 million additional shares to the Government (a rate of Rp.500 per share). A further Rp.164.7 billion (US\$19.9 million) of these funds will be converted to capital at a future date in exchange for 329.3 million new shares to be issued to the Government at the same rate of Rp.500 per share. We have obtained in principle approvals as well as independent audits for the first tranche amounting to Rp.28.5 billion (US\$3.4 million), which represents funds received in 1999, 2000 and 2001. The conversion, however, will not take place until we receive the government regulation, which needs to be signed by the President after consultation with the Parliament. For the second tranche of Rp.136.2 billion (US\$16.4 million), no approvals have been obtained. See "Capitalization". This may result in dilution in the net tangible asset value per share of our shares. See "Risk Factors — Risks Relating to Ownership of Our Shares — We have recently issued shares to the Government at a price below the offering price per share in the Global Offering and will issue additional shares to the Government on the same basis after the Global Offering. As a result, you may suffer dilution in the net tangible asset value of your shares".

Our funding from the Government and foreign quasi-governmental institutions has generally been provided at interest rates lower than we would otherwise be able to obtain commercially. There can be no assurance that following the Global Offering we will be able to source further funding from either the Government or such foreign quasi-governmental institutions on similar terms or at all. If adequate long-term funding is not available on satisfactory terms or at all, we may have to delay or abandon future capital-intensive projects. See "Risk Factors — Risks Relating to our Business — The expansion of our gas transmission and distribution networks will require substantial capital for which we may be unable to obtain sufficient financing".

On the sale of 40.0% of our interest in Transgasindo to Transasia in November 2002, we raised a total of US\$130.0 million. Transasia also agreed to commit a further US\$57.6 million by way of shareholder loans or equity for the development of the Grissik-to-Singapore pipeline, to be paid in installments as construction milestones were reached. As of June 30, 2003, US\$30.6 million of this amount had been paid by Transasia pursuant to a Shareholder Loan Agreement dated December 4, 2002, a Shareholder Loan Agreement dated January 28, 2003 and further shareholder advances which will subsequently be converted to debt. The balance of US\$27.0 million will be contributed as equity when the final milestones are achieved.

In connection with the transfer of the Grissik-to-Duri transmission assets to Transgasindo, Transgasindo issued promissory notes to PGN in the amount of the outstanding loans sourced from quasi-governmental institutions. The promissory notes bear the same interest rates as those loans, plus a margin. Similarly, in connection with the transfer of the Grissik-to-Singapore transmission assets to Transgasindo, Transgasindo will issue promissory notes to PGN in the amount of outstanding loans sourced from quasi-governmental institutions bearing the same interest rates as these loans, plus a margin.

On September 10, 2003, we raised net proceeds of US\$145.4 million by the issue of 7.5% guaranteed notes due 2013. These notes were issued by a wholly-owned special purpose vehicle incorporated in Mauritius and guaranteed by PGN. The notes issued were listed on the Singapore Exchange Securities Trading Limited. The net proceeds are intended to be used primarily for the development of the South Sumatra-to-West Java transmission pipeline.

The notes contained various covenants, restricting our ability to, among other things:

- create security over our assets, unless the notes are also secured;
- allow Transgasindo to incur third party debt in excess of US\$30.0 million;
- dispose of more than 5.0% of our assets except to a subsidiary or in certain other circumstances;
- merge with, or transfer all or substantially all of our assets to, another company except to a subsidiary or in certain other circumstances;
- acquire another company which is not engaged in the gas transportation or fiber optic business; and
- constrain our subsidiaries from paying dividends except in certain circumstances.

The maturities of our long-term loans in Rupiah and U.S. dollars as of June 30, 2003 were as follows:

	Principal as of June 30, 2003		
	Rupiah loans		U.S. dollar loans
	(Rp. billion)	(US\$ million)	(US\$ million)
Maturity:			
Within 1 year	31.4	3.8	23.9
Between 1 to 2 years	31.4	3.8	23.9
Between 2 to 5 years	18.7	2.3	94.5
Beyond 5 years	—	—	139.7
Total long-term debt	81.9	9.9	282.2

Note:

(1) The above table does not include the shareholder loans from Transasia to Transgasindo as these loans do not have a specified maturity date.

Our total consolidated long-term debt outstanding as of December 31, 2000, 2001 and 2002 and June 30, 2003, was as follows:

	As of December 31,				As of June 30,	
	2000 (Rp. billion)	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)	2003 (Rp. billion)	2003 (US\$ million)
Current maturities of long-term loans	207.8	206.3	183.5	22.2	229.9	27.7
Long-term loans (net of current maturities of long-term loans)	2,234.7	2,221.0	1,772.6	214.0	2,189.4	264.3
Total debt	2,442.6	2,427.3	1,956.1	236.1	2,419.3	292.0

The following table sets out a summary of our cash flows for the periods indicated:

	Year ended December 31,				Six months ended June 30,		
	2000	2001	2002	2002	2002	2003	2003
	(Audited)		(US\$ million)		(Unaudited)	(Audited)	
	(Rp. billion)				(Rp. billion)	(US\$ million)	
Net cash provided by (used in) operating activities	602.3	677.0	314.6	38.0	228.3	217.3	26.2
Net cash provided by (used in) investing activities	(54.0)	(321.0)	(101.7)	(12.3)	(377.4)	(1,166.3)	(140.8)
Net cash provided by (used in) financing activities	(424.1)	(328.3)	(142.7)	(17.2)	(97.2)	488.5	59.0
Net increase in cash and cash equivalents	124.2	27.7	70.2	8.5	(246.4)	(460.5)	(55.6)
Foreign exchange rate effects on cash and cash equivalents	99.7	61.6	(88.4)	(10.7)	(103.9)	(44.8)	(5.4)
Cash and cash equivalents at beginning of year	497.3	721.2	810.5	97.8	810.5	792.3	95.6
Cash and cash equivalents at end of year	721.2	810.5	792.3	95.6	460.3	287.0	34.6

Cash Flows From Operating Activities

Our net cash inflow from operating activities in the six months ended June 30, 2003 of Rp.217.3 billion (US\$26.2 million) resulted primarily from cash inflows arising from cash receipts from distribution and transmission customers of Rp.1,624.0 billion (US\$ 196.0 million). The cash inflow was partly offset by cash outflows of payments to natural gas and LPG suppliers of Rp.901.9 billion (US\$108.9 million), payment of corporate taxes (net of tax restitution) of Rp.310.3 billion (US\$37.5 million) and payments to employees, for operating expenses and other operating activities and interest expenses of Rp.29.7 billion (US\$3.6 million), Rp.106.2 billion (US\$12.8 million) and Rp.53.7 billion (US\$6.5 million), respectively.

Our net cash inflow from operating activities in 2002 of Rp.314.6 billion (US\$38.0 million) resulted primarily from cash inflows arising from cash receipts from distribution and transmission customers of Rp.3,055.9 billion (US\$368.8 million) and cash receipts from interest income of Rp.36.1 billion (US\$4.4 million). The cash inflow was partly offset by cash outflows of payments to natural gas and LPG suppliers of Rp.1,641.3 billion (US\$198.1 million), payment of corporate income taxes (net of tax restitution) of Rp.286.3 billion (US\$34.6 million) and payments to employees, for operating expenses and other operating activities and interest expenses of Rp.110.6 billion (US\$13.4 million), Rp.166.6 billion (US\$20.1 million) and Rp.123.9 billion (US\$15.0 million), respectively.

Our net cash inflow from operating activities in 2001 of Rp.677.0 billion resulted primarily from cash inflows arising from cash receipts from customers of Rp.2,657.8 billion. This was partly offset by cash outflows of payments to suppliers of Rp.1,447.2 billion, payment of corporate income taxes (net of restitution) of Rp.141.1 billion and payments to employees, for operating expenses and other operating activities and interest expenses of Rp.90.8 billion, Rp.141.7 billion and Rp.217.2 billion, respectively.

Our net cash inflow from operating activities in 2000 of Rp.602.3 billion resulted primarily from cash receipts from customers of Rp.2,022.3 billion, offset primarily by cash outflows of payments to suppliers of Rp.1,019.3 billion, payment of corporate income taxes (net of tax restitution) of Rp.127.7 billion and payments to employees, for operating expenses and other operating activities and interest expenses of Rp.71.5 billion, Rp.99.5 billion and Rp.124.6 billion, respectively.

Cash Flows From Investing Activities

Our net cash outflow from investing activities in the six months ended June 30, 2003 of Rp.1,166.3 billion (US\$140.8 million) was primarily due to investment in fixed assets of Rp.1,267.3 billion (US\$153.0 million) relating largely to the Grissik-to-Singapore pipeline.

Our net cash outflow from investing activities in 2002 of Rp.101.7 billion (US\$12.3 million) was primarily due to investment in fixed assets of Rp.1,221.4 billion (US\$147.4 million) relating largely to the Grissik-to-Singapore pipeline. However, this outflow was largely offset by the cash inflow arising from the sale of shares in Transgasindo in November 2002 in the amount of Rp.1,003.6 billion (US\$121.1 million).

Our net cash outflow from investing activities in 2001 of Rp.321.0 billion was primarily due to investment in time deposits of Rp.260.2 billion and in fixed assets of Rp.83.6 billion.

Our net cash outflow from investing activities in 2000 of Rp.54.0 billion was primarily due to investment in fixed assets of Rp.54.7 billion.

Cash Flows From Financing Activities

Our net cash inflow from financing activities in the six months ended June 30, 2003 of Rp.488.5 billion (US\$59.0 million) was primarily due to receipt of proceeds from borrowings of Rp.598.4 billion (US\$72.2 million), sourced from ADB, JBIC and EIB, all relating to the Grissik-to-Singapore pipeline. This was partly offset by the repayment of loans in the amount of Rp.100.9 billion (US\$12.2 million).

Our net cash used in financing activities in 2002 of Rp.142.7 billion (US\$17.2 million) was primarily used in the repayment of loans of Rp.186.1 billion (US\$22.5 million) and the payment of dividends of Rp.158.6 billion (US\$19.1 million). This was partly offset by the draw down on loans in the amount of Rp.209.9 billion (US\$25.3 million).

Our net cash used in financing activities in 2001 of Rp.328.3 billion was primarily used in the repayment of loans of Rp.229.4 billion and the payment of dividends of Rp.97.4 billion.

Our net cash used in financing activities in 2000 of Rp.424.1 billion was primarily used in the repayment of loans of Rp.213.2 billion and the payment of dividends of Rp.200.1 billion.

There has not been any material change in our indebtedness or contingent liabilities since June 30, 2003, except for the following:

- On September 10, 2003, we issued through our wholly-owned subsidiary PGN Euro Finance 2003 Limited, incorporated in Mauritius, US\$150.0 million 7.5% guaranteed notes due 2013. The notes issued were listed on the Singapore Exchange Securities Trading Limited.
- In relation to the funding provided by ADB and EIB for the Grissik-to-Singapore pipeline, as of June 30, 2003 we had drawn down US\$61.3 million and a further US\$119.7 million was still to be drawn down. We continue to draw down on these facilities.
- At the EGM, our subscribed and fully paid capital was increased to Rp.1,750.0 billion (US\$211.2 million) from Rp.200 billion (US\$24.1 million), through the issuance to our shareholder of 3.1 billion shares at a nominal amount of Rp.500 per share. Such shares were issued in exchange for (1) the capitalization of Rp.57.5 billion (US\$6.9 million) of Government project funds provided in connection with distribution network expansion, (2) the capitalization of Rp.556.7 billion (US\$67.2 million) arising from the revaluation of property, plant and equipment and (3) the capitalization of retained earnings of Rp.935.8 billion (US\$113.0 million).

Capital Expenditure

Our consolidated capital expenditure in 2000, 2001 and 2002 and the six months ended June 30, 2003 amounted to Rp.54.7 billion, Rp.83.6 billion, Rp.1,221.4 billion (US\$147.4 million) and Rp.1,267.3 billion (US\$153.0 million), respectively.

The majority of our capital expenditure during these periods related to the development of our transmission infrastructure, including the Grissik-to-Duri compressor facilities and the Grissik-to-Singapore pipeline. To undertake various significant capital projects we have completed or are currently undertaking we have been reliant on sourcing long-term funding either from the Government or from foreign quasi-governmental institutions which have arranged facilities through the Government. In particular, over the years we have raised funds indirectly through the Government from each of ADB, JBIC, EIB and IBRD. These loans are provided by the relevant quasi-governmental institution to the Government and then on-lent by the Government to us for the

purpose of funding a specific development project. In addition, the Government has provided project funds from time to time for the purpose of expanding our distribution network.

The following table sets out our planned capital expenditure for the periods indicated:

	Year ended December 31,			
	2003	2004	2005	2006
	(US\$ million)			
Transmission:⁽¹⁾				
Grissik-to-Singapore ⁽²⁾	235.7	—	—	—
South Sumatra-to-West Java Phase I ⁽³⁾	—	94.1	165.3	188.2
South Sumatra-to-West Java Phase II ⁽⁴⁾	—	73.6	147.3	223.2
Duri-to-Medan ⁽⁴⁾	—	43.3	86.6	86.6
Total	<u>235.7</u>	<u>211.0</u>	<u>399.1</u>	<u>498.0</u>
Distribution:				
Expansion of existing networks ⁽⁵⁾	26.0	18.5	7.7	9.2
Construction of new networks ⁽⁶⁾	13.2	34.0	31.4	51.4
Total	<u>274.9</u>	<u>263.5</u>	<u>438.2</u>	<u>558.6</u>

Notes:

- (1) Does not include East Kalimantan-East Java and West Java-East Java transmission projects.
- (2) Operational. Payments under construction contracts to be finalized.
- (3) Under development.
- (4) Approved.
- (5) Includes Jakarta, Bogor, Cirebon, Palembang, Surabaya and Medan networks.
- (6) Includes Batam, Pekanbaru, Semarang, Banten/West Java, Lampung and Jambi networks.

We expect our capital expenditure for 2004 to 2006 to amount to approximately US\$1,260.3 million. US\$1,108.1 million, or 87.9%, of this amount is expected to relate to our transmission business, principally the construction of the South Sumatra-to-West Java and Duri-to-Medan pipelines. US\$152.2 million, or 12.1%, of the planned capital expenditure for 2004 to 2006 is expected to relate to our distribution business, principally the construction of our planned new networks and expansion of existing networks. See "Business — Gas Distribution Business — Distribution Network Expansion".

We plan to fund the capital and related expenditures described in this Offering Circular principally through cash provided by operating activities, long-term debt and with a portion of the net proceeds we receive from the Global Offering. See "Risk Factors — Risks Relating to our Business — The expansion of our gas transmission and distribution networks will require substantial capital for which we may be unable to obtain sufficient financing".

Commitments and Contingencies

Foreign Exchange and Derivative Contracts

We do not hedge against financial or market risks and, accordingly, have no foreign exchange or derivatives contracts outstanding.

Letters of Credit and Guarantees

We have standby letter of credit facilities with PT Bank Mandiri (Persero), which are used to guarantee the payments of our gas purchases for the Surabaya, East Java and Muara Karang, West Java areas. The facilities, which have annual maximum limits ranging from US\$75.9 million to US\$83.5 million, respectively, will expire in 2009 and 2016. Certain of our time deposits with the same bank, trade receivables and certain land rights and buildings, including our headquarters building in Jakarta and the headquarters of the East Java SBU in Surabaya, are used as collateral for these facilities. As of June 30, 2003, the aggregate net book value of these assets totaled Rp.533.0 billion (US\$64.3 million).

PGN has guaranteed payment of the US\$150.0 million 7.5% guaranteed notes due 2013 issued by our wholly-owned special purpose vehicle incorporated in Mauritius.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our financial condition and results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations" where such policies affect our reported and expected financial results. The preparation of our financial statements requires us to make difficult, complex and subjective judgment in selecting the appropriate estimates and assumptions that affect the amounts reported in our financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. There can be no assurance that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items.

Doubtful Accounts

We provide for doubtful accounts based on a periodic review of the estimated collectibility of the individual receivable accounts. A full allowance (100.0% of outstanding balance) is provided for customer receivables when the customer's gas meter is completely removed and a partial allowance (50.0% of outstanding balance) is provided for customer receivables when supply to the customer is suspended. In practice, it is unusual for us to remove a customer's meter as typically we will seek to agree a payment schedule with our customer to allow them to payoff the outstanding amounts due to us. In these circumstances we would usually continue to supply natural gas to the customer and would not make any provision for doubtful accounts.

We set out below a maturity schedule of our trade receivables (based on our invoice data):

	As of December 31,				As of June 30,	
	2000 (Rp. billion)	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)	2003 (Rp. billion)	2003 (US\$ million)
Up to 1 month	176.5	214.5	214.2	25.9	274.0	33.1
> 1 month – 3 months	121.9	154.4	116.0	14.0	110.9	13.4
> 3 months – 6 months ...	21.5	17.8	34.8	4.2	26.4	3.2
> 6 months – 1 year	33.1	2.2	14.7	1.8	34.9	4.2
> 1 year	18.1	13.1	16.9	2.0	9.9	1.2
Total	<u>370.9</u>	<u>402.0</u>	<u>396.6</u>	<u>47.9</u>	<u>456.1</u>	<u>55.1</u>

Depreciation

Depreciation is computed using the straight-line method for buildings and improvements, and the double-declining method for all other property and equipment (including pipelines) over the estimated useful lives of the assets as follows:

	Years	Rate
Buildings and improvements	20	5.0%
Machinery and equipment (including pipelines)	16	12.5%
Vehicles	4-8	25.0%-50.0%
Office equipment	4-8	25.0%-50.0%
Furniture and fixtures	4-8	25.0%-50%

The double-declining method of depreciation has the effect of expensing a significant amount of depreciation in the initial years of a particular asset's life. As of June 30, 2003 net book value of Rp.1,752.1 billion (US\$211.5 million) of our property, plant and equipment was depreciated using the double-declining method and of Rp.65.3 billion (US\$7.9 million) was depreciated using the straight-line method.

Functional Currency

Effective January 1, 2003, Transgasindo changed its reporting currency to US dollars, its functional currency. Transgasindo's beginning balances for accounting purposes are adjusted by remeasuring the financial statements accounts as if the functional currency has been applied since the date transaction occurred. The

reporting currency used in the preparation of our consolidated financial statements is Indonesian Rupiah. For consolidation purposes, the financial statements of Transgasindo are translated into Rupiah using the following exchange rates:

<u>Account</u>	<u>Exchange Rate</u>
Assets and Liabilities	Middle exchange rate of Bank Indonesia at balance sheet date
Stockholders' Equity	Historical rates of Bank Indonesia
Revenue and expenses	Weighted-average rate of Bank Indonesia during the period

The difference arising from the translation of Transgasindo's financial statements into Rupiah is presented as "Difference In Foreign Currency Translation" in the stockholder's equity section of the consolidated balance sheets.

Non-GAAP Financial Measures

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items:

- interest income/expense;
- amortization;
- non-operating income/expense;
- income tax expense;
- provision for doubtful accounts; and
- depreciation.

EBITDA is not a standard measure under either U.S. GAAP or Indonesian GAAP. As the gas distribution and transmission business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the net income of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable Indonesian GAAP and U.S. GAAP measure to EBITDA is net income. We operate in a capital intensive industry. We use EBITDA in addition to net income because net income includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as goodwill amortization and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses, as well as reported tax positions, goodwill, amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our net income under Indonesian GAAP to our definition of EBITDA for the periods indicated:

	Year ended December 31,				Six months ended June 30,		
	2000 (Rp. billion)	2001 (Rp. billion)	2002 (Rp. billion)	2002 (US\$ million)	2002 (Rp. billion)	2003 (Rp. billion)	2003 (US\$ million)
EBITDA	864.5	971.9	1,120.7	135.3	596.0	631.7	76.2
Adjustments:							
Depreciation	(238.4)	(244.7)	(305.8)	(36.9)	(147.3)	(129.2)	(15.6)
Provision for doubtful account and amortization	(28.7)	(2.4)	(1.0)	(0.1)	—	(2.4)	(0.3)
Interest expense	(125.1)	(218.3)	(117.5)	(14.2)	(58.4)	(47.6)	(5.7)
Gain (loss) on foreign exchange — net	(475.7)	(132.8)	159.5	19.2	207.6	118.1	14.3
Interest income	30.2	52.0	28.0	3.4	16.2	5.5	0.7
Miscellaneous — net ...	1.7	8.1	806.4	97.3	(2.6)	5.3	0.6
Tax benefit (expense) — current year	(23.2)	(126.4)	(553.2)	(66.8)	(170.9)	(153.0)	(18.5)
Tax benefit (expense) — deferred	1.3	5.2	(11.7)	(1.4)	(11.6)	0.1	—
Minority interest	—	—	(9.7)	(1.2)	(0.5)	(6.3)	(0.8)
Net income	6.6	312.6	1,115.7	134.7	428.4	422.2	51.0

You should not consider our definition of EBITDA in isolation or construe it as an alternative to net income or as an indicator of operating performance or any other standard measure under Indonesian GAAP or U.S. GAAP. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

Market Risks

Our operations are located in Indonesia and as such we are exposed to the effect of changes in financial markets and economic conditions internationally. Currently we do not hedge against financial or market risks.

Foreign currency exchange risks

Our natural gas purchases are denominated in U.S. dollars. These U.S. dollar prices are passed on to our industrial distribution customers (who accounted for 97.7% of our gas distribution revenue in the six months ended June 30, 2003) through the U.S. dollar component of the amount paid by such customers. We believe this provides us with a natural hedge against much of our exchange rate risk in relation to natural gas purchases. However, we are exposed to the following exchange rate risks:

- Our long-term debt, including US\$150.0 million of guaranteed notes issued on September 10, 2003 and most of the loans from the Government sourced from foreign quasi-government institutions, is denominated in U.S. dollars. The cash generated from distribution operations from which these loans will be mainly serviced are denominated partly in Rupiah.
- Our capital expenditures have historically been, and are expected to continue to be, denominated primarily in U.S. dollars. Although future capital expenditures are expected to be primarily financed by U.S. dollar long-term debt, we also expect to fund capital expenditures partly from cash generated from operations and received by us from the Global Offering. Cash generated from operations is partly denominated in Rupiah, as described above, and the net proceeds of the Global Offering will be wholly denominated in Rupiah.
- Our loan from JBIC of Yen 49.1 billion, which has been provided to assist in the development of the South Sumatra-to-West Java gas transmission pipeline, has yet to be drawn down, but will expose us to additional foreign exchange risk once we have drawn upon it.

Natural gas price fluctuation risks

We are exposed to price fluctuation risks for natural gas. The purchase price of natural gas and LPG represents 100.0% of our cost of revenue. We believe that prices for natural gas do not typically experience significant short-term price fluctuations and in general we have been able to successfully pass price increases in respect of natural gas onto our customers. In addition, our current gas purchase contracts are generally long-term. However, although some of our contracts fix prices according to specified criteria, others specify that prices in later years will be negotiated. There can be no assurance that we will be able to pass price increases onto customers and we are exposed to the risk of gas price increases when signing new contracts or renewing existing ones. Further, gas price increases which we pass on to our customers may adversely affect demand for our natural gas. We do not engage in natural gas price hedging activities.

Interest rate risks

We are exposed to interest rate risks. As of June 30, 2003, the amount of our borrowings at variable interest rates totaled Rp.2,337.7 billion (US\$282.2 million) representing 96.6% of our debt as of that date. On September 10, 2003, we issued through our wholly-owned subsidiary PGN Euro Finance 2003 Limited, incorporated in Mauritius, US\$150.0 million 7.5% guaranteed notes due 2013. We do not currently hedge our interest risks and we do not currently intend to hedge such interest rate exposure.

RECENT DEVELOPMENTS

The unaudited consolidated financial information as of and for the nine months ended September 30, 2003 and 2002 shown below was prepared pursuant to Indonesian GAAP. Indonesian GAAP differs in significant respects from U.S. GAAP. See "Principal Differences Between Indonesian GAAP and U.S. GAAP".

The consolidated balance sheet data for June 30, 2003 were derived from our consolidated balance sheet prepared pursuant to Indonesian GAAP.

Results of operations for the nine months ended September 30, 2003 may not be indicative of results of operations for the second half of 2003.

	Nine months ended September 30,		
	2002 (Rp. billion)	2003 (Rp. billion) (Unaudited)	2003 (US\$ million)
Consolidated income statement data:			
Revenues	2,384.5	2,636.0	318.2
Cost of revenues	<u>(1,325.7)</u>	<u>(1,464.5)</u>	<u>(176.8)</u>
Gross profit	1,058.9	1,171.5	141.4
Operating expenses	<u>(443.3)</u>	<u>(457.7)</u>	<u>(55.2)</u>
Income from operations	615.5	713.8	86.2
Other charges (income) – net	<u>(98.1)</u>	<u>(17.8)</u>	<u>2.2</u>
Income before tax expense	713.6	731.6	88.3
Tax expense – net	<u>(210.3)</u>	<u>(211.7)</u>	<u>(25.6)</u>
Income before minority interest	503.3	519.9	62.8
Minority interest	<u>(0.5)</u>	<u>2.3</u>	<u>0.3</u>
Net income	<u>502.8</u>	<u>522.2</u>	<u>63.0</u>

	As of June 30, 2003		As of September 30, 2003	
	(Rp. billion) (Audited)	(US\$ million)	(Rp. billion) (Unaudited)	(US\$ million)
Consolidated balance sheet data:				
Assets:				
Current assets	1,456.4	175.8	2,423.8	292.6
Non-current assets	<u>4,668.0</u>	<u>563.4</u>	<u>5,267.3</u>	<u>635.8</u>
Total assets	<u>6,124.4</u>	<u>739.2</u>	<u>7,691.1</u>	<u>928.3</u>
Liabilities:				
Current liabilities	1,408.1	170.0	1,315.9	158.8
Long-term debt	2,189.4	264.3	2,320.9	280.1
Guaranteed Notes	—	—	1,217.3	146.9
Due to a stockholder of the subsidiary	220.8	26.6	321.7	38.8
Other non-current liabilities	8.3	1.0	10.6	1.3
Minority interest	213.2	25.7	215.1	26.0
Government project funds	36.9	4.5	120.3	14.5
Equity	<u>2,047.7</u>	<u>247.2</u>	<u>2,169.5</u>	<u>261.9</u>
Total liabilities and equity	<u>6,124.4</u>	<u>739.2</u>	<u>7,691.1</u>	<u>928.3</u>

The following discussion is based on our unaudited consolidated financial information presented above.

Our net revenue increased by 10.5% to Rp.2,636.0 billion (US\$ 318.2 million) in the nine months ended September 30, 2003 from Rp.2,384.5 billion in the nine months ended September 30, 2002. The increase in revenue was principally a result of an increase of 15.3% in natural gas sales before sales adjustments to Rp.2,249.3 billion (US\$271.5 million) in the nine months ended September 30, 2003 from Rp.1,951.2 billion in the nine months ended September 30, 2002.

Our cost of revenue also increased by 10.5% to Rp.1,464.5 billion (US\$176.8 million) in the nine months ended September 30, 2003 from Rp.1,325.7 billion in the nine months ended September 30, 2002 mainly due to

increased purchases of natural gas, which increased by 10.6% by value from Rp.1,462.0 billion (US\$176.5 million) in the nine months ended September 30, 2003 from Rp.1,322.4 billion in the nine months ended September 30, 2002.

These changes resulted in our gross profit increasing by 10.6% to Rp.1,171.5 billion (US\$141.4 million) in the nine months ended September 30, 2003 from Rp.1,058.9 billion in the nine months ended September 30, 2002.

Our operating expenses increased by 3.2% to Rp.457.7 billion (US\$55.2 million) in the nine months ended September 30, 2003 from Rp.443.3 billion in the nine months ended September 30, 2002. This increase was primarily a result of an increase in general and administrative expenses (principally due to increased salaries, wages and employee benefits) of 21.2% to Rp.167.1 billion (US\$20.2 million) in the nine months ended September 30, 2003 from Rp.137.9 billion in the nine months ended September 30, 2002 and notwithstanding a reduction in distribution and transmission expenses (principally due to reduced depreciation and amortization charges) of 4.7% to Rp.280.9 billion (US\$33.9 million) in the nine months ended September 30, 2003 from Rp.294.8 billion in the nine months ended September 30, 2002.

As a result of the foregoing, our income from operations increased by 16.0% to Rp.713.8 billion (US\$86.2 million) in the nine months ended September 30, 2003 from Rp.615.5 billion in the nine months ended September 30, 2002.

Our other charges (income) produced a gain of Rp.17.8 billion (US\$2.2 million) in the nine months ended September 30, 2003 compared to a gain of Rp.98.1 billion in the nine months ended September 30, 2002. The gain for the nine months ended September 30, 2003 resulted from a foreign exchange gain of Rp.78.5 billion (US\$9.5 million), interest income of Rp.17.0 billion (US\$2.1 million) and a miscellaneous net gain of Rp.6.5 billion (US\$0.8 million), which was partially offset by interest expense of Rp.84.3 billion (US\$10.2 million). The gain for the nine months ended September 30, 2002 arose primarily from a foreign exchange gain of Rp.164.1 billion plus interest income of Rp.22.2 billion, partially offset by interest expense of Rp.86.8 billion and a miscellaneous net charge of Rp.1.5 billion.

Our net tax expense increased marginally to Rp.211.7 billion (US\$25.6 million) in the nine months ended September 30, 2003 from Rp.210.3 billion in the nine months ended September 30, 2002.

As a result of the foregoing, our net income increased by 3.9% to Rp.522.2 billion (US\$63.0 million) in the nine months ended September 30, 2003 from Rp.502.8 billion in the nine months ended September 30, 2002.

DESCRIPTION OF THE INDONESIAN OIL AND GAS INDUSTRY

The information in the section below has been derived, in part, from various government and private publications or obtained in communications with Government agencies in Indonesia. This information has not been independently verified by us, the Selling Shareholder, the International Selling Agents or the Underwriters or any of our or their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside Indonesia. Neither we, the Selling Shareholder, the International Selling Agents or the Underwriters have any actual knowledge of any material misstatement contained in this section.

Introduction

Indonesia's oil and gas industry is recognized as the third oldest in the world after the United States' and Russia's. The first discovery of oil in commercial quantities was in 1885 in North Sumatra, with production commencing shortly thereafter. However, the main oil producing fields in Sumatra were not discovered until the 1930s and 1940s. Following its independence in 1945, Indonesia sought to realize the potential which oil possessed for providing the funds necessary for the development of the country and its infrastructure. Oil and gas have become the largest contributors to state revenue by industry sector, contributing approximately 24.6% to domestic revenues in 2002. In addition, Indonesia's oil and gas sector is an important contributor to Government export revenues and an important source of foreign exchange for the country. In 2002, exports of oil and gas products accounted for approximately 21.0% of all export earnings in Indonesia.

Indonesia produces approximately 1.3 million barrels of oil and condensate and 7.7 billion cubic feet of natural gas per day. In 2001, Indonesia was the ninth largest oil producing country in the world and was also one of the world's largest producers of LNG. Indonesia is also a member of the Organization of the Petroleum Exporting Countries, a group of 11 oil producing countries representing approximately 40.0% of world oil production in 2001. Foreign companies have an active history in the exploration and production of oil and gas in Indonesia. Currently, over 185 contracts are in place with independent operators, including over 130 PSCs, for the exploration, development and production of oil and gas reserves.

Primary Energy Consumption

Indonesia is heavily dependent on oil and gas for its energy consumption. In 2001, petroleum accounted for approximately 80.0% of its primary energy consumption, including approximately 56.0% for oil and 24.0% for natural gas. Between 1998 and 2001, the Indonesian economy has grown at a compound growth rate of 3.0% per annum in real terms, while energy consumption has grown at over twice this rate at 6.7% per annum.

The following table summarizes Indonesia's primary energy consumption and economic growth:

	Indonesian Primary Energy Consumption							
	1998		1999		2000		2001	
	(mmBOE)	(%)	(mmBOE)	(%)	(mmBOE)	(%)	(mmBOE)	(%)
Oil	333.5	58.7	354.0	57.2	378.5	58.7	386.2	55.9
Natural gas	144.1	25.4	168.5	27.2	164.7	25.5	164.4	23.8
Sub-total (Petroleum)	477.6	84.1	522.5	84.4	543.2	84.2	550.6	79.7
Coal	55.8	9.8	62.5	10.1	67.1	10.4	110.1	15.9
Hydro	26.9	4.7	26.0	4.2	25.1	3.9	28.6	4.1
Geothermal	7.4	1.3	7.5	1.2	9.2	1.4	13.4	1.9
Total	<u>567.8</u>	<u>100.0</u>	<u>618.5</u>	<u>100.0</u>	<u>644.7</u>	<u>100.0</u>	<u>690.7</u>	<u>100.0</u>
Gross Domestic Product (Rp.Trillions)	376.4		379.4		398.0		411.7	

Source: Primary Energy data from Directorate General of Oil and Gas ("Migas"). GDP data from Biro Pusat Statistik, expressed in 1993 Rupiah terms.

Oil and Gas Reserves

Indonesia has a diversity of geological basins, which continue to offer sizeable oil and gas reserve potential. The country has in total 60 tertiary sedimentary basins, 15 of which are producing oil and gas, eight of which

have oil and gas discoveries but have yet to be developed, and a remaining 22 basins which are unexplored. As of January 1, 2001, Indonesia had an estimated 92.0 trillion cubic feet of proved natural gas reserves, 76.1 trillion cubic feet of potential gas reserves, and potential natural gas resources of 295.3 trillion cubic feet. Based on 2001 estimates, Indonesia has a natural gas proved reserve-to-production ratio of 30.5 years, and a proved plus potential reserve-to-production ratio of 59.9 years. Java island, which holds Indonesia's major natural gas markets, has fewer natural gas reserves than Kalimantan, Irian Jaya and Sumatra, and will eventually become dependent on natural gas supplied from these islands.

The following table summarizes the location of current estimates of oil and gas reserves and resources as of January 1, 2001:

	Natural Gas Reserves			Oil and Condensate Reserves		
	Proven	Potential (tcf)	Total	Proven	Potential (mmbbl)	Total
Sumatra	14.3	17.9	32.2	3,807.9	3,477.7	7,285.6
Natuna (offshore)	32.0	23.0	55.0	70.6	12.8	83.4
Java	6.2	5.4	11.6	465.0	518.2	983.2
Kalimantan	27.3	21.9	49.2	664.5	613.0	1,277.5
Sulawesi	0.5	0.1	0.6	10.2	—	10.2
Irian Jaya	11.7	7.8	19.5	5,098.2	4,662.8	9,761.0
Total	<u>92.0</u>	<u>76.1</u>	<u>168.1</u>	<u>10,116.4</u>	<u>9,284.5</u>	<u>19,400.9</u>

Source: Migas

Oil and Gas Production

Indonesia's crude oil production has declined over the last five years, due to the natural maturation of producing oil fields combined with a slower reserve replacement rate. At the same time, domestic consumption of crude oil and oil refined products has steadily increased. As a result, net oil exports have declined at a compound annual rate of approximately 33.0% between 1998 and 2001, from 212 million barrels in 1998 to 69 million barrels in 2001. It is expected that Indonesia will become a net importer of oil within this decade.

A majority of Indonesia's natural gas is produced for the manufacture of LNG, which is currently exported to Japan, Korea and Taiwan. In late 1971, the Arun field in North Sumatra was discovered by Mobil Oil Indonesia Inc., which led to the development of the Arun LNG project and its first cargo deliveries in 1978. In 1972, Huffco Indonesia discovered the Badak field in East Kalimantan, which led to the Bontang LNG project and its first LNG cargo deliveries in 1977. Both of these projects enabled Indonesia to become one of the largest LNG exporters in the world. Due to the decline of natural gas production at Arun, LNG production as well as natural gas production have declined for Indonesia. However, new LNG projects are under development, including the BP-operated Tangguh LNG project in Irian Jaya, as well as the Pertamina-led potential Donggi LNG project in Sulawesi.

Natural gas is exported to Singapore through pipelines from the Natuna gas project, and is now being exported from Sumatra through Transgasindo's Grissik-to-Singapore transmission pipeline. The Natuna project consists of natural gas from three offshore PSC blocks located in the Natuna Sea, two of which are operated by ConocoPhillips and one by Premier Oil plc. The 647 km offshore pipeline is owned by a consortium of the PSC participants, and has a capacity of 250.0 mmscfd. The Natuna project began natural gas sales in 2001. The Grissik-to-Singapore 470 km pipeline project delivers natural gas to Singapore from three onshore PSC blocks located in Sumatra, including two operated by ConocoPhillips and one by PetroChina. Initial pipeline capacity is 350.0 mmscfd, which may be expanded to 650.0 mmscfd. See "Business — Gas Transmission Business — Existing Transmission Pipelines — Grissik-to-Singapore".

The following table summarizes Indonesia's key oil and gas production and export data:

	1998	1999	2000	2001
Production:				
Crude oil production (1,000 bbls)	511,475	493,225	516,147	443,001
Condensate production (1,000 bbls)	56,685	54,422	51,976	47,450
Natural gas production (bcf)	2,979	3,068	2,901	2,807
Exports:				
Crude oil and refined products net exports (1,000 bbls)	212,732	177,302	120,581	69,092
LNG exports(1,000 mt)	26,974	28,956	26,990	23,883
LPG exports (1,000 mt)	1,760.3	1,745	1,306	1,484

Source: Migas

Natural Gas Sales

The decline in Indonesia's natural gas production is largely correlated with a decline in LNG production and related exports. In 2001, approximately 66.0% of marketed natural gas was utilized by LNG projects, while approximately 11.0% was utilized by the electricity sector, approximately 7.0% by industry and approximately 4.0% by city gas (distribution). While LNG gas usage declined between 1998 and 2001 at a compound annual rate of 4.6%, electricity usage grew 4.9% per annum and city gas (distribution) 26.1% per annum. LNG utilized approximately 74.0% of marketed natural gas in 1998, which has declined to 66.0% of total marketed natural gas in 2001. As a result, the share of domestic consumption of natural gas has increased since 1998. The following table breaks down natural gas usage and sales:

	1998	1999	2000	2001
	(bscf)	(bscf)	(bscf)	(bscf)
Natural gas production	2,978.9	3,068.4	2,901.3	2,807.2
Uses:				
2 Field use (fuel, field injection, etc.)	306.5	406.2	417.6	398.4
Flared gas and losses	196.7	155.9	169.8	179.4
Marketed gas	2,316.3	2,506.3	2,335.5	2,253.3
Marketed gas:				
LNG plants	1,718.2	1,790.2	1,588.5	1,489.9
Electricity	220.5	210.1	223.6	254.2
Fertilizer plants	221.3	205.7	214.4	181.5
Other industry	44.9	183.6	160.8	152.0
City gas (distribution)	43.9	47.9	62.6	86.3
Oil refinery and LPG plants	37.9	52.2	44.9	42.2
Petrochemical plants	27.6	16.6	40.8	48.7

Source: Migas

Fuel Oil Pricing

Fuel-oil is an alternative, competitive fuel to natural gas for many industrial and electricity sector companies in Indonesia. Historically, the Government has set and subsidized the price of fuel oil sold domestically. As a part of its plan to remove fuel oil pricing subsidies, beginning in April 2001, official fuel oil prices were quoted both in official market prices and subsidized prices. Through Presidential Decree Number Nine, on January 16, 2002 as amended by Presidential Decree No. 27, on April 30, 2002, subsidies were lowered to 25.0%, and subsidized prices were quoted at 75.0% of the official market price, subject to a minimum of Rp.800 per liter and a maximum of Rp.1,150 per liter. With effect from January 2003, prices were further altered by Presidential Decree No. 90, issued on December 31, 2002, and currently the domestic fuel oil price is set subject to a minimum of Rp.1,150 per liter and a maximum of Rp.1,600 per liter. The official market price is set monthly, based on the previous monthly average of Mid-Oil Platt's Singapore prices, plus 5.0%. The Government is targeting lifting domestic fuel oil price controls by 2006. The following table summarizes oil and fuel oil average pricing levels:

	1998	1999	2000	2001	2002
Indonesian Fuel Oil Prices:					
Subsidized price (Rp./liter) ⁽¹⁾	312	350	363	672	1,049
Official market price (Rp./liter) ⁽²⁾	—	—	—	1,413	1,435
International Market Prices:					
Singapore HSFO (US\$/tonne) ⁽³⁾	68.5	101.9	159.2	134.1	148.5
Minas crude oil (US\$/bbl) ⁽⁴⁾	12.33	17.60	28.53	23.99	25.11

Notes:

- (1) Source: Petroleum Report Indonesia 2002 (American Embassy). "Subsidized price" from December 2001, and 75.0% of market price beginning in 2002.
- (2) Source: Petroleum Report Indonesia 2002 (American Embassy). Based on 100.0% market price quoted by the Government.
- (3) Source: Bloomberg. Based on Singapore High Sulfur Fuel Oil 180, Spot Price daily average.
- (4) Source: Bloomberg. Based on Pertamina Minas Crude Oil Price monthly average.

Outlook for the Indonesian Oil and Gas Industry

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

- Increasing the price of oil-based fuels beginning in 2001 by reducing its subsidies in an effort to reduce the increasing demand for such fuels in Indonesia to a target growth rate of 5.0% per annum. It is expected that by 2006 the remaining subsidies on oil-based fuels will be abolished. However, although the fuel oil price controls are a burden on the Government and it is committed under the ASEAN Free Trade Agreement to remove these price controls, given delays which have occurred to date there can be no certainty that this will happen.
- Issuing incentive packages at regular intervals to stimulate further exploration for oil and gas in so called "frontier" and "deep water" areas, particularly in eastern Indonesia. The Government has also offered exploration incentives intended to stimulate exploration drilling in eastern Indonesia.
- Offering better economic profit-sharing terms to participating parties under-PSCs for production of natural gas.
- Deregulating the electricity generation industry to allow private investors to generate electricity for public consumption. Fuel usage efficiency is expected to improve as a result.
- Promulgating the New Oil and Gas Law in October 2001, setting out the basis for the liberalization of the oil and gas industry in Indonesia. See "Regulation of the Indonesian Oil and Gas Industry — New Oil and Gas Law".
- Promoting the use of natural gas as a domestic fuel in substitution for liquid fuel, which can be exported more readily for foreign currency earnings.

REGULATION OF THE INDONESIAN OIL AND GAS INDUSTRY

New Oil and Gas Law

The New Oil and Gas Law came into force in November 2001. The New Oil and Gas Law replaces Law No. 8 of 1971 (relating to Pertamina) and Law No. 44 of 1960 (the oil and gas mining law) that had provided the legislative framework for the Indonesian oil business for the past 30 years. The New Oil and Gas Law creates an over-arching statutory framework for a fundamental restructuring of the oil and gas regime, principally involving the ending of Pertamina's monopoly in upstream oil and gas and the liberalization of the domestic oil and gas markets. Unlike its predecessor laws, the New Oil and Gas Law differentiates between upstream and downstream activities, and requires a legal debundling between upstream and downstream companies in order to achieve cost transparency between both segments. Upstream activities consist of exploration and exploitation (production) of oil and gas resources, while downstream activities encompass processing, transporting, storage and trading. Although the New Oil and Gas Law requires that the upstream and downstream businesses be undertaken by separate legal entities, there are no ownership restrictions with respect to such entities. The New Oil and Gas Law requires that upstream and downstream activities be regulated by separate, state-owned regulating bodies and prioritizes natural gas usage for domestic needs.

Under the New Oil and Gas Law, upstream activities will continue to be performed through PSCs and other forms of co-operation contracts. The key principles for deregulation of the upstream business are that title over the resources in the ground remains with the Government (and title to the oil and gas passes at the point of transfer, usually the point of export), operational management control is with the new upstream regulator, and all funding and risks are to be assumed by investors.

The downstream regulator is tasked under Article 46 of the New Oil and Gas Law with supervisory and regulatory functions at the downstream level through the issuance of business licenses, in order to ensure the availability and distribution of fuels throughout Indonesia and to promote natural gas utilization in the domestic market. Recognizing that a pipeline transmission and distribution network amounts to a natural monopoly, the New Oil and Gas Law specifically provides that gas transportation and certain sales activities are to be regulated to ensure that consumers are treated fairly and that the market functions efficiently. Article 8(3) allows for pipelines to be regulated to ensure that excess capacity on such pipelines is available to all third party users. Article 46(3) states that the downstream regulator's duties in respect of natural gas are to regulate transportation rates for gas transmission and distribution pipelines as well as the price of natural gas for households and smaller-scale commercial customers.

Under the transitional provisions set out in the New Oil and Gas Law, we were deemed to have been granted business licenses for our current transmission and distribution businesses as well as for projects under construction. In addition, development work underway at the time the legislation came into effect in November 2001 is to be continued and contracts already in existence at that time are expressly stated to remain effective until their scheduled expiration date. All existing contracts with state-owned enterprises will also be honored under the New Oil and Gas Law for the life of the respective contracts.

Implementation of the New Oil and Gas Law

Under Article 27 of the New Oil and Gas Law, the Ministry of Energy and Mineral Resources is to prepare the natural gas Master Plan. The Master Plan is to focus on the tendering, development and construction of new projects eventually to put in place the national gas transportation network. Once this plan is finalized and approved, tenders will be invited for the construction of new transmission projects on a sector-by-sector basis and for distribution networks on an area-by-area basis. Both we and Pertamina have each submitted proposals in connection with the Master Plan to Migas, which reports to the Ministry of Energy and Mineral Resources. Migas is currently finalizing the draft natural gas Master Plan and will submit a final version to the Ministry of Energy and Mineral Resources for approval. We expect that the Master Plan will be approved within the next six months.

Downstream activities. In order to implement the New Oil and Gas Law, which sets out the general principles of the new regulatory regime, the Government has prepared a series of regulations to implement regulatory requirements and establish related regulatory bodies. The regulations setting out the authorities and structure of BPHMigas came into force on December 30, 2002 (Regulation No. 67 of 2002), and BPHMigas

itself was established pursuant to Decree No. 86 of 2002, also came into force on December 30, 2002. These regulations authorize BPHMigas to, among other things:

- determine and regulate natural gas distribution and transmission transportation rates through pipelines, in line with technological and economic principles;
- determine and regulate the price of natural gas sold to households and small-scale commercial customers;
- determine and regulate enterprises of transmission and distribution of natural gas;
- resolve disputes of participants in the natural gas transportation activities; and
- grant access and tender rights to participate in the Master Plan.

BPHMigas reports directly to the office of the President of Indonesia. We are in regular consultation with BPHMigas and Migas in formulating regulatory policies for the downstream gas transportation sector, including participation in formal consultation teams. BPHMigas is expected to submit its gas transportation tariff regime policy for approval to the President by the end of this year.

Upstream activities. For the upstream sector, BPHMigas is to control upstream activities on behalf of the Government through co-operation contracts with entities undertaking exploration and exploitation of oil and natural gas in Indonesia. The functions of BPHMigas are expected to be similar to those previously undertaken by Pertamina's BPPKA division/Manajemen Production Sharing, which was responsible for the administration of contracts under the previous legislative framework. Under the new regime, all of Pertamina's rights and obligations arising from existing PSCs are to be transferred to BPHMigas, which will replace Pertamina as the Government party to all production sharing arrangements. Pertamina was converted into a Persero form of organization (a limited liability company) in June 2003. It is intended that Pertamina will be treated in the same manner as other regulated oil and gas companies in Indonesia.

Principles of Regulation

In a letter dated October 15, 2003 from BPHMigas to us (the "BPHMigas Letter") BPHMigas clarified certain principles according to which it will regulate the downstream gas sector in Indonesia. The BPHMigas Letter clarified the following matters:

- *Treatment of our existing business under the new regulations*

Pursuant to the New Oil and Gas Law, we are deemed to have obtained business licenses with respect to our existing transmission and distribution operations in the downstream sector. We have the right to develop certain new transmission and distribution projects that we had already commenced developing at the time that the law came into effect.

- *Continuity of contracts*

Existing commercial contracts will be honored for the remaining term of such contracts. Our existing contracts, including our gas transportation agreements (and their respective terms, including transportation rates and volumes), and our gas purchase agreements with suppliers and gas sales agreements with customers (and their respective terms, including gas prices and volumes), will remain effective until their expiry dates.

- *Regulation of transportation tariffs for gas transmission and distribution*

Regulated transportation tariffs for new contracts will be determined by BPHMigas in a fair and transparent manner. Tariffs will be based on an accepted tariff setting methodology, such as rate of return regulation or a price cap.

- *Regulation of natural gas prices*

Gas prices for households and small commercial customers will be regulated. The determination of gas prices to these consumers by BPHMigas will take into consideration the distributor or trader's gas purchase price, transportation costs and a reasonable margin.

Gas prices charged to industrial and other customers not classified as small-scale will be unregulated and will be set by negotiation between such customer and the provider of gas. The margin on the gas price will not be subject to regulation.

- *Open access to transmission and distribution pipelines*

Under open access, third parties will be allowed access to a transportation company's pipelines to the extent that excess capacity exists on such pipelines and they are willing to pay the relevant transportation tariff for access to the pipeline.

Whether excess capacity exists in our pipelines will be a matter of technical calculation by us based on the physical constraints of the system and our existing contractual obligations. This calculation is subject to the oversight of BPHMigas, but BPHMigas will not prevent us from honoring the existing contractual commitments of our distribution and transmission businesses.

If excess capacity is available on our distribution or transmission pipelines, the transportation tariffs will be negotiated between us and the third party wishing to access pipelines. BPHMigas will mediate any disputes, including establishing a transparent, fair and reasonable tariff on the basis described above.

- *Tendering of new transmission and distribution development projects*

New transmission and distribution projects will only be opened for tender by BPHMigas in areas where there are no existing pipelines or all currently available capacity in the transmission pipeline or distribution network in that area has been fully utilized. Selection criteria for project tenders will include, amongst others, proposed cost, bidder experience and track record, and the funding proposal and/or availability. In all instances, the decision by us as to whether to participate in such tenders or new projects shall be made in our sole discretion.

The BPHMigas Letter has been provided to us by BPHMigas for information purposes only and is not binding on BPHMigas or the Government. No assurance can be given that the regulations implementing the New Oil and Gas Law when issued will accord with the principles set forth in the BPHMigas Letter.

Regulatory Impact on our Business

Until the Master Plan is finalized and BPHMigas' policies are drafted, we have no certainty as to our regulatory pricing regime or our ability to expand our transmission and distribution businesses beyond our existing approved projects. From discussions we have had with both Migas and BPHMigas, and following receipt of the BPHMigas Letter, we do not expect that the implementation of the Master Plan under the New Oil and Gas Law nor the tariff structure should have any material immediate impact on our downstream distribution and transmission businesses, however there can be no assurance that this will in fact be the case. See "Risk Factors — Risk relating to the Indonesian Gas Industry — The interpretation and application of the New Oil and Gas Law is uncertain and may adversely affect our business".

We expect that the New Oil and Gas Law (and supporting regulation) and BPHMigas' regulatory policies to have implications on the following aspects of our downstream businesses:

- *Continuity of contracts*

Under the transitional provisions of the New Oil and Gas Law, existing contractual arrangements with us (among others) are expressly stated to remain effective until their scheduled expiration date. This has been confirmed by the BPHMigas Letter. This means that the commercial terms of our long-term gas purchase, sale and transportation agreements will remain in force despite the introduction of the new regulatory framework.

- *Transportation tariff controls*

Pursuant to Article 64 of the New Oil and Gas Law, transmission tariffs for existing contracts will remain in effect for the life of the respective contracts. However, transmission rates for third party access will be subject to negotiation between us and the third party, although BPHMigas reserves the right to mediate any differences, as indicated by the BPHMigas Letter. Transmission rates for new transportation agreements will be subject to regulation. Distribution transportation rates will also be subject to regulation. We do not believe that the imposition of tariff controls will significantly impact our business as we believe that our current tariff rates are reasonable and competitive due to the fact that most of our customers have the ability to choose between a range of available fuel oil substitutes. If there are any material adjustments to our distribution tariffs we will have the right, as indicated by the BPHMigas Letter, to adjust our gas price margins in respect of industrial and other customers not classified as small-scale to preserve our distribution margins.

- *Natural gas price controls*

Distribution gas prices for household and other small-scale customers (which include transportation rates) will be regulated, but sales to these customers only accounted for less than 1.5% of our sales volume in the six months ended June 30, 2003. Gas sales prices to industrial and other customers not classified as small-scale, which accounted for more than 98.5% of our sales volume in this period, will continue to be unregulated and will be set by negotiation, but transportation tariffs will be regulated. As noted above, we believe we should therefore be able to adjust our gas sales prices to such customers if regulated transportation tariffs are reduced.

- *Open access*

Article 8(3) of the New Oil and Gas Law imposes an obligation on pipeline companies in Indonesia to open their transmission and distribution networks to third party access for any unutilized capacity. We understand the determination of unutilized capacity will take our contractual obligations into account as indicated by the BPHMigas Letter. Therefore, for our transmission pipelines, access should only be available above the contracted capacity under our gas transportation agreements, and for our distribution networks, the determination of unutilized capacity will take into account our obligations under gas sales agreements and the capacities necessary for us to honor our long-term off-take obligations under our gas purchase agreements. In relation to our distribution business, the absence of any wholesale gas pooling arrangements means that we expect that the opening up of our distribution network to third party trading is unlikely to occur in the foreseeable future.

- *Development of new projects*

Under the Master Plan to be drawn up pursuant to the New Oil and Gas Law, all new distribution or transmission projects in Indonesia will require the approval of BPHMigas following an open tender process. The BPHMigas Letter confirmed that the tender process will take into account criteria such as the overall economics of the proposal, the track record and experience of the bidder, as well as other factors such as financial strength. We have already been granted a license for all of our existing business as well as approval for our expansion plans for our existing distribution networks, for Phase I and Phase II of our South Sumatra-to-West Java transmission pipeline and for the Duri-Medan transmission pipeline. See "Business — Gas Transmission Business — Transmission Business Expansion". Several other longer-term transmission development projects which were originally planned and proposed by us may be included in the Master Plan for tender. Our currently proposed projects will take several years to complete but once completed will give us coverage from most of Indonesia's strategically-located gas fields to our customers in major industrial centers.

BUSINESS

Overview

We are Indonesia's leading natural gas utility, dominating the gas distribution market while also serving as the leading provider of gas transmission services.

We have distribution networks in Jakarta, Surabaya, Medan, Bogor, Cirebon and Palembang with a combined 2,547 km of pipelines and a capacity of 831.3 mmscfd as of December 31, 2002. Our distribution business, in these six urban markets in the six months ended June 30, 2003 distributed an average of 262.2 mmscfd of natural gas, principally to industrial customers. Demand for natural gas in Indonesia has been increasing, in part as a result of the progressive reduction of fuel oil subsidies which began in 2001 and which has made natural gas an attractive alternative fuel. In order to meet this demand, we have plans to expand our distribution business to include networks in six new markets strategically located in close proximity to, and as part of the development of, proposed new transmission pipelines, as well as to expand our other existing networks, particularly Jakarta and Surabaya.

Most of our distribution networks have operated below full capacity in recent years due to supply constraints. Demand generally has exceeded the volume of natural gas which could be transported to our distribution networks due to the limitations of the existing gas transmission infrastructure in Indonesia. We expect that construction of planned new transmission pipelines will assist in reducing existing gas supply constraints and allow us to increase utilization of our distribution networks, as well as constraining upward pressure on gas supply prices. See "— Gas Transmission Business — Transmission Business Expansion".

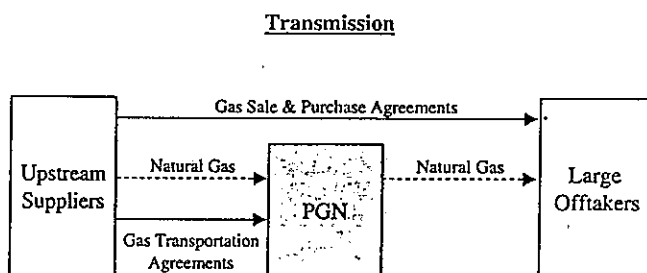
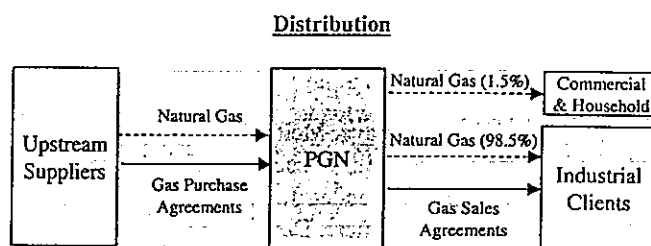
Our transmission business has until recently been based on our Grissik-to-Duri transmission pipeline in Sumatra, operated through PGN's 59.75%-owned subsidiary, Transgasindo, as well as small transmission operations in Medan and in Jakarta. Our transmission network transported an average of 315.9 mmscfd of natural gas in the six months ended June 30, 2003. On September 10, 2003 we commenced initial commercial operations of a transmission pipeline extending from Grissik in South Sumatra to Singapore. Volume throughput for this pipeline is being ramped up in accordance with the relevant gas transportation agreement with ConocoPhillips and PetroChina. We intend to transfer Grissik-to-Singapore transmission assets to Transgasindo by the end of 2003. The Grissik-to-Duri, Grissik-to-Singapore and Medan transmission systems consist of 1,079 km of pipelines with a current capacity of 865.0 mmscfd while the Jakarta transmission system utilizes the existing distribution pipelines.

In addition to our existing transmission network, we have begun the development of Phase I of the South Sumatra-to-West Java transmission pipeline and have received approval for Phase II of the South Sumatra-to-West Java transmission pipeline project and a transmission pipeline from Duri to Medan. We have also applied for approvals to develop other gas transmission pipeline projects which BPHMigas may grant to us under special rights or put out to public tender as part of the Government's plan to develop Indonesia's integrated gas transmission and distribution network.

For the six months ended June 30, 2003, we had revenues of Rp.1,728.8 billion (US\$208.7 million), gross profit of Rp.776.4 billion (US\$93.7 million) and EBITDA of Rp.631.7 billion (US\$76.2 million). For the year ended December 31, 2002, we had revenues of Rp.3,151.8 billion (US\$380.4 million), gross profit of Rp.1,404.4 billion (US\$169.5 million) and EBITDA of Rp.1,120.7 billion (US\$135.3 million). For the six months ended June 30, 2003, our distribution business accounted for Rp.1,464.9 billion (US\$176.8 million), or 84.7%, of our revenues and Rp.514.6 billion (US\$62.1 million), or 66.3%, of our gross profit. For the six months ended June 30, 2003, our transmission business accounted for Rp.261.5 billion (US\$31.6 million), or 15.1%, of our revenues and Rp.261.5 billion (US\$31.6 million), or 33.7%, of our gross profit.

To promote the use of natural gas and ensure that existing demand can be satisfied, the Government has indicated its plans to establish a national integrated transmission and distribution network for piped natural gas. This integrated network is expected to comprise pipelines that will connect gas fields and customers from North Sumatra through Java to East Kalimantan. In order to plan for and develop this network, the Government is preparing a natural gas Master Plan, which will include the development of new transmission and distribution projects. All new projects under the Master Plan will be subject to an open tender process, but this process will not affect projects for which approvals have been obtained before the issue of the Master Plan. We intend to compete for the rights to develop, own and operate selected new projects under the Master Plan.

The following diagram summarizes the commercial and contractual structure of our distribution and transmission businesses.



History

We started our operations as a private Dutch company, Firma L.J.N. Eindhoven & Co. Gravenhage, in 1859. The Dutch entity was the first to introduce manufactured gas made from coal to Indonesia. In 1958, the Indonesian Government assumed control of the entity and changed its name to Badan Pengambil Alih Perusahaan-Perusahaan Listrik dan Gas, becoming Badan Pimpinan Usaha — Perusahaan Listrik Negara (“BPU-PLN”) in 1961. On May 13, 1965, BPU-PLN was established as a state company and became known as Perusahaan Negara Gas (“PN Gas”). Pursuant to a subsequent Government Regulation No. 27 of 1984, PN Gas was converted into a public service enterprise under the name Perusahaan Umum Gas Negara. We became a limited liability company and adopted our current name in 1996, and we were given an exclusive license to develop and distribute natural gas and manufactured gas in Indonesia. Pursuant to the New Oil and Gas Law passed in 2001, PGN is deemed to have a license to continue its existing distribution and transmission business. Transgasindo has a license to conduct its transmission business which was issued on February 26, 2002.

Competitive Strengths

We believe that our strong competitive position derives from a number of factors, including our dominant position in a growing natural gas market, an established distribution network with significant capacity for growth with limited additional investment, a portfolio of development projects providing a foundation for significant growth, stable EBITDA under a utility-like structure and an experienced management team.

- *Dominant position in a growing natural gas distribution market*

We are the dominant provider of gas distribution services in Indonesia’s growing natural gas market. As a natural monopoly, we estimate that our distribution business had a market share of over 90.0% by volume of Indonesia’s gas distribution business for the six months ended June 30, 2003. This dominance means that potential competitors face the following barriers to entry:

- our existing distribution infrastructure, covering major urban centers;
- our existing relationships with our customers;
- our sales and marketing capability, including knowledge of current and future demand; and
- our bargaining power and ability to secure favorable terms from suppliers.

Given these barriers to entry, we believe that our dominant position in the Indonesian gas distribution industry can be sustained notwithstanding the opening of the natural gas market to increased competition. In addition, we believe that the natural gas market itself is well-placed to grow, taking

advantage of increasingly attractive pricing compared to that of fuel oil as a result of the Government's progressive reduction of fuel oil subsidies.

- ***Established distribution network with significant capacity for growth with limited additional investment***

Our existing distribution networks have been established in six key urban markets, including the Jakarta area, with sizeable available system capacity for sales growth. For the six months ended June 30, 2003, our distribution networks averaged a capacity utilization of only 31.5%, primarily as result of constraints on the available natural gas supply in each local market. As our contracted gas supply volumes are expanded and additional transmission lines are developed, we believe we will be well positioned to increase gas distribution sales in key market areas with limited further capital expenditure and distribution network development.

- ***Portfolio of development projects, providing a foundation for significant growth***

We propose to develop the next generation of key transmission and distribution projects in Indonesia as part of the Government's planned integrated transmission and distribution network for natural gas. These include distribution network projects for six new markets as well as the strategic expansion of our existing distribution networks, particularly in the Jakarta and Surabaya markets. In addition, our transmission development projects will enable us to establish an integrated transmission network for Sumatra, which, in addition to providing significant volumes of natural gas from Sumatra to Singapore, will provide Sumatra natural gas to North Sumatra and West Java. We have begun the development of Phase I of the South Sumatra-to-West Java transmission pipeline project, and have licenses for all of our planned distribution network projects. We have also received approval for Phase II of the South Sumatra-to-West Java transmission pipeline project and a transmission pipeline from Duri to Medan and have applied for approvals to develop a number of other natural gas pipeline projects.

- ***Stable EBITDA under a utility-like structure***

Our revenues and operating expenses from our distribution and transmission businesses benefit from utility-like commercial structures and are relatively stable, as demonstrated by our EBITDA. In particular, our gas distribution sales allow us to "pass through" natural gas purchase prices to end users in U.S. dollars as our distribution rates include a U.S. dollar component linked to the gas price. In addition, we purchase the natural gas we distribute under long-term supply contracts, with scheduled off-take volumes and stable gas pricing levels. These volumes are predominantly on-sold to industrial customers, which accounted for 98.5% of our sales volumes for the six months ended June 30, 2003. Our transmission revenues are derived from long-term ship-or-pay transportation agreements from which we receive U.S. dollar based transportation fees for contracted capacity volumes.

- ***Experienced management team***

Most members of our senior management have over 20 years' experience in the oil and gas industry, and most members of our Board of Directors have over 10 years' experience developing and operating our core gas distribution business. Our management team has successfully developed our existing distribution business and market base. Despite the Asian economic crisis that began in 1997 and continuing Government fuel oil subsidies, our management has established consistent year-on-year distribution sales volume growth, from an average sales volume of 153.0 mmscfd for the year ended December 31, 1998 to 262.2 mmscfd for the six months ended June 30, 2003.

Strategy

We intend to leverage our competitive strengths to achieve our objective of maintaining our position as the leading provider of natural gas in Indonesia. We aim to achieve our strategic objective by:

- ***Securing adequate natural gas supplies***

To increase the utilization of our existing distribution networks and meet increased demand from existing and new customers (either in new markets or as a result of conversions from other energy sources in our existing service areas), we intend to secure substantially greater supplies of natural gas, particularly from strategically located fields in Indonesia. Increased supply procurement should allow for increasing gas distribution volumes in the future. Additional gas supply procurement will also help position us against potential competitors in our distribution business, who will have open access rights to the excess capacity in our distribution system.

- *Participating in the expansion of Indonesia's natural gas transmission system*

By participating in the development of the planned integrated gas transmission system linking Indonesia's major urban centers to new supplies of natural gas, we expect to maintain our position as the principal provider of natural gas in Indonesia. Our transmission development will involve extending our transmission pipelines to create a transmission network across Sumatra, linking the island's natural gas reserves to growing markets in Singapore, West Java and North Sumatra. This should provide significant new supply for our distribution business, especially in West Java and North Sumatra, as well as increased revenues for our transmission business. Longer-term development plans include transmission networks linking East Kalimantan to Java, and East Java to West Java.

- *Expanding operations in existing distribution markets*

We plan to continue our efforts to grow our customer base in areas where we have existing distribution networks. In addition, we intend to expand our existing networks in response to the conversion of more commercial and industrial customers to natural gas, which we expect to contribute substantially to the demand for natural gas in the future.

- *Expanding into new distribution markets*

We intend to take advantage of the expected growth in the Indonesian gas distribution market by expanding our distribution network in additional urban/industrial centers. In particular, we plan to expand our distribution business in the next four years to include new markets strategically located in close proximity to our planned new transmission projects.

Gas Distribution Business

Our distribution business involves purchasing natural gas from upstream gas suppliers and reselling it to industrial, commercial and household customers through our distribution infrastructure. As of June 30, 2003, our distribution business had over 650 industrial customers, accounting for 98.5% of natural gas supplied by volume and 97.7% of distribution revenues for the six months ended June 30, 2003, and over 1,300 commercial and approximately 53,000 household customers, together accounting for 1.5% of natural gas supplied by volume and 2.3% of distribution revenues for the six months ended June 30, 2003. For the six months ended June 30, 2003, we estimate we had a market share of over 90.0% by volume of Indonesian gas distribution sales.

In order to supply distribution networks, natural gas is transported from gas fields located in Indonesia under high pressure (typically between 1,100 and 400 psi) through transmission networks. Currently our gas is transported to our distribution networks by transmission infrastructure owned by upstream suppliers, although in the future we plan to source gas through our own transmission pipelines. Transmission networks connect to our distribution networks through off-take stations. Off-take stations without pressure regulators are used to distribute gas under high pressure to power stations and certain other large industrial customers. Off-take stations with pressure regulators reduce the gas pressure to medium pressure (between 59 and 1.5 psi) for distribution to industrial customers, while the gas pressure is further reduced to below 1.5 psi for distribution to households and small commercial users.

Existing Distribution Infrastructure

We have distribution networks in Jakarta, Surabaya, Medan, Bogor, Cirebon and Palembang with a combined 2,547 km of pipelines and a capacity of 831.3 mmscfd as of December 31, 2002. Our distribution business in these six urban markets in the six months ended June 30, 2003 distributed an average of 262.2 mmscfd of natural gas, principally to industrial customers.

The following table shows the growth of our distribution infrastructure since 2000:

	As of and for the year ended December 31,			As of and for the six months ended June 30,
	2000	2001	2002	2003
Network length (km)	2,419	2,506	2,547	2,562 ⁽²⁾
Network capacity (mmscfd) ⁽¹⁾	831.3	831.3	831.3	831.3
Average gas sales (mmscfd)	187.5	208.2	238.6	262.2
Utilization (%) ⁽¹⁾	22.6	25.0	28.7	31.5

Notes:

(1) Based on the capacity of off-take stations.

(2) Estimate only, based on one half of the budgeted increase in the network for 2003.

Most of our distribution networks have operated below full capacity in recent years due to supply constraints in each of our distribution networks. Demand generally has exceeded the volume of natural gas which could be transported to our distribution networks due to the limitations of the existing gas transmission infrastructure in Indonesia. We expect that construction of planned new transmission pipelines will assist in reducing existing gas supply constraints and allow us to increase utilization of our distribution network, as well as constraining upward pressure on gas supply prices. See “ — Gas Transmission Business — Transmission Business Expansion”.

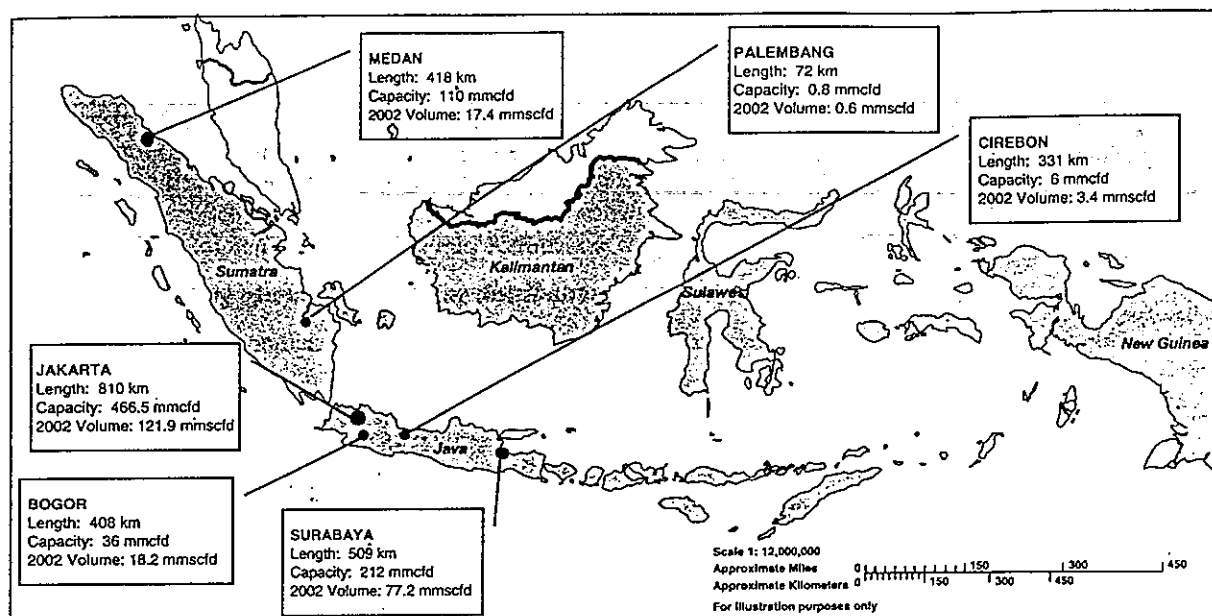
Our distribution networks are concentrated in major cities and urban centers. Jakarta and Surabaya are our largest markets. The following table shows our distribution networks as of December 31, 2002, the most recent date for which information is available:

	Year commenced operation	Length (km)	Capacity ⁽¹⁾ (mmscfd)
Jakarta	1979	810	466.5
Surabaya	1994	509	212.0
Medan	1985	418	110.0
Bogor	1980	408	36.0
Cirebon	1974	331	6.0
Palembang	1996	72	0.8
Total		<u>2,547</u>	<u>831.3</u>

Note:

(1) Based on the capacity of off-take stations.

The following map shows our existing distribution infrastructure:



Our distribution business is operated through three strategic business units (“SBUs”) which are organized geographically. Each SBU has its own regional headquarters, which manages the business of each branch and is responsible for reporting to our headquarters in Jakarta. The following table shows our throughput (the amount of natural gas sold) and utilization by SBU since 2000:

	Throughput				Utilization			
	Year ended December 31,		Six months ended June 30,		Year ended December 31,		Six months ended June 30,	
	2000	2001	2002	2003	2000	2001	2002	2003
	(mmscf/d)				(%)			
SBU I (West Java and South Sumatra):								
Jakarta	104.3	109.7	121.9	130.9	22.4	23.5	26.1	28.1
Bogor	13.1	15.3	18.2	21.9	36.5	42.4	50.5	60.9
Cirebon	3.8	4.4	3.4	3.2	64.0	73.3	56.8	53.3
Palembang	0.1	0.1	0.6	0.7	6.3	12.5	72.5	81.3
SBU II (East Java):								
Surabaya	51.4	61.8	77.2	87.2	24.3	29.2	36.4	41.1
SBU III (Sumatra):								
Medan	14.8	16.9	17.4	18.3	13.4	15.4	15.8	16.7
Total	187.5	208.2	238.6	262.2	22.6	25.0	28.7	31.5

SBU I (West Java and South Sumatra). SBU I covers West Java and currently comprises the distribution networks in Jakarta and surrounding areas, Bogor, Cirebon and Palembang (in South Sumatra).

Jakarta is Indonesia’s largest domestic gas market and has our largest distribution network measured by pipeline length, capacity and throughput. It has nine off-take stations and serves industrial, commercial and household customers. Demand for natural gas within Jakarta is high, but our Jakarta distribution network operated at only 28.1% utilization in the six months ended June 30, 2003 due primarily to insufficient local natural gas supply. Supply for Jakarta is currently sourced from Pertamina’s Cirebon oil and gas field, and from the Offshore North-West Java gas field operated by BP under a production sharing contract with Pertamina. See “— Gas Supply”.

We are examining various options to increase supply to Jakarta and other networks to meet existing and expected future demand for natural gas. The completion of the South Sumatra-to-West Java pipeline will allow

us to augment our existing natural gas supplies to Jakarta, Banten and the surrounding areas with natural gas from fields in South Sumatra. In the longer term, the completion of the proposed Kalimantan-to-East Java pipeline, in conjunction with the completion of the proposed East Java-to-West Java pipeline, will allow the transportation of natural gas from East Kalimantan to the West Java networks, including Jakarta. We are currently conducting a feasibility study into the development of an LNG terminal which could potentially provide an alternative source of natural gas to our distribution networks in West Java.

In Bogor we distribute natural gas to mostly industrial and commercial customers via two off-take stations. Bogor shares its sources of supply with Jakarta.

Our distribution network in Cirebon is small, supplying mostly household and smaller industrial customers via one off-take station. Supply is sourced from the Pertamina Daerah Operasi Hulu ("DOH") Cirebon oil and gas field.

Palembang is a very small network supplying mostly household customers via one off-take station. The Palembang network is supplied by Pertamina from the Prabumulih field in South Sumatra.

SBU II (East Java). SBU II covers East Java and currently comprises the distribution network in Surabaya.

Surabaya is our second largest distribution network, supplying industrial, commercial and household customers through four off-take stations. Natural gas is supplied to the Surabaya network pursuant to two contracts, one with Pertamina for supply from a gas field operated by BP under a PSC and the other with Lapindo Brantas, Inc. The problem of low utilization due to limited local gas supply is also evident in our Surabaya network. In the short term, we expect this to continue to be a concern due to the depletion of existing gas fields. To deal with this supply issue and meet growing demand, we are seeking to negotiate gas purchase agreements with additional suppliers in the region.

SBU III (North Sumatra). SBU III covers Sumatra and currently comprises the distribution network in Medan.

The Medan network supplies industrial, commercial and household customers through three off-take stations. Supply is sourced pursuant to an agreement with Pertamina from an oil and gas field in Rantau. There has been a reduction in supply to the Medan distribution network over recent years due to depletion of gas supplied from Rantau, leading to a reduction in our throughput volumes. We expect the completion of the Duri-to-Medan gas transmission pipeline, which is due to be completed by 2006, to alleviate this supply problem and allow further growth of our distribution business.

Distribution Network Expansion

Demand for natural gas has been increasing in Indonesia, in part as a result of the progressive reduction of fuel oil subsidies which began in 2001 and which made natural gas a more attractive alternative fuel. In order to meet this demand, we have plans to construct new distribution networks, including new networks in the Batam, Jambi, Pekanbaru, Banten and Lampung markets, and to expand our other existing networks, including Jakarta and Surabaya. In total, we plan to expand our distribution infrastructure by adding an additional 1,893 km of pipeline to new and existing distribution networks by the end of 2010 compared to the end of 2002, comprising 1,082 km of new networks and an additional 811 km to existing networks. The planned capital expenditure through the end of 2010 for these additions is US\$382.2 million, comprising US\$265.6 million for new networks and US\$116.6 million for the expansion of existing networks. We have licenses for all our planned distribution network expansion.

The following table sets out details of the planned new distribution networks:

	Planned date of initial operation ⁽¹⁾	Planned date of final completion ⁽¹⁾	Length (km)	Capacity (mmscfd)	Planned capital expenditure (US\$ million)
Batam Island	2004	2004	120	125.0	22.0
Pekan Baru (Sumatra)	2005	2008	253	50.0	30.0
Semarang (East Java)	2006	2010	200	150.0	60.0
Banten (West Java)	2006	2008	285	250.0	107.0
Lampung (Sumatra)	2007	2009	180	15.0	40.6
Jambi (Sumatra)	2006	2006	44	35.0	6.0
Total			<u>1,082</u>	<u>625.0</u>	<u>265.6</u>

Note:

(1) Certain of the above projects are expected to be completed in stages.

We intend to supply the new distribution network in Batam with natural gas purchased from ConocoPhillips and delivered through the Grissik-to-Singapore transmission pipeline from the Corridor Block PSC. The principal customers are expected to be power stations run by PT Perusahaan Listrik Negara (Persero) ("PLN"), the Indonesian state electricity provider, private power producers and other industrial customers. The new distribution network in Pekanbaru will branch off the existing Grissik-to-Duri transmission pipeline and is intended to supply a PLN power station and industrial customers initially from the Corridor Block PSC. The new network in Semarang is intended to service primarily industrial demand as well as the power sector and to be initially supplied directly from the BP Muriah field.

The new distribution network in Banten and other expansion projects in West Java are dependent upon the development of the planned South Sumatra-to-West Java transmission pipeline project. Construction of the Banten distribution network is planned to take place in conjunction with the construction of the South Sumatra-to-West Java transmission pipeline, which is expected to commence gas delivery in 2006. Memoranda of understanding have already been signed with major customers who will purchase natural gas when the distribution network is completed. The new network in Lampung is also intended to branch off our planned South Sumatra-to-West Java transmission pipeline. It is expected to supply mostly medium-sized industrial customers and a small power plant. The network in Jambi is expected to service demand from power generating stations and small industrial customers. Operations in Jambi are expected to be conducted through a joint venture which is expected to be owned 45.0% by us, 15.0% by the local government and 40.0% by a local private company which is yet to be identified. Supply is planned to be sourced through the Grissik-to-Duri transmission pipeline, initially from the Corridor Block PSC.

In the past, our two main sources of funding for new distribution networks have been our own internally generated funds and Government funding. In addition, some distribution networks have benefited from funding by foreign quasi-governmental institutions in conjunction with funding for transmission projects. The Government has funded certain expansion projects in each of our distribution networks, in particular for the purpose of connecting household customers (who represented only 0.6% by volume of natural gas we distributed in the six months ended June 30, 2003), as part of its policy to reduce energy costs by encouraging the use of domestic natural gas as a cost-effective substitute for diminishing oil supplies and as an environmentally safer alternative to other energy sources. Once Government-funded projects are completed, the funds provided by the Government are treated as part of our paid-in capital. There can be no assurance that such Government funds will be available to us after the Global Offering. To the extent that such Government funds are available to us, we would consider accepting them based upon the benefits of such funds as compared to other funding sources, including an assessment of the relevant expansion projects.

Gas Supply

Our gas purchase agreements generally have a maximum duration of between 10 and 25 years. The volume of natural gas supplied under each of our gas purchase agreements is fixed, while the purchase price (in U.S. dollars or Rupiah) is either (i) fixed for the term, (ii) set for the early years of the agreement with prices in later years to be determined by subsequent agreement between the parties or (iii) set in the initial year and subject to indexing in later years. Factors taken into account when negotiating purchase prices include contracted

volumes, take-or-pay clauses and market pricing estimates, including consideration of competitive natural gas substitutes such as fuel-oil. The take-or-pay provisions in our gas purchase agreements are typically subject to make-up rights, allowing us to require our suppliers to deliver, without additional charge, natural gas we paid for in previous years but did not take, once the minimum volume for the relevant period has been reached and subject to certain limits. In most of our networks, our demand for natural gas under our gas purchase agreements has generally exceeded the take-or-pay clauses, with the exception of a period of approximately one year during the Asian economic crisis. We have been required to provide security to Pertamina in the form of standby letters of credit for certain of our gas purchase agreements. Our gas purchase agreements also include reserve clauses, which guarantee dedicated reserve volumes which the supplier must set aside to be sold to us.

Prior to the enactment of the New Oil and Gas Law, we were unable to contract directly with any upstream suppliers other than Pertamina. Consequently, all but one of our current gas purchase agreements are with Pertamina, even though some of them relate to supplies developed by third party PSC contractors. On July 19, 2003 we signed a short-term preliminary contract with Lapindo Brantas, Inc., an upstream supplier operating the Wunut gas field, although gas purchases from Lapindo Brantas, Inc. had begun in 2002. This short-term preliminary contract was replaced by the final agreement on December 2, 2003. This was our first direct contract with a PSC contractor. Under the old system, PSC contractors were required to sell all gas production to Pertamina, who would resell it to us or directly to customers. Pursuant to the New Oil and Gas Law, BPMigas will appoint authorized sellers for natural gas supplies (which will include Pertamina and PSC contractors) and we will contract directly with such authorized sellers. Our existing contracts with Pertamina will remain in force for their remaining terms.

As of June 30, 2003, we had a remaining 2,219.0 bscf of natural gas supply to be delivered under the following eight gas purchase agreements:

Gas source (operator)	Total natural gas volume (bscf unless otherwise stated)	Remaining natural gas volume (bscf)	Gas market	Field location	Signing Date	Supply Term
Kangean PSC (BP)	719.9	566.5	Surabaya, East Java (SBU II)	Offshore East Java	May 4, 1990	April 1, 1992 to April 1, 2017 (or until contracted quantity supplied)
Offshore North West Java PSC (BP)	222.8	146.0	Muara Karang, West Java (SBU I)	Offshore North West Java	December 23, 1997	The commencement date (September 1, 1997 or other date agreed upon between the parties as being the time the gas delivery is commenced) to December 31, 2009 (or until contracted quantity supplied)
EP Prabumulih, South Sumatra (Pertamina)	2.3	2.2	Palembang (SBU I)	South Sumatra	December 17, 1999	The commencement date (the date on which Pertamina commenced gas delivery following the receipt of confirmation from us) until the date 10 years thereafter (or until contracted quantity supplied)
Gas field in DOH Rantau (Pertamina)	43.8	37.2	Medan (SBU III)	Offshore North Sumatra	April 4, 2002	March 31, 2001 to 31 March 2011 (or until contracted quantity supplied)
Pertamina DOH, Cirebon (Pertamina)	365.0	310.3	Jakarta and Bogor (SBU I)	West Java	April 4, 2002	March 31, 2001 to March 31, 2011 (or until contracted quantity supplied)
Pertamina DOH, Cirebon (Pertamina)	14.6	12.4	Cirebon (SBU I)	West Java	April 4, 2002	March 31, 2001 to March 31, 2011 (or until contracted quantity supplied)
Various gas fields (Pertamina)	1.0 tcf in the first 12 years and on a best efforts basis for the subsequent 8 years	1,040.3	West Java (SBU I)	South Sumatra	June 26, 2003	From between May 1, 2006 and December 31, 2006, to December 31, 2025 (or until contracted quantity supplied)
Wunut Field (Lapindo Brantas, Inc.)	On a best efforts basis with a daily contract quantity of 40.0 to 80.0 mmscfd	104.0	Surabaya (SBU II)	East Java	December 2, 2003	July 19, 2003 to December 31, 2007

In addition to the above agreements, we signed a gas purchase agreement with a duration of three years with PT Energasindo Heksa Karya ("EHK") on November 20, 2001. EHK ceased supply of natural gas to us more than one year ago, although the agreement has not been formally terminated.

To procure additional supply, we have signed non-binding memoranda of understanding with two different upstream operators to contract additional natural gas, which could be delivered as early as 2004. The following table sets out, by volume, our current regional sources of gas supplies and memoranda of understanding for gas supply currently agreed for the years indicated:

	Supply Volume							
	2003	2004	2005	2006	2007	2008	2009	2010
	(mmscfd)							
Contracted Source:								
West Java	154.0	159.0	164.0	169.0	169.0	169.0	169.0	104.0
East Java	130.0	164.0	168.0	152.0	136.0	96.0	96.0	96.0
Sumatra	12.7	14.0	14.0	164.0	214.0	264.0	264.0	262.0
Sub-total	296.7	337.0	346.0	485.0	519.0	529.0	529.0	462.0
MOU	—	20.0	85.0	130.0	140.0	150.0	160.0	160.0
Total	296.7	357.0	431.0	615.0	659.0	679.0	689.0	622.0

In addition to the supply contracts and the arrangements contemplated by the memoranda of understanding highlighted in the table above, we are in negotiations with gas suppliers to contract up to a further approximately 1,800 bscf of natural gas, which could provide additional supply volumes of more than 300.0 mmscfd beginning in 2006, although there can be no assurance the existing memoranda of understanding or these additional negotiations will result in agreed and binding contracts.

We are also researching the cost-effectiveness of meeting the long-term natural gas needs of West Java through the construction of LNG receiving terminals. Gas would be sourced from international or domestic suppliers, degasified at a terminal we would construct and transported by pipeline to our distribution networks.

We are also considering long-term alternatives for natural gas transportation services. We have recently begun a feasibility study on compressed natural gas transportation projects, which could include alternate gas distribution services in West Java and East Java as well as shipments among Indonesia's outer islands.

Distribution Customers

The following table sets out a breakdown by average daily volume and revenue of our distribution customers by type for each of the three years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003:

	Year ended December 31,						Six months ended June 30,	
	2000		2001		2002		2003	
Customer type:	Volume (mmscfd)	Revenue (Rp. billion)	Volume (mmscfd)	Revenue (Rp. billion)	Volume (mmscfd)	Revenue (Rp. billion)	Volume (mmscfd)	Revenue (Rp. billion)
Industrial	184.3	1,537.2	204.7	2,076.8	234.6	2,530.6	258.2	1,433.0
Commercial	2.0	33.7	2.2	41.4	2.5	45.8	2.4	25.0
Household	1.2	5.0	1.3	6.3	1.5	10.6	1.5	8.3
Total	187.5	1,575.9	208.2	2,124.5	238.6	2,587.0	262.2	1,466.3

We classify our customers into the three main categories of industrial, commercial and household. The industrial category comprises establishments such as factories and power stations. Commercial customers include enterprises such as restaurants, hotels, hospitals and shopping malls and retail outlets. The categorization as between industrial and commercial customers varies slightly among our different networks. The final category is household, which comprises residential premises.

Industrial Customers. We generally sign sale contracts with our industrial customers with a duration of approximately two to three years. We prefer to enter into shorter-term contracts because they allow flexibility and efficiency in price adjustment so as to capitalize on the limited natural gas supply available and afford us flexibility in the event that we cannot secure sufficient supply. We believe that we would be able to conclude longer-term contracts with our industrial customers if necessary and that the level of demand, coupled with the length of time required to overcome the barriers to entry in our gas distribution business, reduces the risk of our losing customers due to the mismatch in maturities with our gas purchase agreements, which generally last for a maximum of 10 to 25 years. The sales price for the volume of natural gas supplied is fixed for the duration of the gas sales agreement and a minimum and maximum sales volume is specified. The customer must pay for the minimum specified volume of natural gas even if it does not take such natural gas and higher sales prices apply if the customer takes more than the contracted maximum volume. The take-or-pay provisions are not subject to make-up rights, meaning that if our customers are required to pay for, but are unable to take delivery of, any contracted quantities, we are not required to deliver natural gas without payment in respect of such shortfall in subsequent periods. Sales prices for the natural gas distributed by us include a U.S. dollar component and a Rupiah component. The U.S. dollar component is intended to "pass through" to our customers the purchase price we pay (also in U.S. dollars) to the upstream supplier and associated costs and, subject to timing differences between settlement of supply and distribution contracts, we believe this provides a partial currency hedge for us. The Rupiah component is intended to recover our operating and capital costs (notwithstanding that some of these costs may have a U.S. dollar component) and incorporates a profit margin. A portion of the sales price charged to the customer corresponding to the cost of transporting natural gas will be regulated by BPHMigas once the New Oil and Gas Law is fully implemented. This transportation cost must also be paid to us by any third party using our network under the open access provisions of the New Oil and Gas Law. BPHMigas has yet to publish tariffs or to indicate the methodology it will use to set them. We currently have over 650 sales contracts with industrial customers.

The following table sets out a breakdown of average daily volumes sold by sector within our industrial customer base for each of the years ended December 31, 2000, 2001 and 2002 and the six months ended June 30, 2003:

	Year ended December 31,			Six months ended
	2000	2001	2002	June 30,
	(mmscfd)			2003
Industrial sector:				
Glass and ceramic	76.6	74.2	82.5	82.7
Chemical	39.1	39.1	49.2	52.6
Textile	15.8	17.7	22.9	22.4
Paper	7.5	26.4	19.4	37.4
Fabricated metal	17.7	15.7	18.3	19.1
Base metal	12.8	13.9	16.6	16.3
Food	5.0	7.3	13.6	14.7
Others	9.7	10.4	11.9	12.9
Wood	0.1	0.1	0.1	0.1
Total	<u>184.3</u>	<u>204.7</u>	<u>234.6</u>	<u>258.2</u>

Note:

(1) Converted to mmscfd from cubic meters based on an average conversion factor across all networks.

Our current industrial customers consume less than an average of 20.0 mmscfd. Customers consuming more than that level would usually be supplied directly by Pertamina or another upstream supplier. We estimate that our five largest customers accounted for approximately 18.0% of our natural gas distributed by volume for the six months ended June 30, 2003.

We have a waiting list of new industrial customers and other customers not classified as small-scale who have requested to take natural gas as soon as additional supply becomes available. For example, in West Java, including Jakarta, 65 customers have requested a total of 183.5 mmscfd and in Surabaya 52 customers have requested a total of 106.6 mmscfd.

We outsource the construction necessary for the connection of new industrial customers to our network. We are responsible for the costs of constructing infrastructure up to three meters inside our customer's premises.

Industrial customers must meet the costs of the construction of the infrastructure thereafter and the costs of converting their premises or systems from the use of their existing fuel to the use of piped natural gas. Customer willingness to make this investment depends upon the expected savings in fuel costs.

Service to delinquent customers may be suspended or disconnected entirely. However, we prefer to work with customers to find mutually beneficial solutions for overdue accounts.

Household and Commercial Customers. Household and commercial customers are not on fixed-term contracts. These customers pay an initial deposit and are billed monthly in Rupiah at spot prices for the natural gas consumed based on monthly meter readings. In addition, commercial customers sign a one-time contract requiring a fixed minimum daily average consumption volume. We have the right to disconnect the service of delinquent customers. However, as with industrial customers, we prefer to work with customers to find mutually beneficial solutions for overdue accounts. Penalty interest, accrued daily, is charged on all outstanding amounts. A reconnection fee is charged prior to the resumption of service.

Charges for household and commercial users are based on actual gas usage on a per cubic meter basis and vary depending on the location of the distribution network and the type of customer connected. The New Oil and Gas Law requires the regulation of gas prices and distribution transportation tariffs for household customers and certain other categories of small-scale customers. No specific regulations have yet been issued, although we believe that regulated tariffs are likely to be at or below current levels. We make little or no profit on household customers, and revenues from these customers may fall even further once gas prices for these customers are regulated by BPHMigas under the New Oil and Gas Law.

We outsource the construction necessary for the connection of new premises to the distribution network. Household customers include existing households and housing developments which may contain multiple households and be connected by the developer prior to sale. We do not provide volume discounts for these housing developments. The customers must pay separate fees to obtain gas meters and for connection from the meter to the appliance.

Distribution Network Operation and Maintenance

Our distribution network comprises off-take stations, sub-stations, odorization systems and pipelines. Odorization systems are used for the low pressure networks and introduce odor into the gas distributed in order to aid leak detection. Pipelines consist of pipes of either steel or polyethylene construction. Steel is used for the high and medium pressure pipes and has a life of approximately 30 to 40 years. Steel pipes are coated with anti-corrosion protection and also receive cathodic protection. Polyethylene pipes are used for lower pressure distribution and have a life of approximately 50 years. Pipelines which are above ground have shorter lives due to exposure to the weather, although they are easier to replace.

Our maintenance department conducts ongoing monitoring and maintenance of the network using, among other things, ultrasonic testing equipment to assess the integrity of the pipelines. All pipelines are physically checked at least once every three months. In addition, a computer-modeled “fitness for purpose” analysis of all pipelines is kept constantly updated. This allows us to predict when pipeline sections will need replacing based upon a statistical analysis of factors such as the age and physical characteristics of the pipeline, its operational history, any past damage and data from physical inspections.

The following table shows the age of the pipelines in our distribution network:

<u>Age of pipelines</u>	<u>% of length</u>
Below 5 years	18.6
5 to 10 years	26.9
10 to 15 years	18.2
15 to 20 years	14.3
Above 20 years	22.0
Total	<u>100.0</u>

We do not have gas storage facilities other than linepacked gas in our pipelines. Our networks must be kept under pressure to maintain gas supply. We monitor contracted natural gas supply and actual gas usage levels

daily. Operators check the volume, pressure and temperature at each off-take station. This data is then reported on the same day by fax to the relevant SBU headquarters and, on the following day, to our headquarters in Jakarta for collation. We are currently developing a web-based system for reporting this information, which we expect to begin introducing in 2004. We advise gas suppliers daily of any changes in our requirements for the following day in order to maintain pressure. From time to time there are mechanical problems with the upstream supplier's infrastructure or excessive system demand from customers, which can lead to a reduction in pressure and a potential decrease in natural gas supply. In such situations, natural gas supply pressure is usually maintained in the short term by asking major customers who are using more than their contractual maximum volume to reduce their consumption temporarily to their contractual maximum, allowing all customers to receive their contracted volumes of natural gas. Such situations arose four times in 2002, but have not occurred to date in 2003.

Our policy is to restrict "unaccounted for" gas to 2.0% of total throughput, which we believe is low by industry standards. Gas unaccounted for is affected by a number of factors, including actual gas leaks, variance in measurement by different meters, pressure fluctuations and increases in volumes due to the expansion of natural gas between the time of purchase from upstream suppliers (generally made in the evening at cooler temperatures) and subsequent sale to customers (generally made during the day at higher temperatures). For the year ended December 31, 2002 and the six months ended June 30, 2003, this resulted in a net gain of 2.7% and 2.8%, respectively, in the volume of natural gas we sold compared to the volume supplied to us.

Other Distribution Business

In addition to our gas pipeline distribution business, we have a small LPG distribution operation servicing residential and commercial customers in Bandung, Semarang, Surabaya and Makassar. A total of 1,603.2 tons of LPG were sold in the six months ended June 30, 2003, resulting in revenues of Rp.2.3 billion (US\$0.3 million) and a gross profit of Rp.302.1 million (US\$36,466). A total of 3,193 tons of LPG were sold in the year ended December 31, 2002, resulting in revenues of Rp.4.9 billion (US\$0.6 million) and a gross profit of Rp.535.0 million (US\$64,569). We have been reducing the amount of LPG sold in recent years, transferring our operations in Surabaya and Bandung to two co-operatives of our ex-employees in February and May 2002, respectively, and do not expect to focus on the LPG business in the future.

Competition

Before the institution of the New Oil and Gas Law, we had a legal monopoly over gas distribution in Indonesia and for the six months ended June 30, 2003 distributed approximately 262.2 mmscfd of natural gas, giving us, we estimate, over 90% of the market by volume. There are only two other, comparatively small, distribution operators in Indonesia. We already have distribution networks in most of the major urban and industrial centers of Indonesia. The New Oil and Gas Law does not contemplate approvals being given for new distribution networks to be built alongside existing pipelines or networks until the existing networks are at full capacity. Consequently, we believe that potential competitors seeking to construct their own networks will face high barriers to entry. However, we currently have considerable excess capacity in our distribution networks, and if we are unable to secure supplies to utilize such capacity, we may be required to sell such capacity once the open access provisions of the New Oil and Gas Law have been implemented. See "Risk Factors — Risks Relating to our Business — Our distribution network has operated at low levels of utilization". In addition, competition for customers who are situated close to a transmission line or a gas field is likely to be more intense, since less infrastructure is needed to connect these customers to a supply. See "Risk Factors — Risks Relating to our Business — We may face competition from other gas distributors". Nevertheless, we believe that our long-standing relationships with existing customers (particularly industrial customers), our sales and marketing capability and our market knowledge will give us important competitive advantages.

In addition, since distribution is currently constrained more by production and local supply than by capacity, future competition may come from upstream producers who control natural gas supply. Although the New Oil and Gas Law envisages unbundling of upstream and downstream activities, it does not prohibit common ultimate ownership of upstream and downstream businesses. Distribution businesses operated as part of a corporate group that also operates upstream businesses, which could include an affiliate of Pertamina, may enjoy an advantage in securing natural gas supplies for distribution. See "Risk Factors — Risks Relating to our Business — We may face competition from other gas distributors".

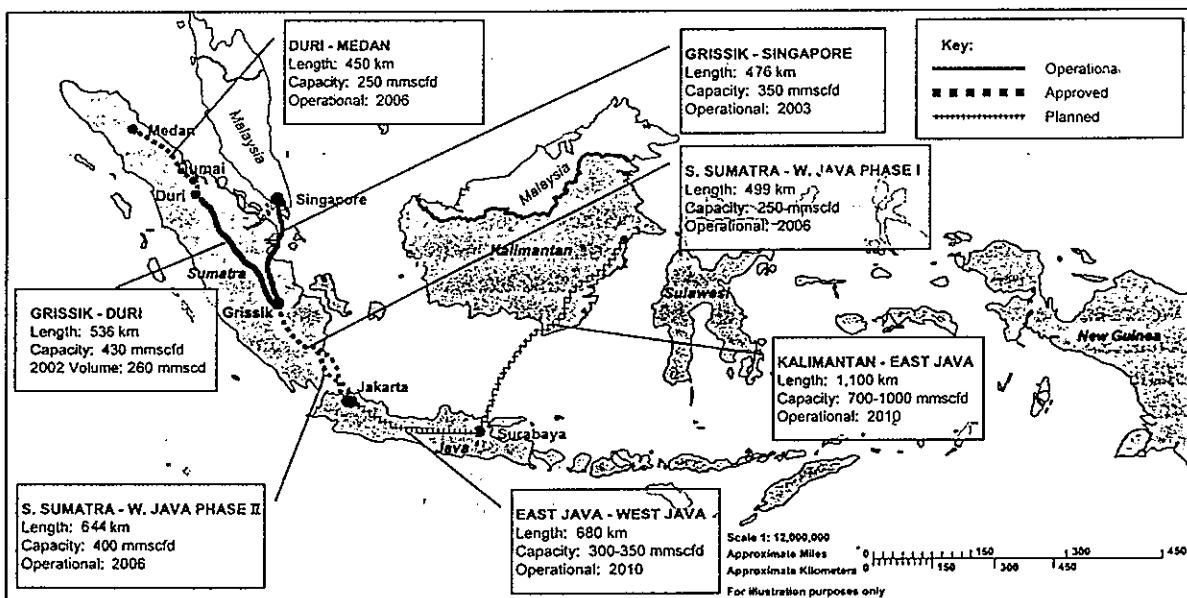
Gas Transmission Business

Our transmission business currently involves transporting natural gas which is owned by third parties through our high pressure transmission pipelines from upstream suppliers for delivery directly to customers of the upstream suppliers. Our transmission business has until recently been based on our Grissik-to-Duri transmission pipeline in Sumatra, operated through PGN's 59.75%-owned subsidiary, Transgasindo, as well as small transmission lines in Medan and in Jakarta. An additional pipeline from Grissik to Singapore commenced initial commercial operations on September 10, 2003. Volume through the Grissik-to-Singapore pipeline is being ramped up in accordance with the gas transportation agreement with ConocoPhillips, PetroChina and Pertamina. We intend to transfer the Grissik-to-Singapore transmission assets to Transgasindo by the end of 2003. The Grissik-to-Duri, Grissik-to-Singapore and Medan transmission systems consist of 1,079 km of pipelines with a current capacity of 865.0 mmscfd, while the Jakarta transmission system utilizes the existing distribution pipelines.

We do not generally use our transmission network to supply our distribution business, as supply is sourced from gas fields local to each distribution network. In the future, however, we intend to source natural gas from other gas fields which we will transport through our transmission network and deliver to our distribution networks. For example, the Grissik-to-Singapore pipeline would supply our planned network in Batam, the South Sumatra-to-West Java pipeline would supply our networks in West Java, including the planned Banten network, the planned network in Jambi would source natural gas through the Grissik-to-Duri pipeline and the proposed Duri-to-Medan pipeline would supply our network in Medan.

In addition to our existing transmission network, we have also begun the development of Phase I of the South Sumatra-to-West Java pipeline and have received approval for Phase II of South Sumatra-to-West Java transmission pipeline project and a transmission pipeline from Duri to Medan. We have also applied for licenses to develop a number of other natural gas pipeline projects. We also plan to seek licenses for other proposed natural gas pipeline projects provided that we believe such projects will be economically viable. New licenses will be issued for these projects by BPHMigas directly or after public tender as part of the Government's plan to develop Indonesia's integrated gas transmission and distribution network. See "Risk Factors—Risks Relating to our Business—We may not be granted approvals for certain of our planned transmission projects".

The following map shows our existing and planned transmission infrastructure:



Existing Transmission Pipelines

The following table shows our throughput (the amount of natural gas transported) and utilization for our Grissik-to-Duri transmission pipeline and our small transmission line in Medan since 2000:

	Throughput				Utilization			
	Year ended December 31,			Six months ended	Year ended December 31,			Six months ended
	2000	2001	2002	June 30,	2000	2001	2002	June 30,
	(mmscfd)			2003	(%)			2003
Grissik-to-Duri	286.1	284.0	259.6	268.4	88.0 ⁽¹⁾	87.4 ⁽¹⁾	79.9 ⁽¹⁾	62.4 ⁽²⁾
Medan	81.0	69.0	60.6	46.7	95.3	81.2	71.3	54.9
Jakarta	1.9	1.4	1.2	0.8	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
Total	<u>369.8⁽⁴⁾</u>	<u>354.4</u>	<u>321.4</u>	<u>315.9</u>				

Notes:

- (1) Based on a capacity of 325.0 mmscfd.
- (2) Based on a capacity of 430.0 mmscfd for the Grissik-to-Duri pipeline following the installation of two compressor stations.
- (3) Not applicable, as the Jakarta transmission system utilizes existing distribution pipelines.
- (4) Includes 0.8 mmscfd transmission volume in Surabaya.

Grissik-to-Duri. The Grissik-to-Duri pipeline in Central Sumatra was completed in 1998, four months ahead of schedule and under budget. The pipeline is owned and operated by our subsidiary, Transgasindo. It is 536 km in length and originally had a constructed capacity of 325.0 mmscfd. In August 2002, its capacity was increased to 430.0 mmscfd with the installation of two compressor stations, each with three 5,000 horsepower compressors. These two compressor facilities were developed by PGN and will be transferred to Transgasindo at the same time as the Grissik-to-Singapore pipeline, for a consideration of US\$55.0 million.

We monitor throughput of the Grissik-to-Duri pipeline using a satellite-based communications system. The volume transmitted in 2000, 2001 and 2002 and the six months ended June 30, 2003 was 286.1 mmscfd, 284.0 mmscfd, 259.6 mmscfd and 268.4 mmscfd, respectively. This represented a utilization of the pipeline's capacity in the relevant periods of 88.0%, 87.4%, 79.9% (based on a capacity of 325.0 mmscfd) and 62.4% (based on a capacity of 430.0 mmscfd, following the installation of two compressor stations), respectively. The reduction in volume since 2000 has been due to a decline in off-take volumes by Caltex. The natural gas is used by Caltex as part of its enhanced oil recovery process in its Duri fields.

The construction cost of the Grissik-to-Duri pipeline was US\$310 million and was funded mostly through loans from the Government sourced from ADB, EIB and JBIC, as well as from our internal funds.

Natural gas sourced from the ConocoPhillips Corridor Block PSC area is transported through the Grissik-to-Duri pipeline pursuant to two main gas transportation agreements between us, ConocoPhillips and Pertamina. These two 20-year gas transportation agreements were executed in 1997 and 2000. The 1997 agreement covers the operating period 1998 to 2018 and has been transferred from PGN to Transgasindo. The minimum ship-or-pay volumes for which ConocoPhillips is required to pay us are based on Caltex's take-or-pay volumes under its gas sale agreement with ConocoPhillips and Pertamina. The tariff is set in U.S. dollars per mscf and is fixed for the term of the contract.

The 2000 agreement covers the operating period 2001 to 2021 and has not yet been transferred from PGN to Transgasindo, although we intend to transfer it together with the transfer of the compressor facilities. Minimum ship-or-pay volumes are approximately 70.0% of scheduled transportation volumes under the gas transportation agreement. There are two tiers of agreed tariffs, both based in U.S. dollars per mscf, which are charged depending on the volume of the gas transported and which are fixed for the duration of the agreement. There is also a third gas transportation agreement between Transgasindo, ConocoPhillips and Pertamina, which provides for the transmission of only approximately 1.3 mmscfd over a four-year term.

Grissik-to-Singapore. The Grissik-to-Singapore pipeline supplies natural gas to the Singapore border, principally for supply to the Singapore gas and power markets. In the future, it is also expected to supply natural gas to Batam upon construction of the new Batam distribution network. The pipeline, which commenced initial commercial operations on September 10, 2003, is 476 km in length and has a free-flow capacity of 350.0

mmscfd, expandable in stages to 650.0 mmscfd with the addition of compressors in the future. Pursuant to the Grissik-to-Singapore Asset Transfer Agreement, it has been agreed that PGN will transfer the Grissik-to-Singapore transmission assets to Transgasindo. We intend to transfer these assets to Transgasindo by the end of 2003.

The cost of the construction of the Grissik-to-Singapore pipeline, currently estimated at US\$405 million (although there are some outstanding items which are subject to discussion), was partly financed by loans from the Government which were sourced from ADB, JBIC and EIB. Further financing came from our sale of a 40.0% stake in Transgasindo to Transasia, from additional funds contributed by Transasia and from our internal funds. See "Transgasindo".

On February 12, 2001, we entered into a 20-year gas transportation agreement for the transportation of natural gas through the Grissik-to-Singapore pipeline with Pertamina, ConocoPhillips, which operates the Corridor and South Jambi PSC areas, and PetroChina, which is the operator of the Jabung PSC area. Pertamina has a gas sales agreement for the supply of natural gas to PowerGas Limited (together with its affiliates, "PowerGas"), a company controlled by the Singapore government. Pertamina has a gas purchase agreement with the upstream operators to source the natural gas to be supplied to PowerGas. The gas transportation agreement includes minimum ship-or-pay volumes based on the take-or-pay volumes under the gas sales agreement between Pertamina and PowerGas. The tariff is fixed in U.S. dollars per mscf. In conjunction with the transfer of the Grissik-to-Singapore transmission assets to Transgasindo, this gas transportation agreement will also be transferred to Transgasindo.

Medan and Jakarta/Bogor. Our transmission network in Medan is used by Pertamina to supply natural gas to PLN's power station at Sicanang. The average daily volumes transported in the years 2000, 2001 and 2002 and the six months ended June 30, 2003 were 81.0 mmscfd, 69.0 mmscfd, 60.6 mmscfd and 46.7 mmscfd, respectively. The declining volumes are due to a decline in supply from the Wampu gas field. Since January 1, 2002, the tariff has been fixed in U.S. dollars per mmbtu for deliveries to PLN.

In Jakarta, we transport natural gas for Pertamina to its compressed natural gas filling stations. The average daily volumes transported in the years 2000, 2001 and 2002 and the six months ended June 30, 2003 were 1.9 mmscfd, 1.4 mmscfd, 1.2 mmscfd and 0.8 mmscfd, respectively. The tariff is fixed in Rupiah per volume of gas delivered.

Transmission Business Expansion

In addition to our existing transmission network, we have begun the development of Phase I of the South Sumatra-to-West Java pipeline and have received approval for Phase II of the South Sumatra-to-West Java pipeline and a transmission pipeline from Duri to Medan. We have also applied for approvals to construct a number of other natural gas pipeline projects, including the East Kalimantan-to-West Java and East Java-to-West Java pipelines. If completed by us, these projects would add in total over 3,000 km of pipeline to our transmission network by the end of 2010. The planned capital expenditure through the end of 2010 for these projects totals US\$2,936.6 million.

The following table sets out details of the approved and planned new projects:

	<u>Planned date of completion</u>	<u>Total length</u> (km)	<u>Capacity</u> (mmscfd)	<u>Planned capital expenditure³</u> (US\$ million)
Approved:				
South Sumatra-West Java — Phase I	2006	499	250.0	470.6 ⁴
South Sumatra-West Java — Phase II	2006 ⁽²⁾	644	400.0	520.0 ⁵
Duri-Medan	2006	450	250.0	246.0
Planned:⁽¹⁾				
Kalimantan-East Java	2010	1,100	700.0-1,000.0	1,100.0
East Java-West Java	2010	680	300.0-350.0	600.0
Total		<u>3,373</u>	<u>1,900.0-2,250.0</u>	<u>2,936.6</u>

Notes:

- (1) These projects are not yet approved. It is uncertain whether we will be granted rights to develop these projects or whether they will be included in the Master Plan, in which case we will be required to tender for these projects.
- (2) Initial completion and operation. The final stage is planned to be completed in 2007.
- (3) Does not include any capital expenditure related to the development of distribution networks associated with these transmission projects.
- (4) Includes payments of US\$23.0 million which are planned to be made in 2007.
- (5) Includes payments of US\$76.0 million which are planned to be made in 2007.

South Sumatra-to-West Java. The South Sumatra-to-West Java pipeline will be an important part of the proposed national integrated gas transmission system, connecting gas fields in South Sumatra (principally Prabumulih) with West Java. It will provide additional supply to our existing and proposed distribution networks in West Java and, in particular, Jakarta.

We have begun the development of Phase I of the South Sumatra-to-West Java pipeline. Phase I involves the construction of a 499 km pipeline extending from Pagardewa in South Sumatra to Cilegon and Cimanggis in West Java. A 16,000 horsepower compressor station will be installed at Pagardewa due to the low well-head pressure of the natural gas. The initial planned capacity of the Phase I pipeline is 250.0 mmscfd, which can be increased to 480.0 mmscfd with the installation of additional compressors in the future. The Phase I pipeline is scheduled for completion by the end of 2006 at an estimated construction cost of US\$470.6 million, with an additional US\$15 million expected to be spent for distribution network expansion in Banten in West Java. Funds will be provided by a Yen 49.1 billion loan from the Government sourced from JBIC and from our internal funds. We entered into a loan agreement with the Government to on-lend the JBIC loan in May 2003, with Phase I construction scheduled to begin in mid-2004. Construction contractors have not yet been appointed, and we are currently engaged in a tender process for the appointment of a project management consultant.

The capacity of the Phase I pipeline will be utilized for our distribution business in West Java. Under the gas purchase agreement executed with Pertamina in May 2003, Pertamina will initially deliver 150.0 mmscfd, rising to 250.0 mmscfd, of natural gas from its South Sumatra fields, which will be transported to West Java beginning in 2006 to be sold to our distribution business and distributed in Jakarta, Cilegon and Cimanggis.

Phase II of the South Sumatra-to-West Java pipeline is planned to transmit natural gas from Grissik to West Java on behalf of a third party. Phase II involves the construction of a 185 km pipeline from Grissik to Pagardewa, a 270 km pipeline from Pagardewa to Labuhan Maringgai, which runs parallel to Phase I, and a 189 km pipeline from Labuhan Maringgai in South Sumatra to Muara Tawar, Muara Karang and Tanjung Priok in West Java. The initial planned capacity of the pipeline from Grissik to Labuhan Maringgai will be 400.0 mmscfd, although this can be increased to 600.0-700.0 mmscfd with the installation of two additional compressors. Phase II has been approved but not yet funded and is expected to have a total construction cost of approximately US\$520.0 million, with construction currently planned for completion in 2006. We understand that ConocoPhillips plans to utilize the Phase II pipeline to deliver an estimated 400.0 mmscfd of natural gas from its Corridor gas fields to three of PLN's power plants in West Java.

Duri-to-Medan. The Duri-to-Medan pipeline is needed to increase the supply of natural gas to the Medan area, which is currently faced with diminishing local production. The transmission pipeline will be 450 km in length and will have an initial planned capacity of 250.0 mmscfd. The project will consist of a Duri-to-Dumai pipeline and a Dumai-to-Medan pipeline as well as one 6,500 horsepower compressor station in Duri. Natural gas

will be sourced primarily from Grissik, and will be fed through unutilized capacity in the existing Grissik-to-Duri line as well as from near Dumai. The development of these pipelines has been approved but not yet funded. The total project cost is estimated to be approximately US\$246.0 million, which includes US\$216.0 million for the pipeline and US\$30.0 million for the compressor. An additional US\$32.0 million is expected to be spent for distribution network expansion in Medan. Project construction is scheduled to be completed in 2006. The project will be the northern leg of the Sumatra integrated transmission network, which will transport South Sumatra gas to markets in Singapore, West Java and North Sumatra.

Other Potential Long-Term Transmission Projects. In addition to the above near-term transmission projects, we have also prepared detailed plans for other longer-term projects which may be included in the Master Plan.

The Kalimantan-to-East Java pipeline will comprise approximately 700 km of onshore and 400 km of offshore pipeline connecting certain gas fields in East Kalimantan with markets in East Java. The planned capacity is 700.0 to 1,000.0 mmscfd. A feasibility study funded by a grant from the U.S. Trade and Development Agency is due to be completed in November 2003. Development is targeted to begin in 2005 with completion of construction in 2010. ADB, EIB and IBRD have indicated that they may provide funding towards construction of the pipeline through loans to the Government, but have not yet committed to do so.

The East Java-to-West Java pipeline is a 680 km transmission pipeline from Gresik in East Java to Cirebon in West Java. It will serve distribution networks in Central and East Java, and its planned capacity is 300.0 to 350.0 mmscfd. The natural gas for this pipeline is expected to be supplied from gas fields off East Kalimantan via the Kalimantan-to-East Java pipeline. A feasibility study funded by a grant from the U.S. Trade and Development Agency is due to be completed in November 2003. Development is targeted to begin in 2005 with completion of construction in 2010.

Gas Transportation Agreements

Transmission services are contracted under long-term gas transportation agreements between us and Pertamina, ConocoPhillips and other upstream natural gas suppliers. The agreements typically provide for a 20-year operating term and contract for pipeline capacity access rights as well as minimum ship-or-pay gas volumes, whereby suppliers are required to pay for the transportation of a minimum specified volume of natural gas even if it is not actually transported. The ship-or-pay provisions are typically subject to make-up rights, allowing suppliers to require us to transport without additional charge natural gas they paid for in previous years but which was not transported, once the minimum volume for the relevant period has been reached and subject to certain limits.

Transmission tariffs are currently negotiated and set in order to allow us to achieve an acceptable rate of return on our investment in the transmission infrastructure, and therefore depend on a number of variables including cost of construction, cost of finance, operating cost and depreciation charges. Our required rate of return varies on a project-by-project basis. Tariffs are U.S. dollar denominated and are fixed for the life of the agreement. Transmission tariffs may vary between sections of the transmission pipelines, depending on a number of factors including the gas transportation distance.

Under the New Oil and Gas Law, existing gas transportation agreements remain valid and terms will be recognized by BPHMigas. Consequently, the transmission tariffs set under existing agreements relating to the Grissik-to-Duri, Grissik-to-Singapore and Medan pipelines will not be affected by new regulations. However, transmission tariffs under new gas transportation agreements as well as open access tariffs for our transmission pipelines will be regulated by BPHMigas, although to date BPHMigas has not published tariffs or indicated the methodology it will use to set them.

We have entered into the following gas transportation agreements:

Other parties to, and date of, agreement	Our role	Volume	Duration
ConocoPhillips and Pertamina dated January 29, 1997	Gas transportation on behalf of ConocoPhillips using Grissik-to-Duri pipeline	Up to 310.0 mmscfd	Valid until January 28, 2017, subject to at least two years prior written notice of termination
Pertamina dated August 28, 1998	Gas transportation for Pertamina from Wampu gas field and Pantai Pakam Timur gas field to Pertamina's customers in Medan	No fixed volume	Valid until the volume of gas Pertamina has contracted to sell to specific Medan customers has been reached
ConocoPhillips and Pertamina dated December 21, 2000	Gas transportation on behalf of ConocoPhillips using Grissik-to-Duri pipeline	A total of 1,135.0 bscf ⁽¹⁾	Valid until December 20, 2020 (subject to any agreed extension between the parties)
ConocoPhillips, PetroChina and Pertamina dated February 12, 2001	Gas transportation using the Grissik-to-Singapore pipeline	Up to 402.5 mmscfd	Valid until February 11, 2021 (subject to any agreed extension between the parties)
ConocoPhillips and Pertamina dated July 23, 2002	Gas transportation on behalf of ConocoPhillips using the Grissik-to-Duri pipeline	1.3 mmscfd	Valid until March 27, 2006

Note:

(1) Assuming 1 bscf = 1,000 btu

Transmission Network Operation and Maintenance

Until April 4, 2003, the operation and maintenance of the Grissik-to-Duri pipeline was carried out by Transcanada Pipelines Limited, an oil and gas services company, pursuant to an operation and maintenance contract dated May 10, 2001. Operation and maintenance services have now been taken over by Transgasindo, through personnel seconded from its shareholders, in particular PGN, Petronas and ConocoPhillips. See "Transgasindo". Transgasindo also carries out the operation and maintenance of the Indonesian segment of the Grissik-to-Singapore pipeline. To date there have been no material accidents or safety problems in relation to any of our transmission assets.

Transmission System Rules

We have established the PGN System Rules (the "System Rules") to provide a uniform set of rules for us and all gas shippers to enable open access to our transmission pipelines, subject to agreeing a transportation tariff.

Under the System Rules, any prospective shipper able to comply with the System Rules who executes a gas transportation agreement and a deed of adherence will not be unreasonably denied access to our transmission pipelines where there is capacity available. A shipper must agree the transportation tariff with us before executing a gas transportation agreement. We are entitled to provide capacity in our system to any person on an interruptible basis provided that we will only provide such capacity if it would not affect our obligations to, or the rights of, any existing shipper under the System Rules and the gas transportation agreement to which such shipper is a party. The System Rules currently apply to the Grissik-to-Singapore pipeline.

Competition

We estimate that we transport approximately 45.0% by volume of the natural gas transported by gas transmission businesses in Indonesia. The other companies involved in gas transmission in Indonesia are Pertamina, PT Trans Java Gas Pipeline and PT Ramaja Bangun Kencana ("Rabana"). Pertamina supplies its own

natural gas directly to very large consumers, such as PLN power stations, fertilizer plants and petrochemical companies. PT Trans Java Gas Pipeline operates a pipeline offshore East Java, which connects supply from BP's gas fields of the Kangean PSC to onshore distribution points near Surabaya. Rabana has two small transmission pipelines in West Java. We do not currently compete directly with these other companies, since our transmission infrastructure is not located in the same areas. In the future, they and others may compete with us for approvals to build and operate other transmission pipelines.

We believe that opportunities for competitors to increase market share in the medium term are limited, since we hold the approvals to construct most of the long-distance transmission pipelines that we believe are currently viable. See "Risk Factors — Risks Relating to our Business — We may not be granted approvals for certain of our planned transmission projects".

Other Business

We have constructed a fiber optic cable running parallel to our Grissik-to-Singapore pipeline. As a result of natural gas suppliers' requirements for real-time data on pipeline supply, we originally were required to install a communication system along this pipeline. A fiber optic system was expected to be superior to the satellite-based system in use on the Grissik-to-Duri pipeline, which had encountered some reliability problems and which was not able to provide real-time data. Given negligible installation and right of way costs, we elected to increase the design capacity of the fiber optic system, and installed an expanded network for additional market demand. The project cost for materials was approximately US\$15.0 million, consisting of five stations and a cable line of 24 cores from Sumatra to Batam and 96 cores from Batam to Singapore. The current technology allows for a total communication volume of 1,500 E-1s (3,000 Mbs), which can be increased should market demand require to 650,000 E-1s (1,300,000 Mbs) upon an additional US\$1 million upgrade in technology. Currently, there are no other fiber optic connections between Sumatra and Batam or Batam and Singapore. We intend to use this excess capacity as a network provider to Internet, cable television and small business customers with initial demand expected to come from upstream oil and gas operators in Sumatra and their gas transmission customers. We are currently planning to form a joint venture with a licensed telecommunications firm, which will provide licensing and marketing expertise while we operate the core fiber optic cable systems.

We also plan to install a fiber optic cable alongside our South Sumatra-to-West Java pipeline project. As with the Grissik-to-Singapore cable, we will be required to install it in order to provide shippers with real-time supply data but will be able to increase the capacity at a limited additional cost. The cable will allow for the linking of Jakarta to Grissik which will tie into the existing Grissik-to-Singapore cable. Ultimately, the project will establish a Jakarta to Singapore fiber optic cable link. This will be the second of such fiber optic linkages, as currently there is a direct fiber optic cable from Jakarta to Singapore, owned and operated by a consortium of companies including PT Indonesian Satellite Corporation Tbk. However, we believe demand for our cable capacity will be strong due to its low cost structure.

Sales and Marketing

Our marketing team is based in our head office in Jakarta. The head office marketing team works with the sales and the marketing team of each of the SBUs to collect information from existing and potential customers and to formulate and execute strategic initiatives. In each distribution center, the marketing team also directs its sales team to focus and actively solicit a select group of targeted industrial customers who we believe will benefit most from a conversion to natural gas.

Our marketing efforts focus on direct marketing to industrial customers. Group presentations are made to potential customers to explain the savings which can be realized from switching to natural gas and separate presentations are made to individual customers. The marketing department also handles business development and the negotiation of supply contracts, allowing it to manage the contractual supply and demand balance.

Our marketing department works with our planning department to assess likely demand for network expansion projects. Discussions with potential customers begin several years before construction of a new network. The marketing department establishes contact with potential customers in order to develop a demand profile, which is factored into the analysis of proposed network expansions.

We maintain a service hotline to attend to customer inquiries and for after-sales support, as well as a website which can be accessed by, and provides tailored information to, employees, customers and others.

Regulation

See "Regulation of the Indonesian Oil and Gas Industry — New Oil and Gas Law" for details of the material impact on us of the new regulatory regime introduced under the New Oil and Gas Law.

Safety and Environment

We emphasize safety and have established a safety department to oversee and implement safety policies and to conduct spot and regular inspections of our facilities. We believe in educating users about safety procedures. Accordingly, before natural gas is actually supplied, we give a thorough explanation of safety procedures to users and will arrange meetings on safety with our major customers.

Due to our implementation of safety procedures, we have not experienced any major accidents which have resulted in serious injury or death since 1996. In 1996, a fire occurred following a gas leak from an old, low pressure steel pipe in Jakarta. Most low pressure steel pipes have now been replaced with polyethylene pipes.

We are subject to environmental regulation and reporting requirements pursuant to Indonesian Environmental Management Law No.23 of 1997 and Government Regulation No.27 of 1999 regarding Environmental Impact Analysis. We are required to conduct environmental impact assessments in connection with our transmission and distribution infrastructure construction.

Insurance

We have insurance policies to cover our assets, projects and operations, including third party liabilities. The assets covered by these policies against losses from fire and other risks include our property, plant and equipment both below and above the ground in respect of the Grissik-to-Duri transmission pipeline but only our property, plant and equipment above the ground in respect of our distribution networks and the Medan transmission network. Certain of these policies have exclusions, including in relation to losses resulting from war or terrorist acts.

We currently have an insurance policy to cover the construction and operation of the Grissik-to-Singapore transmission pipeline. Transgasindo is in the process of negotiating an insurance policy to cover the operation of the Grissik-to-Singapore transmission pipeline once it is transferred to Transgasindo.

All of PGN's inventories are covered by insurance against losses from fire and other risks under blanket policies. The inventories of Transgasindo are not covered by insurance against losses from fire and other risks.

We also have general insurance for workmen's compensation and motor vehicles and maintain Commissioners' and Directors' legal liability insurance.

Real Estate

We own our headquarters, SBU and branch buildings, as well as the land on which off-take stations and substations are built, although our headquarters in Jakarta and the headquarters of the East Java SBU in Surabaya are subject to mortgages in favor of PT Bank Mandiri (Persero) in connection with letters of credit issued by Bank Mandiri. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Commitments and Contingencies".

We hold long-term land certificates permitting us to use the land on which our transmission pipelines are built, apart from certain forest land owned by the Government and certain land for which we have applied, or are in the process of applying, for land certificates.

Our use of certain land owned by the Government on which the Grissik-to-Duri transmission pipeline is built is permitted by two Forest Land Borrow and Use Agreements under which the Government allows us to use its land without charge. We are in the process of extending the term of the first Forest Land Borrow and Use Agreement between the Department of Forestry Riau region ("Depkeh Riau") and PGN, which expired on January 17, 2002. Depkeh Riau has stated in a letter dated September 27, 2002 that it has no objection to the extension subject to the Minister of Forestry's approval. We intend that PGN will transfer its rights under this Forest Land Borrow and Use Agreement to Transgasindo once an extension has been granted. The second Forest

Land Borrow and Use Agreement was entered into between the Department of Forestry Jambi region and Transgasindo on January 8, 2003 and remains valid until January 8, 2008. There can be no assurance that either of the Forest Land Borrow and Use Agreements will be renewed either on terms that are favorable to us or at all. See "Risk Factors — Risks Relating to our Business — Expiry of rights to use land for our transmission pipelines could prevent us from operating the pipelines".

Pursuant to Presidential Decree No. 55 of June 17, 1993 regarding Land Procurement for Public Development (the "Presidential Decree") and implementing regulations thereunder, for the purpose of constructing pipelines we have the right to obtain land certificates for a strip of land, to be used by our pipeline. The width of this strip is set by the Presidential Decree and depends upon the width of the pipe. For the 28-inch pipes we use, the width of the strip of land is 25 meters.

In connection with the transfer of the Grissik-to-Duri transmission pipeline to Transgasindo, PGN and Transgasindo entered into a Borrow and Use of Land Agreement on March 9, 2002, as amended on September 13, 2002, whereby PGN granted permission to Transgasindo to use without compensation the land on which the Grissik-to-Duri transmission pipeline is built for the purpose of gas transmission business activities until the land certificates are transferred to Transgasindo. Transgasindo will execute and deliver promissory notes to PGN in the amount of US\$5.2 million upon the transfer of all titles and/or title certificates of the land to cover the costs incurred by PGN in connection with the transfer of this land.

We intend to transfer the Grissik-to-Singapore transmission assets to Transgasindo by the end of 2003 under the Grissik-to-Singapore Asset Transfer Agreement. PGN will transfer to Transgasindo the land on which the Grissik-to-Singapore transmission pipeline is built to which it already has rights when the transfer of the transmission assets takes place.

We do not own the land upon which the distribution networks are located but negotiate rental amounts with the relevant local government for the right to construct pipelines over land owned by the local government. The rental amounts vary between regions.

Litigation

We are not a party to any litigation or legal proceedings which we believe would, individually or taken as a whole, have a material adverse effect on our business, financial condition or results of operations.

TRANSGASINDO

Transgasindo

Transgasindo was established on February 1, 2002 as a 99.75%-owned subsidiary of PGN with an initial share capital of Rp.10.0 billion (US\$1.2 million). Our employee foundation, Yayasan Kesejahteraan Pegawai Perusahaan Umum Gas Negara, holds 0.25% of the issued share capital of Transgasindo. On February 26, 2002, Transgasindo became the first company in Indonesia to receive a gas transportation license under the New Oil and Gas Law.

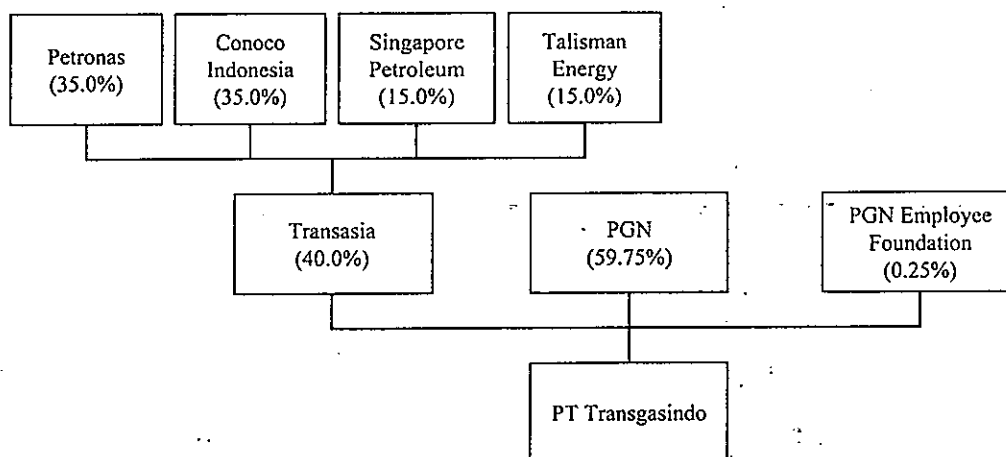
Strategic Investor

In order to fund the construction of our Grissik-to-Duri and Grissik-to-Singapore pipelines, we sought the financial assistance of EIB, JBIC and ADB. ADB originally approved its loans for both pipelines in 1995 but made it a condition of its investment that we would undertake a partial divestment of the equity in each project to a suitably experienced strategic investor, in order to spread the economic burden and to introduce world class operations, maintenance and financing expertise into the Indonesian gas pipeline sector. A similar requirement was made by EIB. Transgasindo was set up as the vehicle to hold certain of our gas transmission assets as required by the terms of ADB and EIB loan financings for the Grissik-to-Duri and Grissik-to-Singapore pipelines.

On March 9, 2002 Transgasindo purchased PGN's Grissik-to-Duri gas transmission assets in central Sumatra for US\$227.2 million. Payment of the purchase price was satisfied by the issuance of promissory notes by Transgasindo to PGN. Promissory notes totaling US\$68.2 million were subsequently converted by PGN into equity in Transgasindo. In addition, on November 13, 2002 promissory notes with an aggregate principal amount of Rp.216.2 billion (US\$26.1 million) were issued by Transgasindo to PGN in exchange for an advance in the same amount to cover the value added tax payable in connection with the transfer of the Grissik-to-Duri pipeline.

On November 12, 2002, we sold 40.0% of the issued share capital of Transgasindo to a strategic investor, Transasia, for US\$130.0 million.

The current ownership structure of Transgasindo is shown below:



Transasia's shareholders are:

- Petronas International Corporation Ltd. (35.0%), an affiliate of the national oil and gas company of Malaysia;
- Conoco Indonesia Holdings Ltd. (35.0%), a wholly-owned subsidiary of ConocoPhillips, which is an international integrated energy company with operations in a number of countries. Listed on the New York Stock Exchange, ConocoPhillips had a market capitalization of over US\$38 billion as of October 31, 2003;
- SPC Indo-Pipeline Co. Ltd. (15.0%), a wholly-owned subsidiary of Singapore Petroleum Ltd, which is a regional integrated oil and gas company listed on the Singapore Exchange Securities Trading Limited

with a market capitalization of over S\$550 million as of October 31, 2003. Its major shareholder is the Singapore government, through its affiliate Keppel Corporation, with a 49.0% equity holding; and

- Talisman Transgasindo Ltd (15.0%), a wholly-owned subsidiary of Talisman Energy, which is an international oil and gas producer. Listed on the Toronto Stock Exchange, it had a market capitalization of over C\$8 billion as of October 31, 2003.

Strategic Partnership Agreement

The key document which governs the relationship between PGN and Transasia as shareholders in Transgasindo is the SPA. The SPA provides the operating and management framework for Transgasindo. Under the SPA, the Transgasindo Board of Commissioners and Board of Directors each has five members, three elected by PGN and two elected by Transasia. PGN has control over the management of Transgasindo, with certain important corporate actions requiring supermajority or unanimous board or shareholder approval. Such corporate actions generally include amending the articles of association, undertaking any activities other than those related to the Grissik-to-Duri and Grissik-to-Singapore pipelines, winding up the company, merging, increasing the registered share capital, transferring equity interests and pledging of assets.

The SPA also governs the order in which all cash receipts of Transgasindo (with certain limited exceptions) shall be applied, with priority given to taxes and debt service obligations. A mechanism was further established under the SPA which provides for Transgasindo's shareholders to meet any future cashflow shortfall up to an amount of US\$100.0 million.

The SPA also allows for Transasia to provide key operations and maintenance personnel, primarily from Petronas, a leading company in this field. As of June 30, 2003, the staff of Transgasindo consisted of 45 seconded professional staff from PGN and 11 professionals from Transasia's consortia members. The senior management team consists of personnel from both PGN and Transasia.

Grissik-to-Singapore Transfer

Pursuant to the Grissik-to-Singapore Asset Transfer Agreement, the parties have agreed that PGN will transfer to Transgasindo the Grissik-to-Singapore transmission assets and the Grissik-to-Duri compressor facilities. We intend to transfer these transmission assets and compressor facilities by the end of 2003. The purchase price for these assets under the Grissik-to-Singapore Asset Transfer Agreement is US\$470.0 million, which amount includes US\$55.0 million for the Grissik-to-Duri compressor facilities.

The purchase price of US\$470.0 million will be made up of the following:

- US\$281.0 million of promissory notes will be issued by Transgasindo to PGN on completion of the transfer. US\$181.0 million of these promissory notes will be structured to effectively pass through the obligation in respect of certain of our long-term loans sourced from EIB and ADB relating to the Grissik-to-Singapore transmission pipeline to Transgasindo. The interest rates on these promissory notes will be the same as the interest rates on each of the loans, plus a margin. There will also be a further US\$100.0 million of floating rate interest bearing promissory notes issued to PGN which represent PGN's funding responsibility under the construction contracts.
- US\$189.0 million of payments made, or to be made, to PGN as construction milestones are reached, as follows:
 - The first milestone payment, of US\$63.6 million, was made in December 2002, and was funded by shareholder loans totalling US\$49.6 million from PGN (US\$29.8 million) and Transasia (US\$19.8 million), advanced under a Shareholder Loan Agreement dated December 4, 2002, with the remainder of US\$14.0 million being funded from Transgasindo's internal funds.
 - The second milestone payment, of US\$18.6 million, was made in February 2003, and was funded by shareholder loans totalling US\$12.9 million from PGN (US\$7.8 million) and Transasia (US\$5.2 million), advanced under a Shareholder Loan Agreement dated January 28, 2003, with the remainder of US\$5.6 million being funded from Transgasindo's internal funds.
 - The third milestone payment, of US\$16.9 million, was made in May 2003, and was funded through shareholder advances of US\$16.9 million, which were not recorded as debt or equity pending a

decision as to their treatment. It has now been determined to convert the advances, US\$10.1 million from PGN and US\$6.8 million from Transasia, to shareholder loans.

- The fourth and fifth milestone payments, amounting to US\$55.8 million and US\$34.1 million, respectively, are expected to be paid in November and December 2003, respectively. They will be funded by an aggregate of US\$ 67.3 million in shareholder equity contributions (US\$40.4 by PGN and US\$26.9 million by Transasia), US\$12.2 million in shareholder loans (US\$7.2 million from PGN and 4.8 million from Transasia) and Transgasindo's internal funds of US\$10.4 million.

The transfer of assets will incur value added tax at 10.0% of the value of the assets transferred, as assessed by the Indonesian tax office, to be paid by Transgasindo as well as transfer tax at 5.0% paid by each of PGN and Transgasindo. The funding of the value added tax and transfer tax is being discussed by PGN, Transasia and Transgasindo. We expect that Transgasindo will be able to recover the majority of the value added tax payable from the Indonesia taxation office, although the transfer tax will not be recoverable.

Following the transfer of the Grissik-to-Singapore transmission assets and the Grissik-to-Duri compressor facilities, we do not currently intend to transfer further transmission assets to Transgasindo. In conjunction with the transfer of the Grissik-to-Singapore pipeline to Transgasindo, the gas transportation agreement between PGN, Pertamina, ConocoPhillips and PetroChina relating to the Grissik-to-Singapore pipeline will be transferred to Transgasindo from PGN.

The following table sets out Transgasindo's capitalization as of June 30, 2003, as adjusted for the transfer and the associated funding arrangements described above:

	As of June 30, 2003		
	Actual	Adjustments ⁽²⁾	As adjusted ⁽¹⁾⁽²⁾
	(US\$ million)		
Loan capital:			
Promissory notes ⁽³⁾	169.0	281.0	450.0
Shareholder or affiliate loans	66.6	29.1	95.7
Shareholders' equity:			
PGN shares	41.5	40.4	81.9
Transasia shares	27.7	26.9	54.6
General reserves	0.8	—	0.8
Retained earnings	(3.4)	—	(3.4)
Total capitalization	<u>302.2</u>	<u>377.4</u>	<u>679.6</u>

Notes:

- (1) As adjusted for the completion of the purchase of the Grissik-to-Singapore transmission assets and the Grissik-to-Duri compressor facilities and the subscription of further equity and assumption of debt related to the transfer.
- (2) Excludes transfer-related taxes of US\$70.0 million, comprising a 5.0% transfer tax and a 10.0% value added tax, the latter subject to an expected partial refund.
- (3) Issued to PGN in return for assuming all liabilities for ADB and EIB loans granted for and other liabilities in relation to the construction of the Grissik-to-Duri and Grissik-to-Singapore pipelines.

The following tables set out certain financial information for Transgasindo derived from its financial statements for the period from its establishment on February 1, 2002 to December 31, 2002, audited by Prasetyo, Sarwoko & Sandjaja, a member firm of Ernst & Young, and for the six months ended June 30, 2003, audited by PricewaterhouseCoopers:

	As of December 31,		As of June 30,	
	2002 (Rp. billion)	2002 (US\$ million)	2003 (Rp. billion)	2003 (US\$ million)
Assets:				
Total current assets	377.0	45.5	326.6	39.4
Non-Current Assets:				
Property and equipment — net of accumulated depreciation	2,030.6	245.1	1,598.2	192.9
Advances for projects	568.7	68.6	820.9	99.1
Deferred charges	0.1	—	—	—
Total non-current assets	2,599.4	313.7	2,419.1	292.0
Total assets	2,976.4	359.2	2,745.7	331.4
Liabilities:				
Total current liabilities	367.8	44.4	575.4	69.4
Non-Current Liabilities:				
Deferred tax liability	—	—	—	—
Shareholder loans	443.6	53.5	551.9	66.6
Promissory notes — net of current portion	1,348.5	162.8	1,066.9	128.8
Total non-current liabilities	1,792.1	216.3	1,618.8	195.4
Total liabilities	2,159.9	260.7	2,194.2	264.8
Stockholders' Equity:				
Capital stock subscribed and fully paid	687.2	83.0	573.0	69.2
Appropriated retained earnings	129.3	15.6	6.2	0.8
(Accumulated deficit)/retained earnings	—	—	(27.7)	(3.4)
Total stockholders' equity	816.5	98.6	551.5	66.6
Total liabilities and stockholders' equity	2,976.4	359.2	2,745.7	331.4
	Eleven months ended December 31,		Six months ended June 30,	
	2002 (Rp. billion)	2002 (US\$ million)	2003 (Rp. billion)	2003 (US\$ million)
Revenues	419.2	50.6	243.9	29.4
Depreciation and amortization	230.7	27.9	108.4	13.1
Other operating expenses	66.4	8.0	63.3	7.6
Total operating expenses	297.2	35.9	171.7	20.7
Income from operations	122.0	14.7	72.2	8.7
Other Charges (Income):				
Interest expense	91.5	11.0	91.3	11.0
Gain on foreign exchange — net	(154.0)	(18.6)	4.1	0.5
Interest income	(0.7)	(0.1)	(0.7)	—
Miscellaneous — net	—	—	0.3	—
Other Income — net	(63.3)	(7.6)	95.0	11.5
Income before tax expense	185.3	22.4	(22.8)	(2.8)
Total tax expense	56.0	6.8	—	—
Net income	129.3	15.6	(22.8)	(2.8)

Transgasindo will continue to focus its operations on the Grissik-to-Duri and Grissik-to-Singapore pipelines, which we believe provides it with significant opportunity to develop its transmission business. We do not currently intend to involve Transgasindo in our planned new gas transmission projects. While Transgasindo

is not expected to initiate projects independently of us, it may construct additions to its existing transmission network, including lateral lines and spurs. We intend to work together with Transasia to pursue these and other strategic opportunities for Transgasindo.

We expect to receive dividend income from Transgasindo. Transgasindo's dividend policy is to pay cash dividends to its shareholders whenever cash is available, subject to funding projects and ongoing debt service obligations.

MANAGEMENT AND EMPLOYEES

In accordance with Indonesian law, we have a Board of Commissioners and a Board of Directors. The two boards are separate and no individual may be a member of both boards.

Board of Commissioners

The Board of Commissioners, which has the task of supervising our management, must contain at least two members, including the President Commissioner. The principal functions of the Board of Commissioners are to give recommendations to and supervise the policies of the Board of Directors.

Under Indonesian company law, persons eligible to be appointed as members of the Board of Commissioners are required to be individuals who are capable of performing legal acts and who have never been (i) declared bankrupt, (ii) declared guilty for having caused a company to be declared bankrupt while holding the position of member of the Board of Directors or member of the Board of Commissioners of such company, or (iii) declared guilty for having conducted a criminal act which caused financial losses to the State within five years prior to his or her appointment. The Board of Commissioners is required to perform its duties in good faith and in the best interests of PGN.

The Government, through the Ministry of State-Owned Enterprises, is also the holder of the Special Share, which has special rights. The material rights and restrictions that are applicable to the shares are also applicable to the Special Share, except that the Government may not transfer the Special Share and, as the holder of the Special Share, the Government's approval is required for: (i) the election and removal of Directors; (ii) the election and removal of Commissioners; and (iii) amendments to our Articles of Association. Accordingly, the Government will have effective control of these matters even if its ownership of shares were to decline to less than a majority. See "Description of our Shares — The Special Share".

Meetings of the Board of Commissioners may be held at least once a month or at any time deemed necessary by one or more of the members of the Board of Commissioners, or upon the request in writing from either the Board of Directors or one or more of the shareholders jointly representing at least one-tenth of the total voting shares issued by PGN. A meeting of the Board of Commissioners will be valid and entitled to adopt binding resolutions only if more than one-half of the members of the Board of Commissioners are present or represented at the meeting.

Where all members of the Board of Commissioners are present or represented, prior notice is not required and a meeting of the Board of Commissioners may be held at any such place and will be entitled to adopt valid and binding resolutions.

All meetings of the Board of Commissioners are chaired by the President Commissioner. In the event of the absence or disability of the President Commissioner, the impediment of which need not be evidenced to any third parties, a meeting of the Board of Commissioners may be chaired by another member of the Board of Commissioners specifically appointed by the President Commissioner. If the President Commissioner does not make such an appointment, then the member of the Board of Commissioners who solicits the meeting will chair the meeting.

Resolutions of a meeting of the Board of Commissioners are generally adopted on the basis of a mutual consensus. In the event a mutual consensus is not reached, then a resolution may be adopted on the basis of an affirmative vote of more than one-half of votes validly cast at the meeting.

The current members of the Board of Commissioners are as follows

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dr. Sumarno Surono	54	Chairman of the Board of Commissioners
Ir. Pudja Sunasa	51	Commissioner
Dr. Ir. Sahala Lumban Gaol	51	Commissioner
Ir. Bemby Uripto	49	Commissioner
Dr. Ir. Nenny Miryani Saptadji	47	Independent Commissioner

Dr. Sumarno Surono

Dr. Sumarno Surono has a degree in Economic Development from the University of Indonesia and also holds a Master of Arts degree and a Ph.D from the Economics University of Hawaii. Dr. Surono was appointed Director of Fund Management with PT Danareksa in 1997 and head of the Monetary Bureau, BAPPENAS, in 1993. Dr. Surono has been a Commissioner since June 18, 2002 and has been Chairman of our Board of Commissioners since October 15, 2003.

Ir. Pudja Sunasa

Ir. Pudja Sunasa graduated with a degree in Petroleum Engineering from the Bandung Institute of Technology (ITB) in 1980. He did his overseas training in Gas Transmission Training, Gasunie Petroleum Engineering Training and Far East Oil Trading in Tokyo in 1990. Mr. Pudja previously held the position of head of the General Planning Division, General Secretary and became the head of General Bureau Directorate of Energy and Natural Resources (DESDM) in 2001. Mr. Pudja has been a Commissioner since June 4, 2002.

Dr. Ir. Sahala Lumban Gaol

Dr. Ir. Sahala Lumban Gaol graduated with a Masters Degree from the Economics University of Illinois, USA in 1988 and also holds a Doctorate of Philosophy in Economics, Financial and Monetary Economics, International Economics and Econometrics from Iowa State University, USA. Dr. Sahala was appointed Director of Oil Income and Non Tax in the Finance Department of the Government of Indonesia in 1998. Dr. Sahala has been a Commissioner since June 4, 2002.

Ir. Bemby Uripto

Ir. Bemby Uripto graduated with a degree in Electrical Engineering from the Bandung Institute of Technology (ITB) in 1979. He also holds Masters Degrees in Mineral Energy Economic and Operation Research from the Colorado School of Mines, Golder, USA in 1989 and in Financial Business from the Denver University, Colorado, USA in 1994. Ir. Uripto has been in employment with the National Development Planning Agency (Bapenas) since 1980. Ir. Uripto has been a Commissioner since October 15, 2003.

Dr. Ir. Nenny Miryani Saptadji

Dr. Ir. Nenny Miryani Saptadji graduated with a degree in Oil Engineering from the Bandung Institute of Technology (ITB) in 1981 and has a Dipl.Geotherm.En.Tech from the Geothermal Institute University of Auckland. She also holds a Doctorate of Geothermal Engineering from the Geothermal Institute University of Auckland. Dr. Saptadji is a Commissioners' advisor of Pertamina for downstream business. Dr. Saptadji has been a Commissioner since October 15, 2003.

Board of Directors

The Board of Directors manages us on a day-to-day basis. Under Indonesian law, the Board of Directors is required to be made up of at least two members, one of whom is the President Director. Under Indonesian company law, persons eligible to be appointed as members of a Board of Directors are required to be individuals who are capable of performing legal acts and who have never (i) been declared bankrupt, (ii) been found guilty of having caused a company to be declared bankrupt while being a member of the Board of Directors of such company, or (iii) been found guilty of having committed a criminal act which caused financial losses to the State within five years prior to his or her appointment. The Board of Directors is required to perform its duties in good faith and in the best interests of PGN.

Members of the Board of Directors must be nominated and approved by the holder of the Special Share and are appointed and removed by shareholder vote at a General Meeting of Shareholders. Each Director serves a term of five years. In the event a vacancy occurs in the Board of Directors, then a General Meeting of Shareholders must be convened within 60 days after the vacancy occurs. So long as the position remains vacant, one of the remaining Directors will be appointed by the Board of Commissioners to assume the responsibilities of the absent Director. If for any reason we cease to have any Directors, the Board of Commissioners will perform the ongoing obligations of the Board of Directors. In such circumstances, no later than 60 days after the vacancies occur, the Board of Commissioners must convene a General Meeting of Shareholders.

Meetings of the Board of Directors may be held at any time deemed necessary by one or more of the members of the Board of Directors, or upon the request in writing from either the Board or Commissioners or one or more of the shareholders jointly representing at least one-tenth of the total voting shares issued by PGN. A meeting of the Board of Directors will be valid and entitled to adopt binding resolutions only if more than one-half of the members of the Board of Directors are present or represented at the meeting.

All meetings of the Board of Directors are chaired by the President Director. In the event of the absence or disability of the President Director, the impediment of which need not be evidenced to any third parties, a meeting of the Board of Directors will be chaired by such other member of the Board of Directors specifically appointed by the President Director. If the President Director does not make such an appointment, then the longest-serving member of the Board of Directors will chair the meeting. In the event there is more than one or there is no longest-serving member, then the chairman of the meeting will be appointed by the members attending the meeting.

Resolutions of a meeting of the Board of Directors are generally adopted on the basis of a mutual consensus. In the event a mutual consensus is not reached, then a resolution may be adopted on the basis of an affirmative vote of more than one-half of votes validly cast at the meeting.

The Board of Directors has the power to perform for and on our behalf all transactions concerning our management and administration. However, certain actions of PGN require written approval from the Board of Commissioners, including:

- obtaining long-term liabilities from banks or other financial institutions;
- advancing long-term loans on behalf of PGN;
- releasing or selling our immovable assets in an amount exceeding that determined by the Board of Commissioners;
- entering into cooperation or management contracts for a term exceeding three years;
- stipulating the organizational structure one level below Director level;
- participating in other companies' equity or establishing a new company;
- selling or transferring all or part of our participation in another company; and
- not collecting written-off receivables in an amount above that determined by our General Meeting of Shareholders.

In addition, under BAPEPAM regulations, and subject to certain exemptions, we may not enter into certain "material" transactions before obtaining approval from a General Meeting of Shareholders. Material transactions are any purchase, sale or share participation, and the purchase, sale, transfer, exchange of assets or a business segment, the value of which is material (meaning greater than or equal to (i) 10.0% of revenues or (ii) 20.0% of equity).

The members of our Board of Directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Drs. W.M.P. Simandjuntak	61	President Director
Drs. Djoko Pramono	43	Director of Finance
Ir. Adil Abas Reksoatmodjo	59	Director of Development
Ir. Nursubagjo Prijono MSc.	57	Director of Operations
Drs. Sutikno Msi.	43	Director of General Affairs

Drs. W.M.P. Simandjuntak

As President Director, Drs. Simandjuntak is responsible for undertaking and guaranteeing the implementation of our business and activities in accordance with our purposes and objectives. Drs. Simandjuntak holds a degree in Accountancy from the University of Indonesia. Drs. Simandjuntak was previously appointed head of Administration for LEMIGAS (Gas and Oil Research), Jakarta in 1984 and Director of Finance and Administration for Perum Gas Negara in 1987. He became Director of Finance in 1992. Drs. W.M.P. Simandjuntak has been President Director since November 19, 2001 and is also the President Commissioner of Transgasindo.

Drs. Djoko Pramono

Drs. Djoko Pramono graduated with a degree in Accountancy from the University of Brawijaya. Drs. Pramono joined Perum Gas Negara's Staff Accounting Division in 1985 and became head of Finance Administration Controlling in 1989, before becoming head of our Accounting Division in 1991. Drs. Pramono has been Director of Finance since November 19, 2001.

Ir. Adil Abas Reksoatmodjo

Ir. Adil Abas Reksoatmodjo joined us in 1993 on the staff of our Director of Development. He became the Natural Gas Distribution and Transmission-Central Sumatra Project Manager in 1994, and in 1996 became head of the Indonesian Transmission Project. Before he joined us, Ir. Adil Abas Reksoatmodjo was head of Planning Programs at LEMIGAS (Gas and Oil Research). He has been Director of Development since 2001 and has a degree in Civil Engineering from the University of Gajah Mada, Yogyakarta.

Ir. Nursubagjo Prijono MSc

Ir. Nursubagjo Prijono graduated with a degree in Petroleum Engineering from the Bandung Institute of Technology (ITB). Ir. Nursubagjo Prijono was previously on the staff of the Director of Development, the head of the Counterpart Feasibility Study Team, and head of the Indonesian Transmission Project. Before he joined us, Mr. Prijono was head of Exploitation Project Studies at LEMIGAS (Oil and Gas Research). He became Director of Development in 1996, subsequently becoming Director of Operations in 1997.

Drs. Sutikno, Msi

Drs. Sutikno joined us in 1987, as part of the general sub-directorate staff. Drs. Sutikno has been Director of General Affairs since 2001. Drs. Sutikno holds a degree in Management from University of Diponegoro, Semarang and an S2 degree in Regulatory Business Administration from the University of Indonesia.

Compensation

The Commissioners and Directors receive compensation determined at the Annual General Meeting of Shareholders and are paid monthly each year. No fees are paid to the Commissioners or the Directors for their attendance at their respective board meetings. For the six months ended June 30, 2003 and 2002, the aggregate compensation including bonuses we paid to all Commissioners and Directors as a group was Rp.6.6 billion (US\$0.8 million) and Rp. 8.6 billion (US\$1.0 million), respectively. In addition, the Directors are entitled to certain benefits such as housing, transportation and utility allowances, healthcare and association membership. The Commissioners and Directors are both entitled to be reimbursed for income tax on compensation received. We do not disclose or otherwise make available public information regarding the compensation of our individual Commissioners or Directors.

Payment of bonuses to the Commissioners and the Directors is determined at the Annual General Meeting of Shareholders. Bonuses are paid annually and are based on achievement of our performance targets set by the Directors and approved by shareholders by a resolution passed by a simple majority at the Annual General Meeting of Shareholders.

Conflicts of Interest

Our Articles of Association provide that if there is a conflict between our interests and the interests of a Commissioner or a Director with respect to any proposal, arrangement or contract, such conflicted Commissioner or Director may not cast a vote with respect to such proposal, arrangement or contract in any meeting of the Board of Commissioners or Board of Directors, as the case may be, where the subject of the conflict of interest is discussed or voted upon. As a general rule, the President Commissioner chairs any General Meeting of Shareholders. Where a conflict of interest exists between our interests and the interests of the President Commissioner, any member of the Board of Commissioners not subject to such a conflict may chair such a meeting. Where a conflict of interest exists between our interests and the interests of all members of the Board of Commissioners, the President Director will chair such a meeting.

Subject to certain exemptions, under BAPEPAM regulations, we may not enter into "conflict of interest transactions" prior to obtaining approvals of "independent shareholders" or their authorized representatives. Independent shareholders are shareholders that are non-affiliates and have no interest in such a transaction. A conflict of interest transaction is a transaction in which a Director, Commissioner, principal shareholder or an affiliated party of the Director, Commissioner or principal shareholder has a conflicting interest with our interest.

None of our Directors or Commissioners has any substantial interest, direct or indirect, in any company carrying on a similar trade as us or our subsidiaries.

Employee Share Allocation Program

At the EGM we approved the introduction of an employee share allocation program (the "Share Allocation Program"), consisting of (i) the bonus share grant and (ii) the discounted share purchase plan.

The Share Allocation Program must comply with BAPEPAM regulations which permit a maximum of 10.0% of the shares being offered to the public in the Global Offering (excluding any Over-allotment Option Shares and any Over-subscription Option Shares issued) to be reserved on a preferential basis for employees. The aggregate number of shares offered pursuant to the Share Allocation Program will be up to 4.0% of the Underwritten Shares.

The objectives of the Share Allocation Program are to attract, retain and motivate participants, align the interests of participants with those of all shareholders, and reward participants for their contributions. Those entitled to participate in the Share Allocation Program consist of PGN's (i) Board of Commissioners, (ii) Board of Directors, (iii) permanent employees and (iv) temporary employees (together, the "Participants"). Any Participant whose employment has been suspended or who is on leave without our agreement will not be entitled to participate in the Share Allocation Program. The entitlement to shares under the Share Allocation Program will be based on a Participant's level of position, salary and term of employment with PGN.

The aggregate cost to us of the employee Share Allocation Program will not exceed Rp.24.3 billion (US\$2.9 million).

Bonus Share Grant

A number of shares will be granted to the Participants as a reward for their contribution to PGN. The bonus shares will have a lock-up period of 12 months from the date of the listing of the shares on the JSX or the SSX during which time they cannot be transferred by the Participant shareholder. After the lock-up period, Participants are free to sell and transfer the bonus shares.

Discounted Share Purchase

Under the discounted share purchase plan, the Participants will have the opportunity to purchase shares in the Global Offering. We are paying 18.0% of the price of shares purchased by Participants in the Global Offering. The shares purchased in this way will have a lock-up period of 12 months if purchased out of the Participants' bonus to be paid in 2004 or six months if purchased in cash, in each case from the date of the listing of the shares on the JSX or the SSX, during which time they cannot be transferred by the Participant shareholder.

Management Share Ownership Plan

At the EGM we also approved the introduction of a management share ownership plan (the "Management Share Ownership Plan") on terms to be approved by our Board of Commissioners. The purposes of the Management Share Ownership Plan are to maximize our long-term success, ensure a balanced emphasis on both current and long-term performance, better align the interests of management with those of shareholders and attract and retain key individuals with outstanding abilities.

At the meeting of our Board of Commissioners on November 17, 2003, the details of the Management Share Ownership Plan were approved and it was resolved that our Directors, Commissioners and certain senior managers would be eligible. In accordance with BAPEPAM regulations, a maximum of 5.0% of our issued and paid-up capital may be issued pursuant to the Management Share Ownership Plan.

The issuance of new shares under the Management Share Ownership Plan will be divided into the following three phases.

- In Phase I, rights will be granted to purchase new shares in an aggregate amount of up to 2.5% of our issued and paid-up capital with an exercise price of 110.0% of the Offering Price. These rights will be granted on December 15, 2003 with a vesting period of one year, exercisable between December 15, 2004 and December 15, 2005.
- In Phase II, rights will be granted to purchase new shares in an aggregate amount of up to 1.25% of our issued and paid-up capital. The exercise price will be decided by our Board of Commissioners, with a minimum price based on the average trading price of the shares during the period of 25 days prior to the date on which notice is given of the extraordinary general meeting held to authorize the issue of shares under Phase II. These rights will be granted on February 15, 2005 with a vesting period of one year, exercisable between February 15, 2006 and February 15, 2007.
- In Phase III, rights will be granted to purchase new shares in an aggregate amount of up to 1.25% of our issued and paid-up capital. The exercise price will be decided by our Board of Commissioners, with a minimum price based on the average trading price of the shares during the period of 25 days prior to the date on which notice is given of the extraordinary general meeting held to authorize the issue of shares under Phase III. These rights will be granted on February 15, 2006 with a vesting period of one year, exercisable between February 15, 2007 and February 15, 2008.

Employees

As at June 30, 2003, we had 1,110 permanent employees, including 49 employees seconded to Transgasindo. The following table shows the number of our permanent employees by unit as of December 31, 2000, 2001, 2002 and June 30, 2003, respectively:

	Year ended December 31,			Six months ended
	2000	2001	2002	June 30, 2003
Head Office	347	333	271	272
SBU I	438	429	411	420
SBU II	174	181	189	186
SBU III	116	118	117	120
Projects division	—	—	53	63
Grissik-Duri Branch/Transgasindo	27	37	34	49
Total ⁽¹⁾	<u>1,102</u>	<u>1,098</u>	<u>1,085</u>	<u>1,110</u>

Notes:

(1) The project department is responsible for planning network expansion.

(2) We had 221, 228, 195 and 248 temporary employees, respectively, as of December 31, 2000, 2001, 2002 and June 30, 2003, respectively.

Approximately 90.0% of our employees are members of the SP (Serikat Pegawai) PGN labor union. We have not experienced any material labor disputes. We hire both temporary and permanent workers, with permanent employees entitled to receive benefits under a defined benefit pension plan, along with health care benefits at the age of 56. We believe our relationship with our employees is good.

We have a defined benefit retirement insurance plan covering all of its qualified permanent employees. The employees contribute 3.0% (if single) or 5.0% (if married) of their basic salaries plus certain allowances. We bear the remaining balance of the premium.

We also provide additional post retirement health care benefits for our retired employees. We made contributions amounting to Rp.2.7 billion in 2001 and Rp.1.9 billion in 2000. No contributions were made in 2002 or to date in 2003.

PGN has seconded certain employees to Transgasindo to assist in the operations of Transgasindo. Transgasindo has agreed that PGN employees seconded to it will continue to participate in the benefit retirement

insurance plan. Upon the occurrence of a termination of employment, voluntary resignation or retirement of seconded employees for any reason within the secondment period, PGN will be obliged to settle all obligations, including financial liabilities such as payments of severance pay or service entitlements.

On June 20, 2000, the Ministry of Manpower issued a Decree which requires companies to pay their employees termination, gratuity and compensation benefits in the case of dismissal from employment based on an employees' number of years of service, provided certain conditions set forth in the Decree are met. We believe that the existing retirement insurance and PGN's policy regarding retirement benefits adequately covers the benefits required under this Decree. Accordingly, no accrual for such benefits has been made since 2000.

We provide both in-house and outsourced training and education programs, including local and international engineering and maintenance programs benchmarked against those of other gas companies. For the year ended December 31, 2002, our employees spent an aggregate of 7,471 man days at training and education programs.

RELATED PARTY TRANSACTIONS

We have entered into a range of transactions with the Government and entities controlled by the Government and it is expected that we will enter into similar transactions in the future. In our ordinary course of business, we have dealt with and will from time to time deal with other companies owned or controlled by the Government.

Transactions with the Government

Two-step Loans

Our loans sourced from foreign quasi-governmental institutions such as ADB, EIB, IBRD and JBIC are lent to us through subsidiary loan agreements between us and the Government. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resources."

Forest Land Borrow and Use Agreements

Our use of certain land owned by the Government on which the Grissik-to-Duri transmission pipeline is built is permitted by two Forest Land Borrow and Use Agreements whereby the Government allows us to use its land without charge. See "Business — Real Estate".

Transactions with Pertamina

Prior to the enactment of the New Oil and Gas Law, we were unable to contract directly with any upstream suppliers other than Pertamina, a Government-owned entity. Consequently, all but one of our current gas purchase agreements are with Pertamina. In addition, Pertamina is a party to all of our gas transportation agreements, including the agreement relating to the transportation of gas to Pertamina's gas filling stations and the agreements relating to our distribution of LPG.

Transactions with Bank Mandiri

We have standby letter of credit facilities with PT Bank Mandiri (Persero), a Government-controlled entity, which are used to guarantee the payments of our gas purchases for the Surabaya, East Java and Maura Karang, West Java areas. The facilities, which have annual maximum limits ranging from US\$75.9 million to US\$83.5 million, respectively will expire in 2009 and 2016. Certain time deposits in the same bank, trade receivables and certain land rights and buildings, including our headquarters building in Jakarta and the headquarters of the East Java SBU in Surabaya, are used as collateral for these facilities. As of June 30, 2003, the aggregate net book value of these assets totaled Rp.533.0 billion (US\$64.3 million).

Transactions with PLN

We have a number of gas sales agreements with PLN, the Government-controlled electricity utility.

Transactions with PT Kereta Api

We have a number of leases with PT Kereta Api (Persero), the Government-controlled railway operator, relating to land on the routes of our transmission pipelines.

RELATIONSHIP WITH THE GOVERNMENT

We have a variety of relationships with the Government including the relationships outlined below.

Government as Shareholder

The Government currently owns 100.0% of our shares. The Government holds its interest in us through the Ministry of State-Owned Enterprises. As our sole shareholder, the Government is interested in our performance in terms of the benefits we provide to the Government, such as our ability to provide a return on the Government's investment in us. After the Global Offering, the Government will own approximately 70.0% of our outstanding shares of us (61.0% if both of the Over-subscription Option and Over-allotment Option are exercised in full and 63.8% if, in addition to the exercise of such options, the conversion to capital of Rp.164.7 billion (US\$19.9 million) of Government project funds in exchange for 329.3 million new shares issued to the Government, as described in "Capitalization", is made in full). The Government, through the Ministry of State-Owned Enterprises, is also the holder of the Special Share, which has special rights. The material rights and restrictions that are applicable to the shares are also applicable to the Special Share, except that the approval of the holder of the Special Share is required for certain decisions, including decisions to:

- increase capital;
- nominate, elect or remove Directors and Commissioners;
- amend our Articles of Association;
- approve a merger, consolidation or acquisition; and
- approve a dissolution or liquidation.

See "Description of Our Shares — The Special Share". See also "Risk Factors — Risks relating to our Business — We are subject to the control of the Government".

Under BAPEPAM regulations, once we are listed on an Indonesian stock exchange, any transaction in which there is a conflict of interest (as defined below) must be approved by a majority of the shareholders who do not have a conflict of interest in the proposed transaction, unless the conflict existed before we were listed and was fully disclosed in the offering documents. A "conflict of interest" is defined in BAPEPAM regulations to mean a conflict between the common interests of us, on the one hand, and the personal economic interests of any member of the Board of Commissioners, Board of Directors or principal shareholders (a holder of 20.0% or more of the issued shares) or any of their respective affiliates. BAPEPAM has the power to enforce this rule, and our shareholders may also bring enforcement action based on this rule.

Transactions between us and other State-owned or controlled enterprises such as joint enterprises or arrangements could constitute conflict of interest transactions under the BAPEPAM regulations, and the approval of disinterested shareholders would have to be obtained if a conflict of interest were to exist. See "Risk Factors — Risks Relating to Ownership of our Shares — The application of BAPEPAM conflict of interest rules may cause us to forego transactions that are in our best interests".

Government as Regulator

The Government regulates the Indonesian downstream gas industry through Migas and BPHMigas. In particular, BPHMigas' policies on matters such as tariffs and open access could have a significant effect on our competitive position, operations and financial condition. See "Regulation of the Indonesian Oil and Gas Industry".

Government as Supplier

Our main natural gas supplier is Pertamina, a Government-owned entity. See "Related Party Transactions — Transactions with Pertamina".

Government as Lender

We source financing from the Government and related entities via a number of routes. See "Related Party Transactions — Transactions with the Government — Two-step Loans" and "Related Party Transactions — Transactions with Bank Mandiri".

DESCRIPTION OF OUR SHARES

Our authorized capital is Rp.7,000.0 billion (US\$844.9 million) divided into 14.0 billion shares, including the Special Share, each with a par value of Rp.500 per share. Prior to the Global Offering, 3.5 billion shares, including the Special Share, were outstanding, all of which are fully subscribed and paid for as of the date hereof, and none of which has been listed on any securities exchange.

The following is a summary of material rights and restrictions related to our shares under applicable provisions of Indonesian law and the provisions of our Articles of Association. This description does not purport to be complete.

Common Shares

All transfers of our common shares must be evidenced by an instrument of transfer signed by or on behalf of the transferor and by or on behalf of the transferee or based on other documents which give satisfactory evidence of such transfer in the opinion of the Board of Directors. In addition, any transfer of our shares must comply with rules and regulations applicable in the Indonesian capital market and of the JSX and the SSX. Transfers of shares take effect only after the transfer is registered in our register of shareholders (the "Register"). The transferor of any shares will be treated as the owner of such shares until the name of the transferee has been recorded in the Register by the Board of Directors, through our Share Registrar. Under the scripless system, KSEI will be registered as the holder of the shares in our Register, in its capacity as the central securities depository institution which holds the shares on behalf of KSEI participants which in turn hold the shares on behalf of the investors ("Beneficial Shareholders").

The holders of shares whose names are recorded in the Register ("Registered Shareholders") are entitled to pre-emptive rights in the event we issue new shares, convertible bonds, warrants or other securities convertible into equity securities except as provided below. See "Risk Factors — Risks Relating to Ownership of our Shares — Your right to participate in our rights offerings could be limited, which would cause dilution to your holdings". For shares deposited with KSEI, all ownership rights are automatically distributed by KSEI, through KSEI participants, to investors ultimately holding the shares as Beneficial Shareholders (or their assignees). Such pre-emptive rights may be sold and transferred to third parties without our consent to the extent permitted by the rules and regulations applicable in the Indonesian capital market and of the JSX and the SSX. If the Registered Shareholders or the Beneficial Shareholders (or their respective assignees) do not exercise their pre-emptive rights within a period of time determined by the Board of Directors (in accordance with the prevailing regulations) after the issuance of new securities, the Board of Directors may issue such shares, convertible bonds, warrants or other securities to third parties on the same terms and conditions.

In accordance with our Articles of Association, we may increase our capital without providing a preemptive right to the Registered Shareholders or the Beneficial Shareholders to subscribe for securities if we comply with the following provisions:

1. if within any three year period, the increase in our authorized share capital without preemptive rights attaching is no more than 5.0% of the paid-in capital; or
2. if the main objective of the increase in our authorized share capital is to improve our financial position which is experiencing one of the following conditions:
 - (i) we have negative net working capital and have liabilities of more than 80.0% of our assets at the time of the General Meeting of Shareholders approving the capital increase; or
 - (ii) we have defaulted or are not capable of avoiding default in payment of our liabilities with a non-affiliated provider of a loan, and the loan provider or non-affiliated creditor agrees to receive our shares or convertible bonds to settle the loan.

Other than as described above, our authorized share capital may be increased or decreased by a resolution of an Extraordinary General Meeting of Shareholders and amendment of our Articles of Association. Any such amendment will be effective only after obtaining approval from the Minister of Justice and Human Rights. In the case of a decrease in our authorized share capital, the approval from the Minister of Justice and Human Rights may only be given if (i) approved by a General Meeting of Shareholders, (ii) there are no objections from our creditors; (iii) a settlement has been reached on any objection raised; and (iv) any creditors' lawsuit as the result of objections by creditors has obtained a final and binding judgment rendered by the court.

The Special Share

All shares issued by us are registered shares and registered under the name of the holder recorded in the register of shareholders. The shares consist of an A Share (the Special Share), which can only be owned by Indonesia, and B Shares (common shares), which can be owned by the public. The Special Share is not transferable. All candidates for election to the Board of Commissioners and to the Board of Directors must be nominated by the holder of the Special Share.

The holder of the Special Share also has rights such that its approval is required for certain decisions of ours, including decisions to:

- increase capital (Article 4.6);
- elect or remove Directors and Commissioners (Articles 11.5 and 14.3);
- amend our Articles of Association (Article 26);
- approve a merger, consolidation or acquisition (Article 27); and
- approve a dissolution or liquidation (Article 28).

Otherwise, the material rights and restrictions which are applicable to common shares are also applicable to the Special Share.

Shareholders' Meetings and Voting Rights

Each share entitles the owner thereof to cast one vote in General Meetings of Shareholders. In the case of shares held by KSEI, prior to our taking corporate action, KSEI must provide details to us concerning the share entitlements of all the Beneficial Shareholders on whose behalf shares are held. A KSEI participant holding the shares on behalf of a Beneficial Shareholder is obliged to notify such Beneficial Shareholder of the exercise of any pre-emptive rights, delivery of annual reports and other notices issued by us as well as notices of General Meetings of Shareholders. Beneficial Shareholders or their legal representatives have the right to be present and vote at our General Meetings of Shareholders. See "Indonesian Capital Markets".

Our Annual General Meeting of Shareholders must be held by no later than June 30 of each year. At such Annual General Meeting, the Board of Directors must (i) report on our affairs and management and the results for the most recent financial year; (ii) submit for approval and ratification the audited balance sheet and audited profit and loss statement for the prior financial year; (iii) submit a plan for the use of profits and the amount of dividends, if any, to be declared with respect to the prior financial year; (iv) to the extent necessary, propose members of the Board of Commissioners and the Board of Directors for election and appointment by the shareholders; (v) submit all other matters to be addressed at the meeting; and (vi) propose, for appointment by the shareholders the registered public accountant. All materials described above must be made available in our office for inspection by any shareholder from the day such shareholder is notified of the Annual General Meeting through the date of the Annual General Meeting. Proposals duly submitted by shareholders representing at least 10.0% of our subscribed shares must be included in the agenda of such meeting, provided that such proposals are received by the Board of Directors at least three days prior to the issuance of the notice of meeting, and in the opinion of the Board of Directors, such proposals are directly related to our business.

Either the Board of Directors or the Board of Commissioners may convene an Extraordinary General Meeting of Shareholders. An Extraordinary General Meeting of Shareholders must be convened upon receipt of written notice requesting a meeting from one or more shareholders owning an aggregate of at least 10.0% of our subscribed shares. In the event neither the Board of Directors nor the Board of Commissioners convenes such a meeting within 30 days of receipt of such written notice the applicable shareholders may call a meeting at our expense after obtaining the approval from the District Court.

At least 14 days prior to the issuance of notice of both Extraordinary General Meetings and Annual General Meetings of Shareholders, an announcement must be made by placing an advertisement in at least two daily newspapers published in Indonesia, one of which must have a wide circulation in Indonesia and the other circulating in our domicile, that a shareholders' meeting is to be called. Notice to the shareholders of the meeting must also be by newspaper advertisement, as described above, published at least 14 days before the date of the meeting.

The quorum for an Annual General Meeting of Shareholders requires shareholders and/or authorized proxies representing more than 50.0% of the issued shares with voting rights to be represented either in person or by a power of attorney at such meeting. The quorum requirement for an Extraordinary General Meeting of Shareholders may be greater, depending on the nature of the resolutions to be considered at such meeting.

Shareholders may be represented in a General Meeting of Shareholders by any person holding a power of attorney, provided that if the proxy is a Commissioner, Director or employee of ours then the vote of any such proxy shall not be counted. In order to be adopted, resolutions must receive the affirmative votes of shareholders holding more than 50.0% of the shares which are either present or represented in the meeting (except for resolutions concerning certain transactions such as (i) the transfer or disposal of rights or encumbrances of all or more than 50.0% of our total assets, (ii) amendments to our Articles of Association, (iii) a merger, consolidation or acquisitions, (iv) liquidation or (v) conflict of interest transactions, which have various voting thresholds above that level).

Dividends

A portion of our profit, as determined by an Annual General Meeting of Shareholders, after deduction of corporate tax, must be used as a reserve fund for dividends and certain other purposes.

Dividends, if any, are paid in accordance with a resolution adopted by an Annual General Meeting of Shareholders, which resolution must establish the amount, the time and manner of payment of the dividends. All shares which are fully paid and outstanding at the time a dividend or other distribution is declared are entitled to share equally in such dividend or other distribution. Dividends are payable to the persons whose names are recorded in the Register. Our Articles of Association provide that dividends unclaimed after a period of five years will be placed in a special reserve fund. However, shareholders may still exercise their rights to collect their dividends from the special reserve fund within such five-year period.

A reserve fund, up to an amount of at least 20.0% of our subscribed capital, may be established to cover future losses in an amount determined by the General Meeting of Shareholders. Amounts in the reserve fund that exceed 20.0% of our subscribed capital may be used for working capital or other purposes in our interest, subject to the approval of our shareholders. Any interest or other profit earned from such reserve fund must be entered in our profit and loss account.

Amendments to the Articles of Association

Amendments to the Articles of Association can only be effected pursuant to a resolution at an Extraordinary General Meeting of Shareholders attended by shareholders or their proxies representing at least two-thirds of the total issued shares. The holder of the Special Share must be present. Resolutions adopted at such a meeting must be approved by at least two-thirds of the votes cast with respect thereto and must be approved by the holder of the Special Share. Any amendment that would change our name, our objectives and purpose, our business activities or our term of establishment, or would increase or reduce our authorized capital, reduce the issued and paid-up capital or change our status from a private company to become a public company or vice versa will only be effective upon approval by the Minister of Justice and Human Rights. Any other amendments will only be effective after such amendments have been reported to the Ministry of Justice and Human Rights within 14 days of the related resolution and registered with the Department of Trade and Industry. A resolution reducing the capital must be delivered to our creditors and published in the State Gazette of the Republic of Indonesia and in at least two newspapers published in Indonesia with wide circulation within seven days after such resolution. If a quorum for such Extraordinary General Meeting is not obtained, then no earlier than 10 days and no later than 21 days after such original Extraordinary General Meeting, a second meeting may be held to render a legal and binding resolution on matters which were not resolved at the first meeting. The second meeting must be attended by shareholders representing at least two-thirds of the total issued shares, and the holder of the Special Share must be present. Resolutions adopted at such a meeting must be approved by more than 50.0% of the total votes present and cast at the meeting and must be approved by the holder of the Special Share.

Liquidation

A resolution for our dissolution must be approved at a General Meeting of Shareholders attended by holders of at least three-quarters of the total number of shares outstanding and approved by at least three-fourths of the total votes cast at the meeting including the approving vote of the holder of the Special Share. In the event we are

wound up, dissolved or declared bankrupt, subject to insolvency or for any other reason provided under the Law No. 1 (1995) on Limited Liability Company (the "Company Law"), the General Meeting of Shareholders must appoint a liquidator to perform the liquidation procedures. If the General Meeting of Shareholders fails to appoint a liquidator, the Board of Directors shall act as the liquidator.

The liquidators must register the resolution for our dissolution in the Company Register, publish it in the State Gazette and two daily newspapers published in Indonesia and notify our creditors, the Minister of Justice and Human Rights, the JSX, as well as BAPEPAM.

Rights of Shareholders

In general, Indonesian law has traditionally afforded shareholders fewer rights than those available in common law jurisdictions such as the United States and the United Kingdom. See "Risk Factors — Risks relating to Ownership of our Shares — You may be subject to limitations on minority shareholders rights". The Company Law affords certain rights to shareholders, and certain additional rights to one or more shareholders collectively representing at least 10.0% of all voting shares of a company ("Minority Shareholders").

A shareholder generally has the right to lodge a legal action against us if it has been harmed by any unfair and unreasonable action we have taken. In addition, each shareholder of a public company has the right to request us to repurchase the shareholder's shares at the then prevailing market price if such shareholder disagrees with certain of our actions which harm the interests of such shareholder or us. These actions include: (i) the amendment of our Articles of Association; (ii) the sale, pledge or exchange of a substantial amount or all of our assets; or (iii) our merger, consolidation or acquisition. Under the Company Law, we may repurchase shares, provided that such repurchase (a) may only be paid from our net profits and must not cause our net assets (as stated in our most recent balance sheet, as approved by the shareholders within the last six months) to fall below paid-in capital and reserves; and (b) may not cause us and our subsidiaries to own more than 10.0% of our outstanding shares. To the extent that a request to repurchase shares exceeds these limitations, we are required to seek a third-party purchaser for such shares. Under Article 33 of the Company Law, shares repurchased by us may not be used to cast a vote in a General Meeting of Shareholders, and will not be counted in determining the quorum that has to be achieved in accordance with the Company Law and our Articles of Association. Such a limitation also applies to our shares that are purchased by our subsidiaries.

Our Minority Shareholders have certain other rights. These include the rights to call a General Meeting of Shareholders in the event that the Directors or Commissioners fail to convene such meeting within the stipulated time. Minority Shareholders also have the right to lodge a derivative action on our behalf against the Directors or Commissioners who, through error or negligence, have caused us losses. Under the Company Law, Directors and Commissioners are obliged to act in good faith, with full responsibility and in our best interests when carrying out their corporate duties. The Minority Shareholders may request that we be examined by a court if there is suspicion that we or any of our Directors or Commissioners has committed an act contrary to law. Minority Shareholders may also apply to a court for our dissolution. However, the Company Law does not specify the circumstances under which such application may be made.

INDONESIAN CAPITAL MARKETS

The following information has been derived from publicly available information and has not been independently verified by us, the Selling Shareholder, the International Selling Agents or the Underwriters.

Background and Development

In 1976, the Government established a regulatory agency, the Capital Market Operations Board, Badan Pelaksana Pasar Modal, or BAPEPAM, and a national investment trust company, PT Danareksa Sekuritas, to reactivate and promote the development of a securities market in Indonesia. The first share issue listed on the JSX took place in August 1977. Up until the end of 1988, the shares of 24 companies were listed on the JSX and the volume of shares traded was relatively low.

Over the last 12 years however, a number of reform measures affecting the Indonesian capital markets have been announced. These have led to the privatization of the JSX and its establishment as a limited liability company incorporating 221 securities trading companies as its shareholders. The operational transfer of the exchange from BAPEPAM to the JSX commenced effectively as of April 16, 1992. BAPEPAM is now operating under its new name, the Capital Markets Supervisory Agency or Badan Pengawas Pasar Modal, with its principal function to ensure the orderly and fair operation of the securities exchanges.

The various reforms over the past few years have sought to strengthen the operational and supervisory framework of the Indonesian securities market and to improve the Indonesian securities market's trading environment. The measures also established an over-the-counter market, the Bursa Paralel, and private stock exchanges outside Jakarta, the first of which was established in Surabaya, the SSX.

Other reforms were also introduced to provide increased protection for minority shareholders, to improve disclosure requirements and clarify listing procedures. As of June 30, 2003, there were 336 firms listed on the JSX, with a market capitalization of Rp.339.7 trillion (US\$40.9 billion), compared to 24 listed companies with a capitalization of approximately Rp.100 billion in December 1987, just prior to the introduction of the capital market reform measures.

Overview of the Jakarta Stock Exchange

As of June 30, 2003, the JSX was comprised of 171 members. Of these 171 members, the top 20 most active members in total trading volume handled transactions for 56,306 million shares for the six months ended June 30, 2003, about 49.1% of total shares traded on the JSX during that period. In trading value, the top 20 most active members accounted for Rp.55.5 billion in trading, or about 66.3% of the overall value of buying and selling transactions on the JSX for the six months ended June 30, 2003.

Trading rules on the JSX are, at present, generated in the form of decisions by the JSX. There are three trading markets at the JSX, namely regular market, negotiated market and cash market. There are currently two daily trading sessions for regular market and negotiated market from Monday to Thursday, 9.30 a.m. to 12.00 noon WIB (Western Indonesian Standard time), followed by an afternoon session from 1.30 p.m. to 4.00 p.m. WIB. There are two trading sessions on Friday, from 9.30 a.m. to 11.30 a.m. WIB and from 2.00 p.m. to 4.00 p.m. WIB. There is only one cash market trading session from Monday to Thursday, 9.30 a.m. to 12.00 noon, and on Friday, 9.30 a.m. to 11.30 a.m. WIB.

Trading is divided into three market segments: regular market, negotiated market and cash market. The regular market is the mechanism for trading stock in standard lots on a continuous auction market during exchange hours. Regular market trading is generally carried out in unit lots of 500 shares. Auctioning takes place according to price priority and time priority. Price priority gives priority to buying orders at a higher price or selling orders at a lower price. If buying or selling orders are placed at the same price, priority is given to the buying or selling order placed first (i.e. time priority).

The negotiated market trading consists of (i) block trading of unit lots of 200,000 shares or more; (ii) odd lot trading with round lots of less than 500 shares; and (iii) crossing by an exchange member receiving buying and selling orders for the same number of shares at the same price agreed by the parties. Odd lots may not be traded more than 5.0% above or below the latest price on the regular market. Odd lot dealers may set prices within a range of not more than 7.0% above or below the regular market price, and must buy or sell stock direct to and

from customers through cross trades and without charging commission. In the case of newly listed or newly traded shares which have yet to establish a market price, the benchmark price is the initial public offering price.

Transactions on the JSX regular market are required to be settled no later than the third trading day after the transactions and negotiated market are required to be settled no later than the fourth trading day after the transactions except for cross trading. In practice, however, transactions on negotiated market are also settled by no later than the third business day after the transactions. Transactions on the JSX cash market are required to be settled on the trading day of the transactions. In case of a default by an exchange member on settlement, cash market trading takes place, pursuant to which trading of securities by means of direct negotiation on cash and carry terms will be conducted. All cash market transactions must be reported to the JSX. An exchange member defaulting in settlement may be given sanction by JSX, among others, of (i) a fine up to Rp.500,000,000; (ii) a written warning; and (iii) suspension.

All transactions involving shares listed only on the JSX which use the services of brokers must be conducted on the JSX. In order for a trade to be made on the JSX, both the cash and securities settlement must be conducted through the facilities of the JSX. Engaging in short selling is prohibited under the applicable regulations. Furthermore, the JSX may cancel a transaction if proof exists of fraud, manipulation or the use of insider information. The JSX may also suspend trading if there are indications of fraudulent transactions or artificial inflation of share prices, misleading information, use of insider information, counterfeit securities or securities blocked from trading, or any other material event. The JSX may suspend trading of certain securities or suspend certain members of the stock exchange. For transactions involving shares listed on both the JSX and the SSX, either exchange may be used to effect the trade.

Members of the JSX charge a brokerage fee for their services, based on agreement with their client, up to a maximum of 1.0% of the transaction value. When conducting share transactions on the JSX, exchange members are required to pay a transaction levy equal to the cumulative transaction value for each month based on 0.04% (subject to a minimum fee of Rp.250,000 a month) of transactions for shares and other registered securities. Exchange members pass on the cost of this levy to their clients. These clients are also responsible for paying a 10.0% value added tax on the amount of brokerage fee and transaction levy. Also, Indonesian sellers are required to pay a withholding tax of 0.1% (0.6% for founder shares) of the total transaction value. Additionally, stamp duty of Rp.3,000 is payable on any transaction with a value between Rp.250,000 and Rp.1,000,000 and stamp duty of Rp.6,000 is payable on every transaction with a value of more than Rp.1,000,000. See "Taxation — Indonesian Taxation".

Shareholders or their appointees may request the issuer or a securities administration bureau appointed by the issuer of such shares at any time during working hours to register their shares in the issuer's registry of shareholders. Reporting of share ownership to BAPEPAM is mandatory for shareholders whose ownership has reached 5.0% or more of issued and fully paid up capital, upon meeting such share ownership level or upon changes of such ownership.

The following table sets forth key figures for the JSX for the years 1996 to 2002:

Jakarta Stock Exchange

	1996	1997	1998	1999	2000	2001	2002
Market capitalization (Rp. trillion)	215	160	176	452	260	239	252
Trading volume (million shares)	29,528	76,599	90,621	178,487	134,531	148,381	171,207
Average daily trading volume (million shares)	119	311	367	723	563	603	699
Trading value (Rp. billion)	75,730	120,385	99,685	147,880	122,775	97,523	120,763
Average daily trading value (Rp. billion)	304	489	404	599	513	396	493
Number of listed companies	253	282	288	277	287	316	331

Offering, Listing and Reporting Regulations

BAPEPAM, on behalf of the Minister of Finance, regulates and monitors securities issues which are publicly offered or listed in Indonesia. Initial securities offerings are generally conducted as underwritten public offers for sale by subscription. BAPEPAM regulates offering and allocation procedures.

Unless waived, companies are required to meet certain historical financial requirements in order to become listed on the JSX. Requirements for the listing on JSX were changed by certain rules issued in June 2000, as last amended in July 2001.

Listed companies are required to submit to BAPEPAM and each applicable stock exchange the following documents:

1. financial statements consisting of:
 - (i) an annual report audited by an accountant registered with BAPEPAM, to be submitted not later than three months after the date of such report;
 - (ii) any of the following mid-year reports: (a) a mid-year report (unaudited), to be submitted not later than one month after the date of such report; (b) a mid-year report with limited review by an accountant registered with BAPEPAM, to be submitted not later than two months after the date of such report; or (c) a mid-year report audited by an accountant registered with BAPEPAM containing a full opinion on the fairness of such report, to be submitted not later than three months after the date of such report; and
 - (iii) quarterly reports, the preparation of which is required by the rules of the JSX, must be submitted to the JSX not later than two months after the date of such report;
2. information that is important and relevant according to BAPEPAM regulations and which may affect the value of the security or an investment decision, such as a merger, acquisition, consolidation, stock split, stock dividend, change in management, replacement of public accountant, replacement of trustee, material legal claims, and other important information possibly affecting share prices on the exchange;
3. a copy of any amendment to the company's articles of association;
4. notice of any change in the composition of the company's Board of Directors or Board of Commissioners;
5. notice of any material deviation from projections published by such companies; and
6. in the case of an investment fund company, a monthly report, containing, among other information, its net asset value, prior to or on the fifth business day of each month.

Insider trading, fraud and manipulation of securities are prohibited under Indonesian capital markets laws. In such circumstances, a transaction may be cancelled or suspended by the JSX or BAPEPAM may suspend or revoke the license of the capital market supporting institution and supporting professionals involved. A party engaging in (i) misleading conduct, fraud or falsification in connection with the sale of securities, (ii) other actions to mislead the public regarding trading activities, market conditions or price or (iii) insider trading, is liable for the loss incurred and face a fine of up to Rp.15 billion and imprisonment of up to 10 years.

Developments

Scripless Trading

In 1997, a private limited company, the Indonesian Central Securities Depository, KSEI, was established to serve as the central securities clearing house. On November 11, 1998, KSEI obtained a license from BAPEPAM to act as an approved central securities depository and settlement institution. The shareholders of KSEI currently comprise of 31 securities firms, nine custodian banks, four Share Registrars (Biro Administrasi Efek), the SSX, the JSX and the Indonesian Stock Clearing and Guarantee Company, PT Kliring dan Penjaminan Efek Indonesia or KPEI. In 2000, KSEI introduced the Central Depository and Book Entry Settlement System ("C-Best").

In 1997, BAPEPAM implemented regulations to provide for the scripless trading system. Under the scripless system, a member broker, sub-broker or local custodian ("KSEI Participant") may deposit certificates in respect of securities with KSEI who becomes the registered holder of the securities. Any institution becoming a

KSEI Participant is required to open at least one account with KSEI for deposit, withdrawal or transfer of securities. After KSEI has accepted a deposit of any securities, it will hold such securities on behalf of its participants or its participants' clients and as such, rather than as "direct owners," investors will obtain a beneficial interest in the shares which is convertible into a physical share certificate at the direction of the investor. Sales and purchases of securities are settled by offsetting the relevant securities deposit accounts by way of a computer system and at the end of each trading day KSEI delivers a statement showing the balance of securities held for each participant.

Pursuant to a Circular Letter issued by BAPEPAM dated November 23, 2001, issuers of shares are required to register their shares in a central depository prior to June 30, 2002. Further, on January 15, 2003, BAPEPAM issued a new regulation, effective as of May 1, 2003, which requires each KSEI Participant holding securities on behalf of a client to:

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

Transfers of Shares

Transfers of listed shares on the JSX are governed by the Company Law and JSX rules. Under the Company Law, as a general matter, ownership of shares is based on the registration of ownership in the relevant company's share register. To be valid against the issuing company, a request for an entry of the transfer into a share registry must be received by the company. To be valid against a third party, the entry of the transfer must actually be made into the share register.

Transfer of scripless shares are made by way of appropriate instructions to the relevant brokers, sub-brokers or custodians with whom the transferor and the transferee involved maintain securities accounts in accordance with the individual arrangements with such brokers, sub-brokers or custodians. Upon receipt of such instructions, the relevant brokers, sub-brokers or custodians will, in accordance with such arrangements, effect the relevant changes in the register they are required to maintain for rights and entitlements purposes.

TAXATION

The following discussion is a summary of certain Indonesian income tax and stamp duty consequences and certain U.S. federal income tax consequences under present law of the purchase, ownership and disposition of our shares. It addresses only purchasers who will hold our shares as capital assets and, in the case of the U.S. discussion, use the U.S. dollar as their functional currency. It does not address the tax treatment of investors subject to special rules including banks, dealers, insurance companies, tax-exempt entities, holders of 10.0% or more of our voting shares, and persons holding shares as part of a hedge, straddle, conversion or constructive sale transaction. It does not address state, local and foreign tax consequences of ownership and disposition of our shares.

EACH PROSPECTIVE PURCHASER IS ADVISED TO CONSULT ITS TAX ADVISORS ABOUT THE PARTICULAR TAX CONSEQUENCES TO IT OF AN INVESTMENT IN OUR SHARES.

Indonesian Taxation

The following is a summary of the principal Indonesian tax consequences of the ownership and disposition of shares for a non-resident individual or non-resident entity (a "Non-Indonesian Holder") that holds shares in an Indonesian company. As used in the preceding sentence, a "non-resident individual" is a foreign national who does not reside in Indonesia or is not physically present in Indonesia for more than 183 days during any 12 month period, and a "non-resident entity" is a corporation or non-corporate body that is established under the laws of a jurisdiction other than Indonesia, is not domiciled in Indonesia and does not have a fixed place of business or permanent establishment in Indonesia during an Indonesian tax year in which such non-Indonesian entity receives income in respect of the ownership or disposition of shares.

Taxation of Dividends

Dividends declared by us out of retained earnings and distributed to a Non-Indonesian Holder in respect of shares are subject to Indonesian withholding tax, currently at the rate of 20.0%, on the amount of the distribution (in the case of cash dividends) or on the shareholders' proportional share of the value of the distribution (normally par value in the case of stock dividends). A lower rate provided under certain double taxation treaties may be applicable provided that, among others, the recipient is the beneficial owner of the dividend and is a resident of a treaty country. The recipient has to provide us with the original Certificate of Tax Residence issued by the competent tax authorities or its designee, of the jurisdiction where the recipient Non-Indonesian Holder is domiciled. This Certificate is only valid for one year from the date of issuance and must be renewed subsequently.

Tax Treaties

Indonesia has concluded double taxation 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.

Taxation on the disposition of shares

Under the Indonesian Income Tax Law, the sale of unlisted shares by a Non-Indonesian Holder is subject to final Indonesian withholding tax, currently at the rate of 20.0%, on the estimated net income. Effective August 24, 1999, the estimated net income for the sale of unlisted shares is 25.0% of the sale price resulting in an effective final withholding tax rate of 5.0% of the sale price (irrespective of whether or not there is a profit on the sale of the unlisted shares). The obligation to pay the final withholding tax lies with the buyer (if it is an Indonesian taxpayer) or us (if the buyer is also a Non-Indonesian Holder). Exemption from the 5.0% final withholding tax on the sale of unlisted shares may be available to non-resident sellers of shares depending on the provisions of the applicable double taxation treaties. In order to benefit from the exemption under the relevant double taxation treaty, the non-resident seller must provide a Certificate of Tax Residence issued by the competent authority, or its designee, of the jurisdiction where the non-resident seller is domiciled to the buyer (or us if the buyer is a Non-Indonesian Holder) and to the Indonesian tax office that has jurisdiction over the buyer (or over us if the buyer is a Non-Indonesian Holder).

Pursuant to Government Regulation No. 41 of 1994 regarding Withholding Tax on Income from Share Trading Transactions on the Stock Exchange dated December 23, 1994 and its amendments in Government Regulation No. 14 of 1997 dated May 29, 1997, the sale or transfer of shares that are listed on an Indonesian stock exchange is subject to final withholding tax of 0.1% of the gross amount of the transaction value and should be withheld by the broker handling the transaction. An additional 0.5% final tax (amounting to a total tax of 0.6%) is imposed on the share value for the holding of the founder shares (except for the founder shares of a mutual fund). The imposition of 0.5% withholding tax will occur at the time of the initial public offering for shares traded on the stock exchange on or after January 1, 1997. The imposition of 0.5% withholding tax on the founder shares is not compulsory. The tax regulations provide an option for the taxpayer to elect to substitute the 0.5% additional final tax with the taxation of actual capital gains (if any) resulting from the sale of the founder shares subject to the normal tax rates (progressive rate with a maximum of 30.0% for corporate taxpayers or 35.0% for individual taxpayers). Currently, the tax regulations for listed shares do not contain any provision in respect of treaty protections. In practice, the 0.1% final withholding tax is applied irrespective of the fact that there may be treaty exemptions. Indonesian tax authorities have a general rule regarding refunds, which may be used in case of an applicable treaty exemption.

Taxation of Rights Issue

Our grant of statutory subscription rights for our shares in compliance with Indonesian Law (a "Rights Issue") should not be subject to Indonesian tax. Any income from the sale of a Rights Issue by a Non-Indonesian Holder is not subject to Indonesian tax since the relevant implementing regulation has not yet been issued.

Stamp Duty

According to Government Regulation No. 24 of 2000, a document that effects a sale of Indonesian shares is subject to stamp duty. Currently, the nominal amount of the Indonesian stamp duty is Rp.6,000 for transactions having a value greater than Rp.1,000,000 and Rp.3,000 for transactions having a value of up to Rp.1,000,000. Generally, the stamp duty is due at the time the document is executed.

Certain U.S. Federal Income Tax Considerations

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Shares that are U.S. Holders and that will hold the Shares 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 Shares by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10.0% or more of our voting stock, nor does this summary 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 banks, 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 Shares 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).

As used herein, the term "U.S. Holder" means a beneficial owner of Shares that is (i) a citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation, or other entity treated as a corporation, created or organized under the laws of the United States or any State thereof, (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.

The summary assumes that we are not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which we believe to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If we were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, 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 currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Dividends

General. Distributions paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Indonesia withholding tax paid by the Company with respect thereto, will generally be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Shares and thereafter as capital gain.

Under recently enacted tax legislation, for taxable years that begin after December 31, 2002 and on or before December 31, 2008, dividends paid by the Company will be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to capital gains. A U.S. Holder will be eligible for this reduced rate only if it has held the Shares for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date.

Foreign Currency Dividends. Dividends paid in Indonesian Rupiah will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the Indonesian Rupiah are converted into U.S. dollars at that time. If dividends received in Indonesian Rupiah are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Effect of Indonesian Withholding Taxes. As discussed in "Indonesian Taxation — Taxation of Dividends", under current law payments of dividends by us to foreign investors are subject to a 20.0% 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 15.0%. For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Indonesian taxes withheld by us, and as then having paid over the withheld taxes to the Indonesian taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from us with respect to the payment.

A U.S. Holder will generally be entitled, subject to certain limitations, 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 by us. U.S. Holders that are eligible for benefits under the Treaty but who fail to provide the necessary "Certificate of Tax Residence" (as described in "—Indonesian Taxation — Taxation of Dividends") will not be entitled to a foreign tax credit for the amount of any Indonesian taxes withheld in excess of the 15.0% maximum rate. For purposes of the foreign tax credit limitation, foreign source income is classified in one of several "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Dividends paid by us generally will constitute foreign source income in the "passive income" basket or, in the case of certain holders, the "financial services income" basket. In certain circumstances, a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for foreign taxes imposed on a dividend if the U.S. Holder (i) has not held the Shares for at least 16 days in the 30-day period beginning 15 days before the ex dividend date, or (ii) holds the Shares in arrangements in which the U.S. Holder's expected profit, after non-U.S. taxes, is insubstantial.

U.S. Holders that are accrual basis taxpayers must translate Indonesian taxes into U.S. dollars at a rate equal to the average exchange rate for the taxable year in which the taxes accrue, while all U.S. Holders must translate taxable dividend income into U.S. dollars at the spot rate on the date received. This difference in exchange rates may reduce the U.S. dollar value of the credits for Indonesian taxes relative to the U.S. Holder's U.S. federal income tax liability attributable to a dividend.

Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of Indonesian taxes.

Sale or other Disposition

Upon a sale or other disposition of Shares, a Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares exceeds one year. However, regardless of a U.S. Holder's actual holding period, any loss may be long-term capital loss to the extent the U.S. Holder receives a dividend that qualifies for the reduced rate described above under "— Dividends — General", and exceeds 10.0% of the U.S. Holder's basis in its Shares. For a non-corporate U.S. Holder, the maximum long-term capital gains rate for taxable years that end on or after May 6, 2003 and begin no later than December 31, 2008 is 15.0%.

A U.S. Holder that receives Indonesian Rupiah on the sale or other disposition of shares will realize an amount equal to the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the U.S. dollar value of the Indonesian Rupiah on the settlement date). Gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such Indonesian Rupiah will be ordinary income or loss, and will generally constitute U.S. source income or loss.

Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) 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.

Reportable Transactions

Recently issued 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. In the event the acquisition, holding or disposition of Shares constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder may be required to disclose its investment by filing Form 8886 with the IRS. In addition, we and our advisers may be required to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Shares.

PLAN OF DISTRIBUTION

The Global Offering

We are offering 820,987,000 of our newly-issued shares and the Selling Shareholder is offering 475,309,000 of our currently outstanding shares now owned by it (together, the "Underwritten Shares") in the Global Offering, together with any Over-subscription Option Shares and any Over-allotment Option Shares (each as defined below). The Global Offering consists of the concurrent International Offering and Indonesian Offering. The closing of the International Offering is conditional upon the closing of the Indonesian Offering.

International Selling Agents participating in the International Offering are ABN AMRO Rothschild and Credit Suisse First Boston (Europe) Limited (the "Joint Lead International Selling Agents"), CLSA Singapore Pte Ltd and J.P. Morgan Securities Ltd.

Underwriters participating in the Indonesian Offering are PT Danarekša Sekuritas and PT ABN AMRO Asia Securities Indonesia (the "Joint Lead Managing Underwriters"), PT Credit Suisse First Boston Indonesia ("PT CSFB") and the other Underwriters named in the Underwriting Agreement (as defined below).

As compensation to the Underwriters and the International Selling Agents for their commitments to purchase the Underwritten Shares, we and the Selling Shareholder will pay or cause to be paid to the Joint Lead Managing Underwriters, on behalf of the Underwriters and the International Selling Agents, an amount equal to Rp.45 per share. Purchasers of our shares in the International Offering may be required to pay stamp taxes and other similar charges in accordance with the laws and practices of the country of purchase, in addition to the Offering Price. Retail investors in the Indonesian Offering will not be required to pay brokerage fees. We and the Selling Shareholder have agreed to reimburse the Underwriters for certain expenses and taxes in connection with the Global Offering.

The International Offering

In connection with the International Offering, the Underwriters and the International Selling Agents have entered into a Selling Agency and Managers' Agreement dated December 3, 2003 pursuant to which the International Selling Agents have agreed to purchase and sell to international investors shares at the Offering Price. Subject to the terms and conditions of the Selling Agency and Managers' Agreement, the International Selling Agents have severally agreed to purchase from the Underwriters the following number of Underwritten Shares:

ABN AMRO Rothschild	375,925,840
Credit Suisse First Boston (Europe) Limited	375,925,840
CLSA Singapore Pte Ltd.	51,851,840
J.P. Morgan Securities Ltd.	51,851,840
Total	<u>855,555,360</u>

Pursuant to an International Coordination Agreement dated December 3, 2003, we and the Selling Shareholder have agreed to indemnify the International Selling Agents against certain liabilities in connection with the offer and sale of the shares, and to contribute to payments which the International Selling Agents may make in respect thereof. In addition, we and the Selling Shareholder have agreed to reimburse the International Selling Agents for certain expenses and taxes in connection with the Global Offering.

ABN AMRO Rothschild, one of the Joint Lead International Selling Agents, is the unincorporated equity capital markets joint venture between ABN AMRO Bank N.V., Singapore Branch and N.M. Rothschild & Sons (Singapore) Limited.

The Indonesian Offering

In connection with the Indonesian Offering, we and the Selling Shareholder have entered into an Underwriting Agreement dated November 4, 2003 (as may be amended or supplemented, the "Underwriting Agreement") with the Underwriters. The Underwriters have agreed, upon the terms and conditions specified in the Underwriting Agreement, to offer the Underwritten Shares on our behalf and on behalf of the Selling Shareholder at the Offering Price. If any of the Underwritten Shares are not subscribed and paid for pursuant to

the Indonesian Offering, the Underwriters have agreed to subscribe and pay for such shares at the Offering Price, less underwriting fees and commissions. No offer of shares is being made to Indonesian citizens or Indonesian residents pursuant to this Offering Circular.

In addition, under our Share Allocation Program, which covers up to 4.0% of the Underwritten Shares, we are paying:

- 100.0% of the price of shares purchased by us on behalf of our employees as a grant of bonus shares. These shares will be subject to a lock-up period of 12 months from the date of listing of our shares on the JSX or the SSX.
- 18.0% of the price of shares purchased by certain eligible employees under our discounted share purchase plan. These shares will be subject to a lock-up of 12 months if purchased out of an employee's bonus to be paid in 2004 or six months if purchased for cash, in each case from the date of listing of our shares on the JSX or the SSX.

The aggregate cost to us of the employee Share Allocation Program will not exceed Rp.24.3 billion (US\$2.9 million). For more information, see "Management and Employees — Employee Share Allocation Program".

PT Danareksa Sekuritas and PT Bahana Securities, both of which are Underwriters, are Government-owned entities and under common control with us.

Important Dates

The following events have taken place or are expected to take place on the following dates in connection with the Global Offering:

<u>Event</u>	<u>Date</u>
Effective date of BAPEPAM registration statement . . .	December 5, 2003
Offering Period	December 8 to December 10, 2003
Last date for exercise of Over-subscription Option . . .	December 12, 2003
Allotment of shares to successful applicants	December 12, 2003
Payment due by investors in the International Offering	December 15, 2003
Settlement Date	December 15, 2003
Listing of shares on the JSX and the SSX	December 15, 2003

Registration With BAPEPAM

We submitted a Registration Statement to BAPEPAM on November 4, 2003 in accordance with BAPEPAM Rule No. IX.A.1 as attached to the Decision of the Chairman of BAPEPAM No. KEP111/PM/1996 dated December 24, 1996 and BAPEPAM Rule No. IX.A.2 as attached to the Decision of the Chairman of BAPEPAM No. KEP-25/PM/2003 dated July 17, 2003. The Chairman of BAPEPAM issued a letter, dated December 5, 2003, declaring the registration statement effective, and stating that we may proceed with the offering and the listing of the shares.

Offering Period

The Offering Period is expected to begin on December 8, 2003 and end on December 10, 2003. The Joint Lead Managing Underwriters and the Joint Lead International Selling Agents may offer their customers preferential allocations through a fixed allotment of shares (as described under "Allotment of Shares" below) and through the allotment of the Over-allotment Option Shares and Over-subscription Option Shares.

It is expected that the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents will make payment of the net proceeds to us and to the Selling Shareholder on December 15, 2003 and that listing of the shares on the JSX and the SSX will occur on December 15, 2003.

Application For Shares

Each non-Indonesian citizen and non-Indonesian resident must properly complete and submit a share application form in order to be eligible to purchase shares in the International Offering. The Joint Lead Managing

Underwriters and the Joint Lead International Selling Agents may prepare share application forms on behalf of non-Indonesian citizens and non-Indonesian residents. Share applications and allocations in connection with the International Offering and the Indonesian Offering are regulated by BAPEPAM regulations. Each Joint Lead International Selling Agent will be responsible for preparing share application forms on behalf of investors purchasing shares through it in the International Offering.

Share applications must be for a minimum amount of 500 shares and multiples thereof. Each investor may only submit one share application form. The Joint Lead Managing Underwriters and the Joint Lead International Selling Agents are entitled to accept or refuse a share application in full or in part. Multiple share applications submitted using more than one share application form may either be treated as a single application for allotment purposes or treated, in full or in part, as invalid applications at the sole discretion of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents.

Full payment by non-Indonesian citizens and non-Indonesian residents for the number of shares will be made in immediately available funds on December 15, 2003. Information as to wire transfer instructions will be made available by the Joint Lead Managing Underwriters or the Joint Lead International Selling Agents to eligible investors upon request. All bank and transfer charges with respect to these payments will be borne by the investors.

Allotment of Shares

Fixed Allotment and Pooling

At the conclusion of the Offering Period, the allotment of the Underwritten Shares will be made by the Joint Lead Managing Underwriters using a combined system of "fixed allotment" and "pooling" in accordance with BAPEPAM Rule No. IX.A.7 as attached to the Decision of the Chairman of BAPEPAM No. KEP-45/PM/2000 dated October 27, 2000. Under this rule, underwriters may determine how to apportion the allotment of the shares between the "fixed allotment" and "pooling" systems. The last date by which the Joint Lead Managing Underwriters will determine the number of Underwritten Shares allotted for each applicant is expected to be December 12, 2003.

The Joint Lead Managing Underwriters have determined that the equivalent of 95.0% of the Underwritten Shares being offered will be subject to a fixed allotment system. The allotment of the equivalent of 5.0% of the Underwritten Shares being offered will be by a system of pooling. The equivalent of up to 4.0% of the Underwritten Shares (subject to fixed allotment) may be allocated to our employees pursuant to the discounted Share Allocation Program described under "The Indonesian Offering" above.

The Over-allotment Option Shares and the Over-subscription Option Shares will be allocated at the discretion of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents.

Allocation to Affiliated Parties

"Affiliated Applicants" include our Commissioners, Directors or employees seeking to purchase shares outside of the Share Allocation Program, or other parties holding at least 20.0% of the share capital in the Joint Lead Managing Underwriters or the Joint Lead International Selling Agents or any other party affiliated with persons involved in the Global Offering. Affiliated Applicants will only be allotted shares being offered if there are excess shares. Once the applications of non-Affiliated Applicants are satisfied, Affiliated Applicants may be allocated the remaining shares on a pro rata basis.

Delivery of Shares

We expect that delivery of the shares will be made against payment therefor on or about December 15, 2003, which will be the business day immediately following the expected date of final allotment of the shares in the Global Offering. Our shares may not be traded by the purchasers thereof prior to the listing of our shares on the JSX and the SSX.

Cancellation of the Offerings

Prior to the close of and during the Offering Period, we, the Selling Shareholder, the Joint Lead Managing Underwriters and PT CSFB retain the right to cancel the Indonesian Offering under certain circumstances

pursuant to the Underwriting Agreement. The closing of the International Offering is conditional upon the closing of the Indonesian Offering. In addition, the Joint Lead International Selling Agents are entitled to terminate the International Coordination Agreement and Selling Agency and Managers' Agreement in certain circumstances.

Over-subscription Option and Over-allotment Option

The Selling Shareholder has granted to PT ABN AMRO Asia Securities Indonesia, as agent for and on behalf of the Underwriters and the International Selling Agents, an option (the "Over-subscription Option"), exercisable in whole or in part, at any time and from time to time, until the final allotment of the shares in the Global Offering, expected to be December 12, 2003, to acquire up to an additional 194,444,500 shares at the Offering Price, less any applicable underwriting fees and commissions.

In addition, the Selling Shareholder has granted to PT ABN AMRO Asia Securities Indonesia, as agent for and on behalf of the Underwriters and the International Selling Agents, an option (the "Over-allotment Option"), exercisable in whole or in part, at any time and from time to time, until the date 30 days after our shares commence trading on the JSX, to acquire up to an additional 194,444,500 shares at the Offering Price, less any applicable underwriting fees and commissions. PT Danareksa Sekuritas, as agent for and on behalf of the Underwriters and the International Selling Agents has the right to borrow up to 194,444,500 existing shares from the Selling Shareholder to meet the delivery obligations of the Underwriters and the International Selling Agents for over-allotment shares. Shares borrowed by PT Danareksa Sekuritas for this purpose must be redelivered to the Selling Shareholder on or before the date which is 30 days from the commencement of trading of our shares on the JSX.

Restrictions on the Disposition of Our Shares

We have agreed that, for a period of six months following the effective date of the registration statement with BAPEPAM, other than the conversion to capital of up to Rp.164.7 billion (US\$19.9 million) of Government project funds in exchange for 329.3 million new shares issued to the Government described under "Capitalization", we will not, and we will procure that none of our subsidiaries will, offer, sell, contract to sell, pledge or otherwise dispose of (or enter into any transaction (including swap transactions)) which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of our subsidiaries, directly or indirectly, of any of our shares or any securities convertible into or exchangeable or exercisable for (including swap transactions) or warrants or other rights to purchase our shares, or publicly disclose the intention to effect any such transaction, without the prior written consent of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents. The Selling Shareholder has agreed to a similar restriction for a period of six months following the effective date of the registration statement with BAPEPAM. In addition to the consent of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents, we and the Selling Shareholder may require the consent of BAPEPAM before the applicable lock-up can be waived.

Stabilizing Transactions

In connection with the Global Offering, PT Danareksa Sekuritas (acting through one or more agents), as agent for and on behalf of the Joint Lead Managing Underwriters and the Joint Lead International Selling Agents may purchase and sell shares in the open market, including in stabilizing transactions. Stabilizing transactions consist of certain bids or purchases of shares made for the purpose of preventing or retarding a decline in the market price thereof. PT Danareksa Sekuritas may also impose a penalty bid. Penalty bids permit PT Danareksa Sekuritas to reclaim a selling concession from an Underwriter when, in making stabilizing purchases, it repurchases shares originally sold by such Underwriter. Stabilizing transactions are not currently regulated in Indonesia.

Registration of the Shares in KSEI

The shares have been registered into the depository facilities of KSEI in accordance with the Agreement for the Registration of Shares into Central Deposit entered into between KSEI and us on November 10, 2003.

By registering the shares in KSEI, we will not issue individual share certificates to successful applicants, but any shares allotted to an investor will be distributed electronically. In order to submit an application for shares, each investor must hold a securities account with a securities company or custodian bank which is a KSEI Participant to manage and administer any shares allotted to it on the investor's behalf.

At the end of the Offering Period, the Joint Lead Managing Underwriters will undertake the allotment in the manner set out above and report the allotment result to us and the Selling Shareholder. We will issue to KSEI a confirmation of registration in our register of shares, in the name of KSEI; of the number of shares allotted as part of the Global Offering. We will then instruct KSEI to credit the Joint Lead Managing Underwriters' and the Joint Lead International Selling Agents' securities accounts with KSEI to receive and hold the shares allotted to the successful applicants. The Joint Lead Managing Underwriters will then instruct KSEI to distribute the number of shares allotted to a successful applicant from their securities accounts to the securities account of the relevant KSEI Participant.

As evidence of the allotment of the shares, the Joint Lead Managing Underwriters will deliver allotment confirmation forms to the KSEI Participants, which must then be passed on to the relevant investor, in exchange for a subscription receipt. Distribution of the allotment confirmation forms is expected to occur at the latest three working days after the last day of the Offering Period. Each International Selling Agent will receive the allotment confirmation forms on behalf of investors purchasing shares through it in the International Offering. Proof of ownership of the shares will be in the form of a written confirmation letter from KSEI or the KSEI Participant charged with managing the relevant investor's shares.

The transfer of shares held with KSEI will be by way of electronic book-entry between securities accounts. The shareholder holding our shares through KSEI will be entitled to withdraw its shares from central deposit and receive a share certificate registered in its name. Only those shares which are registered in KSEI will be tradable over the JSX or the SSX.

Article 60 of the Indonesian Capital Market Law provides that all rights attaching to shares held with KSEI, including dividends, interest bonuses and other ownership entitlements on securities will be automatically distributed by KSEI to a Beneficial Shareholder holding through the depository system via its KSEI Participant who holds the shares on such Beneficial Shareholder's behalf. The KSEI Participant is obliged to immediately pass such rights and entitlements onto its customers.

Prior to corporate action being taken by us, KSEI must provide details to us concerning the share entitlements of all the Beneficial Shareholders on whose behalf shares are held. A KSEI Participant is obliged to notify a Beneficial Shareholder of the exercise of any pre-emptive rights, delivery of annual reports and other notices by us as well as notices of General Meetings of Shareholders. The Beneficial Shareholder, the KSEI Participant it holds through, or its legal representative, has the right to be present and vote at our General Meetings of Shareholders.

KSEI is obliged to give us details of the KSEI Participants holding shares on behalf of Beneficial Shareholders either:

- within one working day after the record date set for the purposes of assessing the identity of the shareholders entitled to a dividend or other such rights attaching to shares which have been declared by us; or
- prior to the holding of our General Meeting of Shareholders; or
- at our request based on an instruction from an authorized person or agency to us in accordance with the prevailing laws and regulations.

A Beneficial Shareholder that wishes to obtain a share certificate may withdraw its shares from the depository once all of those shares have been distributed to the securities account of its KSEI Participant. An application for the withdrawal of shares must be forwarded to KSEI by the KSEI Participant, on behalf of the Beneficial Shareholder, in a specified form. Collective share certificates in the name of the Beneficial Shareholder will be issued to KSEI for any shares that are withdrawn from KSEI no later than four business days from the receipt of the withdrawal request by us from KSEI, unless KSEI rejects the withdrawal of shares based on written orders from BAPEPAM or certain other authorized persons if required for the purposes of civil or criminal court proceedings. Only shares remaining in KSEI, and which have not been pledged, foreclosed upon based on a court order or seized for the purposes of criminal court investigation, can be traded on the JSX or the SSX. Investors wishing to trade withdrawn shares on the JSX or the SSX must return them to KSEI. The process of depositing withdrawn shares can take up to five business days.

Declaration of Interest

The International Selling Agents and the Underwriters and certain of their affiliates have engaged in, and may in the future engage in, investment banking or financial consulting activities and other commercial dealings in the ordinary course of business with us. They have received and expect to continue to receive customary fees and commissions for these transactions.

DISTRIBUTION AND SOLICITATION RESTRICTIONS

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

United States of America

Our shares have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Terms used in this paragraph have the meanings given to them in Regulation S. See "Transfer Restrictions".

Each International Selling Agent has agreed that, except as permitted by the International Coordination Agreement, it will not offer or sell our shares within the United States or to, or for the account or benefit of, U.S. persons,

- as part of their distribution at any time; or
- otherwise until 40 days after the later of the commencement of the Global Offering and the closing date thereof,

and it will have sent to each dealer to which it sells, other than a sale pursuant to Rule 144A, during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of our shares within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of our shares are restricted as described under "Transfer Restrictions".

Our shares are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and inside the United States only to qualified institutional buyers in reliance on Rule 144A. The International Coordination Agreement provides that the International Selling Agents may, through their respective United States broker-dealer affiliates, arrange for the offer and sale of our shares in the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Global Offering, an offer or sale of our shares within the United States by a dealer that is not participating in the Global Offering may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each International Selling Agent has severally represented and agreed that (i) it has not offered or sold and, prior to the date six months after the date of delivery of the shares offered in the Global Offering will not offer or sell any shares offered in the Global Offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing 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 within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the shares offered in the Global Offering in, from or otherwise involving the United Kingdom and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the sale of any shares offered in the Global Offering in circumstances in which Section 21(1) of the FSMA does not apply to the Selling Shareholder.

Hong Kong

Each International Selling Agent 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 shares other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (ii) it has not issued and will not issue any advertisement, invitation or document relating to the shares, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares have not been circulated or distributed and may not be circulated or distributed, nor have the shares been offered or sold, or made the subject of an invitation for subscription or purchase, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, 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.

Japan

Our shares have not been and will not be registered under the Securities and Exchange Law of Japan, and each International Selling Agent has represented that it has not offered or sold, and has agreed that it will not offer or sell, any of our shares, directly or indirectly in Japan or to, or for the account of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Indonesia

This Offering Circular may only be distributed outside Indonesia to persons who are neither citizens of Indonesia (wherever located) nor residents of Indonesia.

Germany

Under the International Coordination Agreement, each International Selling Agent has represented and agreed that (i) this Offering Circular is not a Securities Selling Prospectus within the meaning of the German Securities Prospectus Act of December 13, 1990 (as announced on September 9, 1998 and amended from time to time) and has not been filed with and approved by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) or any other competent German authority under the relevant laws; and (ii) it has not offered or sold and will not offer or sell any of the shares offered in the Global Offering or distribute copies of this Offering Circular or any document relating to the shares offered in the Global Offering, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act of December 13, 1990 (as announced on September 9, 1998 and amended from time to time) and by doing so has not taken, and will not take, any steps which would constitute a public offering of the shares offered in the Global Offering in Germany.

Italy

The Global Offering has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to the applicable Italian securities legislation and, accordingly, each International Selling Agent has represented and agreed that it shall not offer, sell or deliver any shares offered in the Global Offering, or distribute copies of this Offering Circular or any other material relating to the shares offered in the Global

Offering, in the Republic of Italy, in a solicitation to the public, and that the shares offered in the Global Offering shall only be offered in the Republic of Italy (i) in circumstances which are exempted from the rules on investment solicitation pursuant to Article 100 of Legislative Decree no. 58 of February 24, 1998 and Article 33, first paragraph, of CONSOB Regulation no. 11971 of May 14, 1999, as amended, or (ii) to an Italian resident submitting an unsolicited offer to purchase the shares offered in the Global Offering and shall in any event be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

Moreover and subject to the foregoing, each Selling Agent has represented and agreed that the Shares may not be offered, sold or delivered and neither the Offering Circular nor any other material relating to the Shares may be distributed or made available in the Republic of Italy unless such offer, sale or delivery of Shares or distribution or availability of copies of the Offering Circular or any other material relating to the Shares in the Republic of Italy is made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No 58 of 24 February 1998, Legislative Decree No 385 of September 1, 1993, the Regulation No 11522, the Regulation No 11971 and any other applicable laws and regulations.

No on-sale/offer of the shares offered in the Global Offering, or distribution of copies of this Offering Circular or any other material relating to the shares offered in the Global Offering, in the Republic of Italy, by any addressees of the shares offered in the Global Offering under (i) and/or (ii) above, is authorized or otherwise consented by us or the International Selling Agent. Consequently, any on-sale/offer of the shares offered in the Global Offering, or distribution of any Offering Circular or any other material relating to the shares offered in the Global Offering, in the Republic of Italy, by any of such addressees would be made on their own initiative and at their own exclusive responsibility, and must be made in compliance with the applicable securities provisions.

Australia

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

France

Each International Selling Agent has represented and agreed that, in connection with their initial distribution (i) it has not offered or sold and will not offer or sell, directly or indirectly, any shares offered in the Global Offering to the public in the Republic of France, and (ii) offers and sales of shares offered in the Global Offering will be made in the Republic of France only to qualified investors as defined and in accordance with Articles L.411-1 and L.411-2 of the French *Code monétaire et financier* and Decree No. 98-880 dated October 1, 1998 relating to offers to qualified investors.

In addition, neither this Offering Circular nor any offering material related to the shares offered in the Global Offering has been distributed or caused to be distributed and will be distributed or caused to be distributed in the Republic of France, other than to those investors to whom offers and sales of the shares offered in the Global Offering may be made as described above.

The Netherlands

Each International Selling Agent has represented and agreed that it has not offered, transferred, delivered or sold and will not offer, transfer, deliver or sell any shares offered in the Global Offering in or from the

Netherlands as part of their initial distribution or as part of any re-offering, and that it may not distribute the shares offered in the Global Offering or any other document in respect of the offering in or from the Netherlands, other than to individuals or legal entities, who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises).

TRANSFER RESTRICTIONS

Because the following restrictions will apply to the offering of the shares, purchasers are advised to consult their own legal counsel prior to making any offer, resale, pledge or transfer of the shares.

The shares have not been registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S.

Rule 144A

Each purchaser of shares within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a qualified institutional buyer, (b) acquiring such shares for its own account or for the account of a qualified institutional buyer and (c) aware, and each beneficial owner of such shares has been advised, that the sale of such shares to it is being made in reliance on Rule 144A.
- (2) It understands that such shares have not been and will not be registered under the U.S. 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 qualified institutional buyer purchasing for its own account or for the account of a qualified institutional buyer, (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.
- (3) It understands that such shares (to the extent they are in certificated form), unless otherwise agreed by us in accordance with applicable law, will bear a legend to the following effect:

“THESE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) 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. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THESE SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY FACILITY IN RESPECT OF THE SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK”.

- (4) We, the Selling Shareholder, the International Selling Agents, the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any shares for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S

Each purchaser of shares outside the United States pursuant to Regulation S and each subsequent purchaser of such shares in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the shares, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time shares are purchased will be, the beneficial owner of such shares and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); (b) it is purchasing the shares in an offshore transaction pursuant to Regulation S, and (c) it is not an affiliate of ours or a person acting on behalf of such affiliate.
- (2) It understands that such shares have not been and will not be registered under the U.S. Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such shares except (a) in accordance with Rule 144A under the U.S. Securities Act to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer 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.
- (3) We, the Selling Shareholder, the International Selling Agents, the Underwriters, their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

General

Each purchaser of the shares will be deemed to have represented and agreed that it is relying on this Offering Circular and not on any other information or representation concerning us, the Selling Shareholder or the shares and neither we nor any other person responsible for this Offering Circular or any part of it, nor the International Selling Agents nor the Underwriters, will have any liability for any such other information or representation.

LEGAL MATTERS

Certain legal matters in connection with the Global Offering will be passed upon for us and the Selling Shareholder by Linklaters, as to certain matters of U.S. law, and by Lubis Ganie Surowidjojo as to certain matters of Indonesian law. Certain legal matters in connection with the Global Offering will be passed upon for the Joint Lead International Selling Agents by Milbank, Tweed, Hadley & McCloy LLP as to certain matters of U.S. law and certain legal matters in connection with the Global Offering will be passed upon for the Joint Lead International Selling Agents and the Joint Lead Managing Underwriters by Bahar & Partners as to certain matters of Indonesian law. In rendering such opinions, Linklaters may rely with respect to certain matters of Indonesian law upon the opinion of Lubis Ganie Surowidjojo, and Milbank, Tweed, Hadley & McCloy LLP may rely with respect to certain matters of Indonesian law upon the opinion of Bahar & Partners.

INDEPENDENT AUDITORS

Our consolidated financial statements as of December 31, 2002, 2001 and 2000 and for the years then ended and as of June 30, 2003 and for the six months then ended, included in the Offering Circular, have been audited by Prasetio, Sarwoko & Sandjaja, a member firm of Ernst & Young, independent public accountants, as stated in their report appearing herein.

PRINCIPAL DIFFERENCES BETWEEN INDONESIAN GAAP AND U.S. GAAP

Our financial statements appearing elsewhere in this Offering Circular, are prepared and presented in accordance with Indonesian GAAP, which differs in certain significant respects from U.S. GAAP. As required by U.S. GAAP, such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures which have not been described.

Certain significant differences between Indonesian GAAP and U.S. GAAP relevant to our financial statements are summarized below. The summary should not be construed to be exhaustive. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and our financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Indonesian GAAP and U.S. GAAP and how these differences might affect the financial information herein. Additionally, no attempt has been made to identify future differences between Indonesian GAAP and U.S. GAAP as the result of prescribed changes in accounting standards and regulations. Regulatory bodies that promulgate Indonesian GAAP and U.S. GAAP have significant projects on going that could affect future comparison such as this one. Finally, no attempt has been made to identify all future differences between Indonesian GAAP and U.S. GAAP that may affect our financial statements as a result of transactions or events that may occur in the future.

Inventories

Accounting for inventories write-down under Indonesian GAAP and U.S. GAAP is substantially the same. The major difference is that under Indonesian GAAP, inventory provisions can be written back and recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. Under U.S. GAAP, a provision to write down inventories to market value cannot be reversed until the related inventory item is sold.

Revaluation of Property, Plant and Equipment

Under Indonesian GAAP, property, plant and equipment are stated at cost, with the exception for certain assets that can be revalued in accordance with specific government regulations.

Under U.S. GAAP, property, plant and equipment are stated at cost less accumulated depreciation. Revaluation of property, plant and equipment is not permitted.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

Under Indonesian GAAP, asset values are reviewed for any impairment and possible write-down to fair values whenever events or changes in circumstances indicate that their carrying value may not be fully recovered. In addition, a subsequent increase in the recoverable amount of an asset carried at impaired cost is written back when the circumstances that led to the loss cease to exist. The amount written back is reduced by the amount that would have been recognized as depreciation had the impairment not occurred.

Under U.S. GAAP, and the provisions of FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" it is required that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability, the entity estimates the future cash flows under U.S. GAAP, un-discounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized; otherwise no impairment adjustment is made. FAS No. 121 also requires that long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell.

In August 2001, the Financial Accounting Standards Board ("FASB") issued FAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets", which supersedes FAS No. 121. FAS No. 144 retains the fundamental provisions of FAS No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. Among other matters, FAS No. 144 addresses certain implementation issues related to FAS No. 121.

Landrights

In Indonesia, the title of land rests with the State under the Basic Agrarian Law No. 5 of 1960. Land use is accomplished through landrights whereby the holder of the rights enjoys the full use of the land for a stated period of time, subject to extensions. Landrights generally are freely tradable and may be pledged as security under borrowing agreements.

As permitted under Indonesian GAAP, the costs of acquired landrights (including incidental costs) are capitalized. Indonesian GAAP also provides that the main acquisition costs of landrights are not subject to amortization, except under certain defined conditions. On the other hand, the incidental costs incurred in connection with the acquisition of the landrights or renewal or extension of the legal titles should be deferred and presented separately from the main acquisition costs, and amortized over the period of the landuse rights or the landrights estimated useful lives, whichever is shorter.

Under U.S. GAAP, such costs of acquired landrights (main acquisition costs and incidental costs) are considered as an operating lease, where the amount paid for the lease is to be amortized over the lease period on a straight-line basis.

Capitalization of Borrowing Costs

Under Indonesian GAAP, borrowing costs consisting of interest, amortization of discount or premium, amortization of the related costs to obtain the loans and foreign exchange differences on loans used to finance the construction of major facilities, should be recognized as expense in the period incurred. An exception is allowed for borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets which are capitalized, provided certain criteria are met. Capitalization of these borrowing costs ceases when the acquisition, construction or production activities are substantially complete and the assets are ready for their intended use.

Under Indonesian GAAP, one of the criteria for capitalizing interest costs on qualifying assets is that the interest should be attributable to the qualifying assets. U.S. GAAP does not specify that interest costs be attributable to loans which are used to finance the construction of major facilities; therefore the capitalizable interest includes interest costs incurred on general and specific borrowings.

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

Under U.S. GAAP, income earned on funds temporarily invested is not deducted in arriving at the amount to be capitalized.

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

Defined Benefit Retirement Insurance Plan

Indonesian GAAP does not prescribe a specific actuarial valuation method to determine the benefit obligations. Current service cost of a defined benefit plan is recognized as expense in the current period, while past service costs, experience adjustments, effects of changes in actuarial assumptions and effects of program amendments with respect to existing employees are recognized as expense or income systematically over the estimated average remaining working lives of the employees.

Under U.S. GAAP, contributions to defined benefit schemes are determined based on the value of the retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations, and are determined on the basis of actuarial valuation using the projected unit credit method. Actuarial gains and losses are amortized over the average remaining service period of active employees expected to receive benefits under the plan.

Other Employee Benefits

Under Indonesian GAAP, there is no specific actuarial method for the recognition of an employer's liability for post-retirement health care benefits other than pension. These benefits are recognized as an estimated liability

when there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation amount.

Under U.S. GAAP, these benefits are accounted for over the estimated service period of the enterprise's employees based on actuarial assumptions which are similar to those provided by FAS No. 106, "Employer's Accounting for Post Retirement Benefits Other than Pensions".

Deferred Taxation

The accounting for deferred taxes under Indonesian GAAP and U.S. GAAP are similar except as follows:

- Under Indonesian GAAP, deferred tax assets are only recognized if it is probable that future taxable profits will be available against which the deferred tax assets can be utilized. The carrying amount is reviewed periodically and reduced if appropriate.
- Under U.S. GAAP, the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that based on available evidence, are not expected to be realized. A valuation allowance is provided if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

Change in Accounting Policies

Under Indonesian GAAP, a change in accounting policy in connection with the adoption of an accounting standard should be accounted for in accordance with the related specific transitional provisions. Otherwise, Indonesian GAAP requires retrospective application by reflecting the prior period adjustment in the beginning retained earnings balance with restatement of the comparative information, or prospective application (cumulative-effect method) when the prior period adjustment cannot be reasonably determined.

U.S. GAAP generally includes the effects of change in accounting policies in the current year's income statement and uses the cumulative-effect method.

Accounting for Guarantor

Under Indonesian GAAP, guarantees are considered as off balance sheet items.

U.S. GAAP requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, U.S. GAAP requires disclosures about the guarantees that an entity has issued, including a roll-forward of the entity's product warranty liabilities.

Restructuring Transactions among Entities under Common Control

Under Indonesian GAAP, restructuring transactions among common control entities are accounted for similar to a pooling-of-interests method where the net assets are transferred at book value. The difference between the transfer price and book value of the net assets, equity or other ownership instrument transferred is recorded under an account which is restructuring difference arising from restructuring transactions among entities under common control, a component of stockholder's equity.

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

Reporting in Functional Currency

Indonesian GAAP allows a company to use another currency other than Rupiah as its reporting currency provided the criteria on functional currency are met. The recording currency should be the same with the reporting currency. The company's beginning balances for accounting purposes are adjusted by remeasuring the financial statement accounts as if the functional currency has been applied since the date the transaction occurred. Consolidated financial statements are presented in the functional currency after considering the

required functional currency criteria on the parent company and subsidiary. The subsidiary's financial statements are translated to the functional currency of the consolidated financial statements using the current rate method.

Under U.S. GAAP, a parent company whose functional currency is U.S. dollars where its subsidiary uses another foreign currency, will consolidate its subsidiary's financial statements by remeasuring such subsidiary's accounts to its functional currency, and thereafter translating them to the parent company's functional currency using the current rate method. The objective is to reflect in such consolidated financial statements the entities' financial statements as measured in their functional currencies. The remeasurement and translation processes in the consolidation are basically the same under Indonesian GAAP and U.S. GAAP. However, U.S. GAAP provides a more comprehensive standard as compared to that of Indonesian GAAP, which may result in differences in their implementation.

Determining Whether the Arrangement Contains a Lease

Under Indonesian GAAP, lease transactions are accounted for under the capital lease method when all the required capitalization criteria under PSAK No. 30, "Accounting for Lease Transactions" are met:

- (a) the lessee has the option to purchase the leased asset at the end of the lease period at a price agreed at the inception of the lease agreement;
- (b) the sum of periodic lease payments made by the lessee, plus the residual value will cover the acquisition price of the leased capital goods and the related interest, which becomes the leasing enterprise's profit (full payout lease); and
- (c) a minimum lease period of two years.

Otherwise, leases are accounted for under the operating lease method. Assets and obligations under capital lease are recorded based on the present value of the lease payments at the beginning of the lease term plus residual value (option price) to be paid at the end of the lease period.

Under U.S. GAAP, the criteria used to determine capital and operating leases as provided in FAS No. 13 are different from those used in Indonesian GAAP. However, the application of capital lease requirements under Indonesian GAAP and U.S. GAAP may not have any different effect on the balance sheet and income statement accounts provided the leases fulfill one or more of the criteria in FAS No. 13 of U.S. GAAP.

Under U.S. GAAP, an arrangement contains a lease that is within the scope of lease accounting if an arrangement conveys the right to use property, plant, or equipment. An arrangement conveys the right to use property, plant, or equipment if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying property, plant, or equipment. The right to control the use of the underlying property, plant, or equipment is conveyed if the purchaser has the ability or right to do any one of the following:

- (a) operate the property, plant, or equipment or direct others to operate the property, plant, or equipment in a manner it determines while obtaining or controlling the output or other utility of the property, plant, or equipment;
- (b) control physical access to the underlying property, plant, or equipment; or
- (c) take substantially all of the output or other utility expected to be produced or generated by the property, plant, or equipment for the term of the arrangement, unless both of the following conditions are met:
 - (i) the price that the purchaser will pay for the output is either fixed per unit of output or indexed to market prices of the output; and
 - (ii) the arrangement requires the owner/seller to pay substantive damages, based on the then-current market prices, to the purchaser if it fails to deliver, and the owner/seller is a substantive entity with the financial ability to fulfill its obligations under the arrangement.

Under Indonesian GAAP, contracts that contain certain lease and non-lease type arrangements are accounted for separately as either lease or purchase contracts depending on the conditions and criteria fulfilled. U.S. GAAP provides for more specific requirements and conditions to be fulfilled to account for lease and non-lease type arrangements which may result in different application from that under Indonesian GAAP.

Accounting for Embedded Derivatives

Indonesian GAAP on Accounting for Derivative Instruments and Hedging Activities under PSAK No. 55 was substantially adopted from U.S. FAS No. 133, whereby an embedded derivative instrument shall be separated from the host contract and accounted for as a derivative instrument provided certain criteria are met. Since Indonesian GAAP has not applied the subsequent amendments to FAS No. 133 and derivative transactions generally do not fulfill the criteria for and qualify as effective hedging, the application of PSAK No. 55 may be different from that of FAS No. 133.

U.S. GAAP requires that in certain circumstances, embedded derivatives be bifurcated from the host contract and accounted for separately and treated in the same manner as freestanding derivatives in accordance with FAS No. 33 "Accounting for Derivative Instruments and Hedging Activities".

Minority Approval or Veto Rights

Under Indonesian GAAP, control is presumed to exist although the minority owner has less than 50.0% of the voting rights of an investee, if there is power over more than 50.0% of the voting rights of the investee based on agreement, power to govern the financial and operating policies of the investee under a statute or agreement, power to appoint or remove the majority of the members of management of the investee, and power to cast the majority of votes at meetings of the board of directors of the investee.

U.S. GAAP might require the use of the equity method of accounting for a majority owned investee if the rights of the minority make it unclear if the majority owner actually has control.

Appropriations/Payments to Small Scale Business Enterprises and Cooperatives

Under Indonesian GAAP, appropriations/payments to small scale business enterprises and cooperatives are accounted for as deduction from retained earnings (similar to cash dividends).

Under U.S. GAAP, such appropriations/payments may be treated as expense and charged directly to current operations.

Classification of Government Project Funds

Under Indonesian GAAP, Government Project Funds may be classified as financial instruments based on the substance of contractual arrangements on initial recognition. When the initial transfer of a financial instrument contains the contractual obligation to transfer cash or its equivalents in the future, the instrument is classified as a liability. When the holder of a financial instrument does not have the future financial claim to the issuer but has a proportional claim to dividends or distributions based on equity, the instrument is classified as equity. Financial instruments that contain no provision to enforce a financial claim when the enterprise is in difficult times are classified as equity instruments.

Under U.S. GAAP, the Government Project Funds may not be classified as mezzanine equity. FAS No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity requires liability classification for two broad classes of freestanding financial instruments:

- (1) Instruments that represent, or are indexed to, an obligation to buy back the issuer's shares, regardless whether the instrument is settled on a net-cash or gross physical basis.
- (2) Obligations that can be settled in shares but meet one of the following conditions, i.e., they derive their value predominately from some other underlying, have a fixed value, or have a value to the counterparty that moves in the opposite direction as the issuer's shares.

Instruments that are indexed to and potentially settled in an issuer's own shares that are not within the scope of FAS No. 150 remain subject to other existing guidance under U.S. GAAP and may be classified as liability, mezzanine equity or equity based on certain characteristics of the financial instruments.

Revenue Recognition

Indonesian GAAP provides that when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the completion stage of the transaction at balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction, and the costs to complete the transaction, can be measured reliably.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the company. However, when an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount or the amount that is not probable of recovery, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

U.S. GAAP on revenue recognition under SAB 101 provides that revenue generally is realized or realizable and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The seller's price to the buyer is fixed or determinable, and
- Collectibility is assured.

Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. Revenues should ordinarily be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts, and the installment method of recognizing revenue is not acceptable.

Under U.S. GAAP, revenue from service transactions should be based on performance, because it determines the extent to which the earnings process is complete or virtually complete. One of the following methods should serve as guideline for recognition of revenue from service transaction, e.g., specific performance, proportional performance, completed performance and collection method. The collection method should be used when there is significant degree of uncertainty surrounding the collection of service revenue, where revenue should not be recorded until the cash is collected.

Although the criteria for revenue recognition under Indonesian GAAP and U.S. GAAP are in substance similar in certain respects, the application for accounting purposes may be different.

Depreciation

Indonesian GAAP provides that depreciation is the allocation of depreciable amount of an asset over its estimated useful life. Depreciation for the accounting period is charged to income either directly or indirectly. Depreciable amounts are allocated to each accounting period during the asset useful life by a variety of systematic methods. Whichever method of depreciation is selected, it is necessary to be consistently applied, irrespective of the profitability level of the company or taxation considerations, in order to provide comparability of its results of operations from period to period.

U.S. GAAP requires that depreciation cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. Depreciation aims to distribute the cost or other basic value of tangible capital assets, less salvage if any, over the estimated useful life of the unit, which may be a group of assets, in a systematic and rational manner. Declining balance, a type of accelerated method of depreciation, is higher in the early years of asset's useful life, more appropriate if the asset depreciates more quickly or has greater production capacity in early years, and where maintenance and repair costs increase as assets age.

The use of declining balance of method under Indonesian GAAP is in some cases based on the depreciation method required for tax reporting purposes. As such, the basis for selection of declining balance method under Indonesian GAAP and U.S. GAAP may differ.

Cost Components of Property, Plant and Equipment

Under Indonesian GAAP, costs incurred to transfer an asset between entities in a common control group, including import duties, transfer tax and non-refundable (non-creditable) input value added tax, and any directly attributable costs may be capitalized as property, plant and equipment costs.

Under U.S. GAAP, costs incurred to transfer an asset between entities in a common control group as part of a restructuring would be expensed as incurred.

Bonds Issuance Costs

Under Indonesian GAAP, costs associated with the issuance of debt instruments are amortized over the term of the related debt using the straight line method and recognized as other charges. The unamortized balance is presented as a reduction in the related amount of debt.

Under U.S. GAAP, debt issuance costs are classified as deferred charges and recognized as additional interest expense over the term of the debt instrument under the effective interest method.

GLOSSARY OF TERMS

bbl	Barrel Volume measurement. One Barrel = 159 liters
bcf	Billion Cubic Feet
BOE	Barrels of Oil Equivalents. Natural gas has been converted to barrels of oil equivalents at the ratio of 6 mcf = 1BOE. The conversion rate is approximate since the relation may vary
bscf	Billion Standard Cubic Feet
btu	British Thermal Unit, a standard unit of measurement for volume of natural gas, taking into account the energy value of the natural gas
cf	Cubic Feet Volume measurement. One Cubic Foot = 0.028m ³
E-1	A European digital signal transmission measurement equal to 2.048 mbs
linepacked gas	Gas retained in pipelines to maintain pressure
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas (a mixture of propane and butane)
Mbs	Megabits per second, a measurement of speed for digital signal transmission expressed in millions of bits per second
mcf	million cubic feet
mmbbl	Million bbl
mmBOE	Million Barrels of Oil Equivalent
mmbtu	Million British Thermal Unit
mmcf	Million Cubic Feet Per Day. A measurement of gas volume regardless of the temperature and pressure at the point of measurement.
mmscf	Million Standard Cubic Feet. A standardized measurement of gas volume adjusted to a defined temperature and pressure to provide a standardized measurement, roughly equivalent to 1,000 mmbtu.
mmscfd	Million Standard Cubic Feet Per Day. PGN typically measures gas using standard cubic feet for gas received from natural gas suppliers (at the delivery point) for distribution purposes as well as in most cases for gas shipped via PGN's transmission networks. For distribution customers, gas used is measured in cubic meters using a gas meter at the customer receiving point.

mscf	Thousand Standard Cubic Feet
mw	Megawatts
natural gas	Hydrocarbon gas
proved reserves	Represents those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and Government regulations
PSC	Production Sharing Contract
psi	Pounds per square inch, 14.5psi = one bar
tcf	Trillion cubic feet
throughput	The volume of natural gas carried by a network in a particular period
tonnes	Metric tonnes, 1,000 kilograms
well head price	The price of natural gas from a gas field, before transportation costs

**PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS**

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This Report is Originally Issued in Indonesian Language.

Independent Auditors' Report

Report No. RPC-1362/02

The Stockholders and the Board of Directors
PT Perusahaan Gas Negara (Persero)

We have audited the consolidated balance sheets of PT Perusahaan Gas Negara (Persero) (the Company) and Subsidiary as of June 30, 2003 and December 31, 2001 and the related consolidated statements of income, changes in stockholder's equity and cash flows for the six months ended June 30, 2003 and the year ended December 31, 2001. In order to comply with Article 64 of Capital Market Law No. 8 Year 1995 on the submission of registration statement for Initial Public Offering, we have also audited the consolidated balance sheets of PT Perusahaan Gas Negara (Persero) and Subsidiary as of December 31, 2002 and 2000 and the related consolidated statements of income, changes in stockholder's 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 PT Transportasi Gas Indonesia, a 59.75% owned Subsidiary, for the six months ended June 30, 2003 which statements reflect total assets and revenue of 30% and 15%, respectively, of the consolidated totals assets and revenues. Those financial statements were audited by other auditors whose unqualified report with explanatory paragraphs on the restatement of the comparative prior year Rupiah balances to US Dollars and effects of the economic condition, have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Subsidiary, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Perusahaan Gas Negara (Persero) and Subsidiary as of June 30, 2003, December 31, 2002, 2001 and 2000, and the results of their operations and their cash flows for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 in conformity with generally accepted accounting principles in Indonesia.

As discussed in Note 36 to the consolidated financial statements, adjustments and reclassifications were made to restate certain items in the previously issued consolidated financial statements.

Note 34 to the consolidated financial statements discusses the effects of the economic condition in Indonesia on the Company and Subsidiary's operations as well as the measures they have implemented or plan to implement in response to the economic condition. It is uncertain how future economic and non-economic developments in Indonesia will affect the Company and Subsidiary's operations. Related effects will be reported in the financial statements as they become known and can be estimated.

We have also previously issued Independent Auditor's Report No. RPC-1308/02 dated October 22, 2003 on the consolidated financial statements of the Company and Subsidiary for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000. In order to comply with Article 64 of Capital Market Law No. 8 Year 1995 on the submission of registration statement for Initial Public Offering, the Company reissued its consolidated financial statements for the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000 with additional disclosures in the notes to the consolidated financial statements as discussed in Note 37 to the consolidated financial statements.

PRASETIO, SARWOKO & SANDJAJA

Indrajuwana Komala Widjaja
Public Accountant License No. 98.1.0511

November 28, 2003

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

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
June 30, 2003 And December 31, 2002, 2001 And 2000
(Expressed in Rupiah)

	Notes	June 30, 2003	December 31,		
			2002 As Restated (see Note 36)	2001* As Restated (see Note 36)	2000* As Restated (see Note 36)
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	2c, 2p, 3, 32	287,030,201,275	792,309,662,022	810,490,576,309	721,190,165,328
Short-term investments — net	2d, 2p, 4, 31	22,350,000,000	123,235,346,660	238,550,000,000	—
Trade receivables — net	2c, 2p, 5, 31, 32	447,103,273,856	389,115,477,933	394,526,022,584	363,821,933,955
Other receivables	2p, 6, 32	382,683,841,932	184,272,072,391	6,509,280,690	3,277,855,676
Inventories — net	2g, 7	42,781,166,641	43,868,075,061	52,483,794,812	46,823,310,231
Advances	8, 30, 32, 35	84,227,957,045	85,433,887,699	71,937,483,167	56,989,243,458
Prepaid tax and expenses	2q, 9	190,201,978,642	189,586,528,995	1,748,181,040	1,463,400,937
Total Current Assets		1,456,378,419,391	1,807,821,050,761	1,576,245,338,602	1,193,565,909,585
NON-CURRENT ASSETS					
Deferred tax assets	2q, 10, 26	—	—	3,280,396,545	—
Property, plant and equipment	2h, 2k, 10, 26,				
Carrying value	30, 31	5,207,352,972,998	4,406,321,288,400	2,905,268,787,508	2,686,519,337,385
Accumulated depreciation		(545,054,164,922)	(458,888,566,567)	(257,437,095,154)	(627,735,435,605)
Net book value		4,662,298,808,076	3,947,432,721,833	2,647,831,692,354	2,058,783,901,780
Estimated tax refunds	2q, 26	3,437,015,680	11,282,713,423	75,772,594,464	67,856,112,627
Deferred charges — net	2h, 2i	1,821,980,961	1,400,262,201	9,425,142,014	11,023,536,198
Others	2f, 27	476,333,153	2,151,641,881	1,620,224,893	3,078,385,523
Total Non-Current Assets		4,668,034,137,870	3,962,267,339,338	2,737,930,050,270	2,140,741,936,128
TOTAL ASSETS		6,124,412,557,261	5,770,088,390,099	4,314,175,388,872	3,334,307,845,713

* The 2001 and 2000 financial statements are those of the Company only since the Subsidiary was established in February 2002.

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)
June 30, 2003 And December 31, 2002, 2001 And 2000
(Expressed in Rupiah)

	Notes	June 30, 2003	December 31,		
			2002 As Restated (see Note 36)	2001* As Restated (see Note 36)	2000* As Restated (see Note 36)
LIABILITIES AND STOCKHOLDER'S EQUITY					
CURRENT LIABILITIES					
Trade payables	2p, 11, 30, 32	252,704,733,122	266,616,834,410	243,483,557,293	215,855,298,039
Other payables	2p, 12, 19, 30, 32	781,288,206,782	440,093,597,987	33,491,534,225	12,790,352,022
Accrued expenses	2p, 13, 15, 16, 30, 32	40,713,543,419	41,002,367,426	31,573,608,719	41,700,212,933
Taxes payable	2q, 14, 26	103,481,956,483	269,069,614,915	117,677,352,322	20,972,200,890
Current maturities of long-term loans	2j, 2k, 2p, 15, 30, 32	229,871,888,179	183,513,189,401	206,259,050,664	207,833,836,394
Total Current Liabilities		<u>1,408,060,327,985</u>	<u>1,200,295,604,139</u>	<u>632,485,103,223</u>	<u>499,151,900,278</u>
NON-CURRENT LIABILITIES					
Deferred tax liability — net ..	2q, 10, 26	8,320,093,872	8,464,110,583	—	50,722,601,028
Long-term loans — net of current maturities	2j, 2k, 2p, 15, 30, 32	2,189,410,549,701	1,772,604,120,768	2,221,017,982,621	2,234,730,798,934
Due to a Stockholder of the Subsidiary	2f, 16, 30,32	<u>220,768,754,570</u>	<u>177,430,392,000</u>	—	—
Total Non-Current Liabilities		<u>2,418,499,398,143</u>	<u>1,958,498,623,351</u>	<u>2,221,017,982,621</u>	<u>2,285,453,399,962</u>
MINORITY INTEREST IN EQUITY OF THE SUBSIDIARY					
	2b	<u>213,194,968,987</u>	<u>334,527,648,467</u>	—	—
GOVERNMENT PROJECT FUNDS					
	2l, 17	<u>36,909,740,265</u>	<u>28,471,652,858</u>	<u>46,122,408,000</u>	<u>79,390,719,194</u>
STOCKHOLDER'S EQUITY					
Capital stock — Rp 1,000,000 par value per share					
Authorized — 800,000 shares					
Subscribed and fully paid — 200,000 shares	18	200,000,000,000	200,000,000,000	200,000,000,000	200,000,000,000
Other paid-in capital	2l, 17	57,466,640,246	57,466,640,246	39,815,885,104	256,480,000
Unrealized gain from increase in market value of securities held available for sale	2d, 4	2,350,000,000	1,125,000,000	150,000,000	—
Revaluation increment of property, plant and equipment	2h, 10, 26	556,739,745,849	556,739,745,849	690,842,811,854	—
Difference in foreign currency translation	2b	(113,060,662,245)	—	—	—
Difference arising from transactions resulting in changes in the equity of a Subsidiary	2m	(76,427,556,755)	—	—	—
Retained earnings	19, 29				
Appropriated		1,054,034,265,168	382,961,584,963	232,325,856,838	281,386,977,553
Unappropriated		<u>366,645,689,618</u>	<u>1,050,001,890,226</u>	<u>251,415,341,232</u>	<u>(11,331,631,274)</u>
Total Stockholder's Equity		<u>2,047,748,121,881</u>	<u>2,248,294,861,284</u>	<u>1,414,549,895,028</u>	<u>470,311,826,279</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		<u>6,124,412,557,261</u>	<u>5,770,088,390,099</u>	<u>4,314,175,388,872</u>	<u>3,334,307,845,713</u>

* The 2001 and 2000 financial statements are those of the Company only since the subsidiary was established in February 2002.

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Six Months Ended June 30, 2003 And Years Ended December 31, 2002, 2001 And 2000
(Expressed in Rupiah)

	Notes	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001* (One Year) As Restated (see Note 36)	2000* (One Year) As Restated (see Note 36)
REVENUES	2n, 2r, 20	1,728,770,482,812	3,151,811,664,964	2,780,268,935,644	2,181,788,046,458
COST OF REVENUES	2n, 2r, 21	952,359,428,567	1,747,430,476,000	1,601,417,187,803	1,110,669,488,373
GROSS PROFIT		776,411,054,245	1,404,381,188,964	1,178,851,747,841	1,071,118,558,085
OPERATING EXPENSES	2c, 2g, 2h, 2i, 2n, 2p, 5, 7, 10, 22, 28, 29				
Distribution and transportation		182,052,942,768	401,313,609,888	312,539,532,730	299,598,175,319
General and administrative		87,327,018,187	174,195,543,599	127,308,319,766	160,156,389,132
Marketing		6,882,548,884	14,938,236,660	14,223,940,362	14,000,139,639
Total Operating Expenses		276,262,509,839	590,447,390,147	454,071,792,858	473,754,704,090
INCOME FROM OPERATIONS		500,148,544,406	813,933,798,817	724,779,954,983	597,363,853,995
OTHER CHARGES (INCOME)					
Interest expense	2k, 15, 16, 23	47,589,297,796	117,458,326,751	218,291,494,771	125,076,957,920
Loss (gain) on foreign exchange — net	2p, 24, 32	(118,068,257,464)	(159,459,495,425)	132,788,205,512	475,666,573,599
Interest income	2c, 2d, 3, 4	(5,454,325,150)	(27,965,775,581)	(51,971,025,425)	(30,207,637,177)
Miscellaneous — net	14, 25, 26	(5,309,278,391)	(806,427,811,322)	(8,051,229,434)	(1,681,860,526)
Other Charges (Income) — Net		(81,242,563,209)	(876,394,755,577)	291,057,445,424	568,854,033,816
INCOME BEFORE TAX EXPENSE (BENEFIT)		581,391,107,615	1,690,328,554,394	433,722,509,559	28,509,820,179
TAX EXPENSE (BENEFIT)	2q, 26				
Current		153,019,940,200	553,155,017,800	126,361,074,200	23,201,599,600
Deferred		(143,137,264)	11,744,507,128	(5,241,993,069)	(1,309,650,030)
Tax Expense — Net		152,876,802,936	564,899,524,928	121,119,081,131	21,891,949,570
INCOME BEFORE MINORITY INTEREST ...		428,514,304,679	1,125,429,029,466	312,603,428,428	6,617,870,609
MINORITY INTEREST	2b	(6,314,196,082)	(9,714,634,347)	—	—
NET INCOME		422,200,108,597	1,115,714,395,119	312,603,428,428	6,617,870,609
EARNINGS PER SHARE	2s	2,111,001	5,578,572	1,563,017	33,089

* The 2001 and 2000 financial statements are those of the Company only since the Subsidiary was established in February 2002.

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Six Months Ended June 30, 2003 And Years Ended December 31, 2002, 2001 and 2000
(Expressed in Rupiah)

	Notes	Capital Stock Subscribed and Fully Paid	Other Paid-in Capital	Unrealized gain from increase in market value of securities held available for sale	Revaluation increment of property, plant and equipment	Difference in foreign currency translation	Difference arising from transaction resulting in changes in the equity of a subsidiary	Retained Earnings		Total Retained Earnings	Total Stockholder's Equity
								Appropriated	Unappropriated		
Balance, January 1, 2000		200,000,000,000	256,480,000	—	—	—	—	121,053,204,684	406,572,462,471	527,625,667,155	727,882,147,155
As previously reported											
Adjustment relating to the application of the new accounting standard on income tax	2q, 36	—	—	—	—	—	—	(52,032,251,058)	(52,032,251,058)	(52,032,251,058)	(52,032,251,058)
Balance, January 1, 2000		200,000,000,000	256,480,000	—	—	—	—	121,053,204,684	354,540,211,413	475,593,416,097	675,849,896,097
Dividends paid	19	—	—	—	—	—	—	(200,147,113,610)	(200,147,113,610)	(200,147,113,610)	(200,147,113,610)
Fund for small business enterprises and cooperatives	19, 29	—	—	—	—	—	—	—	(12,008,826,817)	(12,008,826,817)	(12,008,826,817)
Appropriation for general reserve	19	—	—	—	—	—	—	160,333,772,869	160,333,772,869	160,333,772,869	160,333,772,869
Net income, as restated	36	—	—	—	—	—	—	—	6,617,870,609	6,617,870,609	6,617,870,609
Balance, December 31, 2000		200,000,000,000	256,480,000	—	—	—	—	281,386,977,553	(11,331,631,274)	270,055,346,279	470,311,826,279
As restated											
Unrealized gain from increase in market value of securities held available for sale	2d, 4	—	—	150,000,000	—	—	—	—	—	—	150,000,000
Revaluation increment of property, plant and equipment	2h, 10	—	—	—	642,081,807,350	—	—	—	—	—	642,081,807,350
Deferred income tax effect on the revaluation of property, plant and equipment	2q, 26	—	—	—	48,761,004,504	—	—	—	—	—	48,761,004,504
Government project fund converted to other paid in capital	2l, 16	—	39,559,405,104	—	—	—	—	—	—	—	39,559,405,104
Dividends paid	19	—	—	—	—	—	—	(50,000,000,000)	(47,421,882,960)	(97,421,882,960)	(97,421,882,960)
Fund for small business enterprises and cooperatives	19, 29	—	—	—	—	—	—	—	(1,495,693,677)	(1,495,693,677)	(1,495,693,677)
Appropriation for general reserve	19	—	—	—	—	—	—	938,879,285	(938,879,285)	—	—
Net income, as restated		—	—	—	—	—	—	—	312,603,428,428	312,603,428,428	312,603,428,428
Balance, December 31, 2001		200,000,000,000	39,815,885,104	150,000,000	690,842,811,854	—	—	232,325,856,838	251,415,341,232	483,741,198,070	1,414,549,895,028
As restated											

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY (continued)
Six Months Ended June 30, 2003 And Years Ended December 31, 2002, 2001 and 2000
(Expressed in Rupiah)

Notes	Capital Stock Subscribed and Fully Paid	Other Paid-in Capital	Unrealized gain from increase in market value of securities held available for sale	Revaluation of property, plant and equipment	Difference in foreign currency translation	Difference arising from transaction resulting in changes in the equity of a Subsidiary	Retained Earnings		Total Retained Earnings	Total Stockholder's Equity
							Appropriated	Unappropriated		
2d, 4	—	—	975,000,000	—	—	—	—	—	—	975,000,000
2i, 17	—	17,650,755,142	—	—	—	—	—	—	—	17,650,755,142
2h, 10 19	—	—	—	(134,103,066,005)	—	—	—	(158,563,923,000)	(158,563,923,000)	(134,103,066,005)
19, 29	—	—	—	—	—	—	—	(4,756,917,000)	(4,756,917,000)	(4,756,917,000)
19	—	—	—	—	—	—	—	(3,171,278,000)	(3,171,278,000)	(3,171,278,000)
19	—	—	—	—	—	—	150,635,728,125	(150,635,728,125)	—	—
	—	—	—	—	—	—	—	1,115,714,395,119	1,115,714,395,119	1,115,714,395,119
	200,000,000,000	57,466,640,246	1,125,000,000	556,739,745,849	—	—	382,961,584,963	1,050,001,890,226	1,432,963,475,189	2,248,294,861,284
2d, 4	—	—	1,225,000,000	—	—	—	—	—	—	1,225,000,000
2b	—	—	—	—	(113,060,662,245)	—	—	—	—	(113,060,662,245)
2m 19	—	—	—	—	—	(76,427,556,755)	—	(414,583,616,000)	(414,583,616,000)	(76,427,556,755)
19, 29	—	—	—	—	—	—	—	(11,055,563,000)	(11,055,563,000)	(11,055,563,000)
19	—	—	—	—	—	—	—	(8,844,450,000)	(8,844,450,000)	(8,844,450,000)
19	—	—	—	—	—	—	652,954,313,000	(652,954,313,000)	—	—
18	—	—	—	—	—	—	18,118,367,205	(18,118,367,205)	—	—
	200,000,000,000	57,466,640,246	2,350,000,000	556,739,745,849	(113,060,662,245)	(76,427,556,755)	1,054,034,265,168	366,645,689,618	1,420,679,954,786	2,047,748,121,881
	Balance, June 30, 2003									

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2003 And Years Ended December 31, 2002, 2001 and 2000
(Expressed in Rupiah)

	Notes	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001* (One Year) As Restated (see Note 36)	2000* (One Year) As Restated (see Note 36)
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,623,955,322,809	3,055,910,730,280	2,657,778,408,262	2,022,314,070,652
Payments to suppliers		(901,938,052,150)	(1,641,250,699,095)	(1,447,207,622,545)	(1,019,346,974,093)
Payments for income taxes — net of tax restitution		(310,334,695,443)	(286,258,515,811)	(141,108,357,153)	(127,731,037,740)
Payments for operating expenses and other operating activities		(106,235,402,329)	(166,632,264,075)	(141,747,028,124)	(99,523,633,793)
Payments for interest expense		(53,668,904,257)	(123,871,697,498)	(217,167,283,362)	(124,571,628,758)
Payments to employees		(29,680,228,478)	(110,628,415,697)	(90,795,903,302)	(71,506,729,898)
Payments — other taxes		(12,003,721,844)	(448,766,911,977)	(5,102,817,132)	(11,347,627,440)
Receipts from interest income		7,206,066,279	36,052,936,953	62,376,655,824	33,992,067,159
Net Cash Provided by Operating Activities		217,300,384,587	314,555,163,080	677,026,052,468	602,278,506,089
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from time deposits		101,002,751,508	200,339,653,340	42,136,800,000	407,161,777
Additions to property, plant and equipment		(1,267,286,320,599)	(1,221,403,776,133)	(83,621,795,337)	(54,695,882,157)
Increase in deferred charges		(7,914,200)	(196,242,317)	(77,639,801)	(272,235,482)
Proceeds from sale of investment		—	1,003,596,500,000	—	—
Increase in time deposits		—	(84,050,000,000)	(260,240,550,000)	—
Additional short-term investment ... 4		—	—	(20,000,000,000)	—
Proceeds from sales of property		—	—	764,557,126	528,685,372
Net Cash Used in Investing Activities ...		(1,166,291,483,291)	(101,713,865,110)	(321,038,628,012)	(54,032,270,490)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from loan borrowings		598,352,445,042	209,898,532,166	—	1,233,826,720
Payments of loans		(100,871,086,164)	(186,096,634,959)	(229,372,426,087)	(213,155,840,088)
Payments to:					
Small business enterprises and cooperatives and community development	19	(9,000,000,000)	(7,928,195,000)	(1,495,693,678)	(12,008,826,817)
Dividends	19	—	(158,563,923,000)	(97,421,882,960)	(200,147,113,610)
Investments from subsidiary's shareholders		—	25,000,000	—	—
Net Cash Provided by (Used in) Financing Activities		488,481,358,878	(142,665,220,793)	(328,290,002,725)	(424,077,953,795)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
		(460,509,739,826)	70,176,077,177	27,697,421,731	124,168,281,804
Effect of foreign exchange rate changes on cash and cash equivalents		(44,769,720,921)	(88,356,991,464)	61,602,989,250	99,744,476,371
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		792,309,662,022	810,490,576,309	721,190,165,328	497,277,407,153
CASH AND CASH EQUIVALENTS AT END OF PERIOD		287,030,201,275	792,309,662,022	810,490,576,309	721,190,165,328

* The 2001 and 2000 financial statements are those of the Company only since the Subsidiary was established in February 2002.

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Six Months Ended June 30, 2003 And Years Ended December 31, 2002, 2001 and 2000
(Expressed in Rupiah)

	Notes	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001* (One Year) As Restated (see Note 36)	2000* (One Year) As Restated (see Note 36)
SUPPLEMENTAL CASH FLOW INFORMATION					
Non-cash activities:					
Unrealized gain from increase in market value of securities held available for sale	4	1,225,000,000	975,000,000	150,000,000	—
Revaluation increment of property, plant and equipment — net of tax	10	—	(134,103,066,005)	642,081,807,350	—
Reclassification of construction in progress to machinery and equipment	2h, 10	4,641,338,027	457,731,963,445	52,061,999,085	56,456,224,655
Capitalization of borrowing costs	2k, 10	25,317,235,363	—	1,016,845,189	34,864,578,815
Deferred income tax effect on the revaluation of property, plant and equipment	26	—	—	48,761,004,504	—
Government project funds converted to other paid in capital	17	—	17,650,755,142	39,559,405,104	—
Appropriation for general reserve and investment reserve	19	671,072,680,205	150,635,728,125	938,879,285	160,333,772,869
Difference arising from transactions resulting in changes in the equity of a Subsidiary	2m	(76,427,556,755)	—	—	—
Difference in foreign currency translation	2b	(113,060,662,245)	—	—	—

* The 2001 and 2000 financial statements are those of the Company only since the Subsidiary was established in February 2002.

The accompanying Notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)

1. GENERAL

a. The Company's Establishment

PT Perusahaan Gas Negara (Persero) (the "Company") originated from a private Dutch company named Firma L. J. N. Eindhoven & Co. Gravenhage, which was established in 1859. Subsequently, the entity was named NV. Netherland Indische Gaz Maatschapij (NV.NIGM), when the Dutch Government took control in 1950. In 1958, when the Government of the Republic of Indonesia took over the entity, the name was changed to Badan Pengambil Alih Perusahaan — Perusahaan Listrik dan Gas (BP3LG), then later became BPU — PLN in 1961. On May 13, 1965, based on Government Regulation No. 19/1965, the entity was established as a state company ("Perusahaan Negara") and became known as Perusahaan Negara Gas (PN. Gas). Based on Government Regulation No. 27 in 1984, PN. Gas was converted into a public service enterprise ("Perum") under the name of Perusahaan Umum Gas Negara. Afterwards, the status of the Company was changed from that of a public service enterprise ("Perum") to that of a state-owned limited liability company ("Persero") and has since been known as PT Perusahaan Gas Negara (Persero) based on Government Regulation No. 37 year 1994 and the Deed of Establishment No. 486 dated May 30, 1996 as notarized by Adam Kasdarmaji, S.H. The Company's Articles of Association were last amended by Notarial Deed No. 1 of Supamijoto, S.H., dated November 9, 1999 to comply with the Limited Liability Company Law No. 1/1995. The amendments were approved by the Ministry of Justice of the Republic of Indonesia in its Decision Letter No. C-19905 HT.01.04 Th.99 dated December 10, 1999 and were published in the Supplement No. 21 of the State Gazette No. 1326 dated March 14, 2000.

As stated in Article 3 of the Company's Articles of Association and in the Government Regulation No. 37 Year 1994, the Company's purpose is to implement and support the Government's economic and national development programs, particularly in developing uses of natural gas for the benefit of the public as well as in the supply of a sufficient volume and quality of gas for public consumption. To achieve these objectives, the Company is to carry out planning, construction and development of transmission lines, and distribution of natural gas in accordance with policies set out by the Government; planning, construction and development of transmission and distribution of processed gas; or other businesses which support the foregoing activities in accordance with prevailing laws and regulations. Currently, the Company's principal business is the distribution and transmission of natural gas to industrial, commercial and household users.

The Company's head office is located at Jl. K. H. Zainul Arifin No. 20, Jakarta. Its branches are located in Medan, Jakarta (including Bandung and Palembang), Bogor, Cirebon, Surabaya (including Makassar and Semarang) and Jambi (Central Sumatra Transmission Unit — CSTU). In 2002, the Jambi branch was divested to become PT Transportasi Gas Indonesia (Transgasindo), the Company's only subsidiary (see 1.b.). The Company started its commercial operations in 1859.

In 2002, the Company and Subsidiary commenced construction of a gas transmission pipeline project from Grissik, Sumatra to Singapore. The project is expected to be able to transport gas with the capacity of 350 mmscfd (unaudited) and started initial commercial operations in September 2003.

b. Subsidiary

On February 1, 2002, the Company established Transgasindo, the Subsidiary, whose main business is the gas transmission activities previously handled by the Company's Jambi branch which started its commercial operations in October 1998. Transgasindo started to operate these facilities on March 9, 2002, the date of the Agreement on Transfer of Assets. The percentage of ownership of the Company and total assets of the Subsidiary are as follows:

	June 30, 2003	December 31, 2002
Ownership percentage	59.75%	59.75%
Total assets	Rp.2,745,661,054,675	Rp.2,976,375,045,977

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)

1. GENERAL (continued)

v. Board of Commissioners, Directors and Employees

As of June 30, 2003, the members of the Company's boards of commissioners and directors are as follows:

Board of Commissioners

Ir. Endro Utomo Notodisuryo	- Chairman of the Board of Commissioners
Drs. Djoko Darmono	- Commissioner
Ir. Pudja Sunasa	- Commissioner
DR. Sumarno Surono	- Commissioner
DR. Ir. Sahala Lumban Gaol	- Commissioner

Board of Directors

Drs. W. M. P. Simandjuntak	- Chairman of the Board of Directors
Drs. Djoko Pramono, MBA	- Director of Finance
Ir. Adil Abas Ręksoatmodjo	- Director of Development
Ir. Nursubagjo Prijono, M.Sc.	- Director of Operations
Drs. Sutikno, M.Si	- Director of General Affairs

The remuneration expense for members of the Boards of Directors of the Company and Subsidiary for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 amounted to Rp 5,600,093,734, Rp 6,116,914,647, Rp 3,622,538,700 and Rp 1,649,000,000, respectively. The remuneration expense for members of the Boards of Commissioners of the Company and Subsidiary for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000 amounted to Rp 1,048,773,825, Rp 2,458,965,994, Rp 693,086,000 and Rp 325,920,000, respectively.

As of June 30, 2003, December 31, 2002, 2001 and 2000, the Company and Subsidiary have a total of 1,110 employees, 1,087 employees, 1,098 employees and 1,107 employees, respectively (unaudited).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and practices in Indonesia, which include Statements of Financial Accounting Standards ("PSAK") and Capital Market Supervisory Agency rules for trading companies who offer shares to the public.

The consolidated financial statements have been prepared using the accrual basis, except for statements of cash flows and using the historical cost basis of accounting, except for marketable securities which are stated at market, inventories which are valued at the lower of cost or net realizable value and in 2001, property, plant and equipment of the Central Sumatra Transmission Unit (CSTU), which are stated at revalued amounts.

The consolidated statements of cash flows present cash receipts and payments classified into operating, investing and financing activities. Cash flows from operating activities are presented using the direct method.

The reporting currency used in the preparation of the consolidated financial statements is Indonesian Rupiah. Effective January 1, 2003, Transgasindo, the Subsidiary, changed its reporting currency from the Rupiah to the U.S. dollar, its functional currency (see 2.b. below). The change was approved by the Directorate General of Taxation, Ministry of Finance of the Republic of Indonesia in its decision letter No. KEP-401/PJ.42/2002 dated September 16, 2002.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and Transgasindo, the Subsidiary which is directly owned with an ownership percentage of more than 50%, as described in Note 1.b.

As of June 30, 2003, for consolidation purposes, the financial statements of Transgasindo are translated into Rupiah using the following exchange rates:

<u>Account</u>	<u>Exchange Rate</u>
Assets and Liabilities	Middle exchange rate of Bank Indonesia at balance sheet date
Stockholders' Equity	Historical rates of Bank Indonesia
Revenue and expenses	Weighted-average rate of Bank Indonesia during the period

The difference arising from the translation of Subsidiary's financial statements into Rupiah is presented as "Difference In Foreign Currency Translation" in the stockholder's equity section of the consolidated balance sheets.

The interest of the minority shareholders in the net assets of the Subsidiary is presented as "Minority Interest in Equity of The Subsidiary" in the consolidated balance sheets.

All significant intercompany accounts and transactions have been eliminated.

c. Cash Equivalents

Time deposits with maturity period of three months or less at the time of placement and not pledged as collateral to secure loans are considered as Cash Equivalents.

d. Short-term Investments

1. Time deposits with maturity period of three months or less at the time of placement and pledged as collateral to secure loans or which are restricted in use and time deposits with maturity period of more than three months or more at the time of placement are presented as short-term investments. Time deposits are presented at their nominal value.

2. Investments in securities where fair values are available can be in the form of debt securities and equity securities, and are classified into the following categories:

a. Trading securities

Included in this category are securities purchased and held for resale in the near future, which category is usually characterized by a very high frequency of purchases and sales. These securities are owned with the objective of obtaining profit from short-term price differences. Investments in securities under this category are presented at their fair value. The difference between the carrying value and the fair value is charged or credited to current operations.

b. Held to maturity

Investments in debt securities where the intention is to hold the securities until their maturities are presented at their acquisition cost after amortization of premiums or discounts.

c. Available for sale

Investments in securities which are not classified under either trading or held to maturity categories are classified under the available for sale category and presented at their fair value. The difference between the carrying value and the fair value is presented as "Unrealized Gain

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Short-term Investments (continued)

from Increase in Market Value of Securities Held Available for Sale” under the stockholder’s equity section in the consolidated balance sheets.

e. Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on the periodic review of the status of the individual receivable accounts. A full allowance (100% of outstanding balance) is provided for customer receivables when the gas meter is completely closed and a partial allowance (50% of outstanding balance) is provided for customer receivables when the gas meter is stopped.

The Subsidiary’s allowance for doubtful accounts is estimated based on the review of collectibility of accounts receivable balance.

The Company and Subsidiary’s accounts receivable are written-off in the period in which those receivables are determined to be uncollectible.

f. Transactions with Related Parties

The Company and Subsidiary have transactions with certain parties who have related party relationships as defined under PSAK No. 7, “Related Party Disclosures”.

All significant transactions with related parties, whether or not consummated under the same terms and conditions as those with non-related parties, are disclosed in the notes to the consolidated financial statements. The Company’s transactions with State-Owned Companies/Regional-Owned Companies, which were conducted in the normal course of operations, are not disclosed as transactions with related parties.

g. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted-average method. An allowance for obsolete inventories is provided based on the periodic review of the condition of the inventories.

h. Property, Plant and Equipment

Property, plant and equipment, except landrights and equipment on stand-by basis which are stated at cost and not amortized or depreciated, are stated at cost or at revalued amounts (revalued in accordance with government regulation), less accumulated depreciation. Depreciation is computed using the straight-line method for buildings and improvements, and the double-declining balance method for all other property and equipment over the estimated useful lives of the assets as follows:

	Years	Rate
Buildings and improvements	20	5.0%
Machinery and equipment	16	12.5%
Vehicles	4 - 8	25.0% - 50.0%
Office equipment	4 - 8	25.0% - 50.0%
Furniture and fixtures	4 - 8	25.0% - 50.0%

Landrights are stated at cost and not amortized. Specific costs associated with the acquisition or renewal of land titles are deferred and are being amortized over the legal term or the economic life of the land, whichever is shorter. These costs are presented as part of “Deferred Charges” in the consolidated balance sheets.

These consolidated financial statements are originally issued in Indonesian language.

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Property, Plant and Equipment (continued)

Construction in progress is presented under Property, Plant and Equipment and is stated at cost. The accumulated cost of the assets constructed is transferred to the appropriate property, plant and equipment account when the construction is completed and the asset is ready for its intended use (see Note 2k).

The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, their carrying value and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Assets are stated at the estimated recoverable amount whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Impairments in asset values, if any, are recognized as a loss in the consolidated statements of income.

i. Deferred Charges

Deferred charges pertain mainly to certain landrights costs. In 2001 and 2000, this account also included the deferred portion of a one-time initial retirement premium paid. These deferred charges are being amortized over 20 to 30 years. In 2002, the Company expensed the remaining portion of the deferred one-time initial retirement premium paid into current operations.

j. Loans Obtained by the Government from Overseas Lenders (Two-step Loans)

The recognition of two-step loans is based on the withdrawal authorization or other similar documents issued by the lenders. The loans are recorded and payable in their original currencies or the Rupiah equivalent if drawn in Rupiah.

k. Capitalization of Borrowing Costs

Interest, commitment fees and other borrowing costs incurred on loans obtained to finance the acquisition, development and construction of projects are capitalized as part of the cost of the asset under construction. Capitalization of the borrowing costs ceases when the construction is completed and the asset is ready for its intended use.

l. Government Project Funds

Government project funds are recognized based on the payment order letters issued by the State Treasury Office. Specific funds approved as additional Government equity are reclassified as part of paid-in capital when the related Government Regulation is issued.

m. Difference Arising From Transactions Resulting in Changes in the Equity of a Subsidiary

Effective January 1, 2003, Transgasindo, the Subsidiary, changed its reporting currency from the Rupiah to the U.S. Dollar, its functional currency. As a result of the remeasurement of the beginning balance accounts, Transgasindo charged the remeasurement difference to the beginning balance of retained earnings. The Company recorded its portion of the changes in the equity of the Subsidiary as "Difference Arising From Transactions Resulting in Changes in the Equity of a Subsidiary" in the consolidated balance sheets.

These consolidated financial statements are originally issued in Indonesian language.

**PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Revenue and Expense Recognition

Revenues from gas distribution and toll fees from gas transmission are recognized when the gas is distributed or transmitted to the users based on the gas meter readings, and invoices are prepared. Revenue from the sale of Liquid Petroleum Gas (LPG) is recognized upon delivery to the customers. Expenses are recognized when incurred.

o. Retirement Insurance and Post-retirement Health Care Benefits

The Company has a defined benefit retirement insurance plan covering all of its qualified permanent employees, with PT Asuransi Jiwa Sraya (Persero) (AJ). Premium payments are based on periodic calculations agreed between the Company and AJ. The employees contribute 3% (if single) or 5% (if married) of their basic salaries plus certain allowances. The remaining balance of the premium is borne by the Company. A portion of the one-time initial retirement premium was deferred and is being amortized over 20 years (see Note 2i). Subsequent premium adjustments are recognized as expense based on the remaining 20 year period amortization schedule.

The Company provides additional post-retirement health care benefits to its retired employees based on certain computations agreed between the Company and Yayasan Kesejahteraan Pegawai Perusahaan Umum Gas Negara, the fund manager.

p. Foreign Currency Transactions and Balances

Transactions involving foreign currencies are recorded in Rupiah amounts at the rates of exchange prevailing at the time the transactions are made. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to Rupiah using the average of the buying and selling rates of bank notes on the last transaction date of the period published by Bank Indonesia. Any resulting gains or losses are credited or charged to current operations.

As of June 30, 2003 and December 31, 2002, 2001 and 2000, the rates of exchange used were Rp 8,285, Rp 8,940, Rp 10,400 and Rp 9,595 to US\$ 1, respectively.

q. Tax Benefit or Expense

Prior to 2001, current tax expense was determined based on the estimated taxable income for the year. No deferred tax was provided for the temporary differences in the recognition of income and expenses for commercial and tax reporting purposes.

Effective January 1, 2001, the Company changed its accounting policy for income tax, in accordance with the Statement of Financial Accounting Standards No. 46, "Accounting for Income Taxes". Deferred taxes are recognized to reflect the tax effects of the temporary differences between financial and tax reporting bases of assets and liabilities, and accumulated tax loss carry-forwards. A valuation allowance is recorded to reduce deferred tax assets to that portion that is not expected to be realized.

r. Segment Information

Segment information is classified based on products or services of the Company and Subsidiary (business segment) and based on geographical location (geographical segment).

A business segment is a distinguishable component of an enterprise that is engaged in producing products or services (both an individual product or service or a group of related products or services) and that is subject to risks and returns that are different from those of other segments.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Segment Information (continued)

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

s. Basic Earnings per Share

Basic earnings per share are computed by dividing the net income for the period attributable to ordinary stockholders by the weighted average number of ordinary shares outstanding during the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000 of 200,000 shares.

3. CASH AND CASH EQUIVALENTS

This account consists of:

	June 30, 2003	December 31,		
		2002	2001	2000
Cash on Hand	409,722,824	858,110,854	613,196,171	334,510,905
Cash in Banks				
Rupiah accounts				
PT Bank Mandiri (Persero) Tbk	59,473,894,942	57,997,876,507	51,699,236,991	34,525,093,782
PT Bank Negara Indonesia (Persero) Tbk	3,778,249,874	274,246,457	508,761,445	204,027,070
PT Bank Rakyat Indonesia (Persero)	566,385,595	454,495,040	829,771,134	194,514,806
PT Bank Central Asia Tbk	—	—	132,988,745	648,346,427
PT Bank Artha Graha	78,502,221	77,108,725	74,356,104	96,494,786
U.S. Dollar accounts				
PT Bank Mandiri (Persero) Tbk (US\$ 18,110,830 in 2003, US\$ 72,316,243 in 2002, US\$ 19,218,806 in 2001 and US\$ 12,121,781 in 2000)	150,048,225,970	646,507,208,218	199,875,580,423	116,308,488,696
Bank of America, Singapore (US\$ 7,217,275)	59,795,123,375	—	—	—
PT Bank Negara Indonesia (Persero) Tbk (US\$ 911,772)	7,554,034,003	—	—	—
PT ABN Amro Bank N.V. (US\$ 55,803 in 2003 and US\$ 55,817 in 2002)	462,328,021	499,001,387	—	—
PT Bank Rakyat Indonesia (Persero) (US\$ 41,232 in 2003, US\$ 73,577 in 2002, US\$ 486,220 in 2001 and US\$ 232,395 in 2000)	341,604,966	657,778,648	5,056,685,296	2,229,834,439
PT Bank Pan Indonesia Tbk (US\$ 2,486)	—	—	—	23,854,417
Sub-total	282,098,348,967	706,467,714,982	258,177,380,138	154,230,654,423
Cash Equivalents — Unrestricted time deposits				
Rupiah accounts				
PT Bank Mandiri (Persero) Tbk	4,500,000,000	4,500,000,000	50,000,000,000	17,000,000,000
PT Bank Rakyat Indonesia (Persero)	—	—	12,900,000,000	12,900,000,000
PT Bank Artha Graha	—	—	—	9,000,000,000
U.S. Dollar accounts				
PT ABN Amro Bank N.V. (US\$ 2,671 in 2003 and US\$ 2,666 in 2002)	22,129,484	23,836,186	—	—
PT Bank Mandiri (Persero) Tbk (US\$ 4,000,000 in 2002, US\$ 42,000,000 in 2001 and US\$ 50,000,000 in 2000)	—	35,760,000,000	436,800,000,000	479,750,000,000
PT Bank Rakyat Indonesia (Persero) (US\$ 5,000,000 in 2002, 2001 and 2000, respectively)	—	44,700,000,000	52,000,000,000	47,975,000,000
Sub-total	4,522,129,484	84,983,836,186	551,700,000,000	566,625,000,000
Total	287,030,201,275	792,309,662,022	810,490,576,309	721,190,165,328

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3. CASH AND CASH EQUIVALENTS (continued)

The annual interest rates of time deposits are as follows:

	2003 (Six Months)	2002 (One Year)	2001 (One Year)	2000 (One Year)
Rupiah account	10.00% - 12.75%	10.00% - 17.88%	10.50% - 17.88%	11.00% - 13.00%
U.S. Dollar account	1.75% - 2.75%	2.00% - 5.33%	4.50% - 6.84%	6.25% - 6.84%

4. SHORT-TERM INVESTMENTS

This account consists of:

	June 30, 2003	December 31,		
		2002	2001	2000
Time deposits				
PT Bank Mandiri (Persero) Tbk (US\$ 11,421,739 in 2002 and US\$ 21,000,000 in 2001)	—	102,110,346,660	218,400,000,000	—
Investments in available for sale securities				
PT Indosat (Persero) Tbk Bonds (acquisition cost)	20,000,000,000	20,000,000,000	20,000,000,000	—
Add: Unrealized gain from increase in market value of securities held available for sale	2,350,000,000	1,125,000,000	150,000,000	—
Net	22,350,000,000	21,125,000,000	20,150,000,000	—
Total Short-Term Investments	22,350,000,000	123,235,346,660	238,550,000,000	—

In 2002 and 2001, time deposits were pledged as collateral for the standby letters of credit facilities with PT Bank Mandiri (Persero) Tbk. (see Note 31d). The time deposits earn interest at rates ranging from 2.85% to 5.33% per annum in 2003 and 5.33% to 6.84% per annum in 2002 and 2001.

As of June 30, 2003, bonds issued by PT Indosat (Persero) Tbk, which are held available for sale, were rated AA+ by PT Pemeringkat Efek Indonesia (PT PEFINDO) and consisted of Series A and Series B bonds with a face value of Rp 10,000,000,000 each. The bonds are traded on the Surabaya Stock Exchange. Series A bonds earn fixed interest at the rate of 18.5% per annum and Series B bonds earn floating interest computed based on the higher of 16% or the average interest rate for 3 months Rupiah time deposits of PT Bank Mandiri (Persero) Tbk, PT Bank Central Asia Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Danamon Tbk computed based on the average of 5 working days prior to the determination of the interest rate plus a fixed premium of 2.25% per annum. Interest is due every quarter starting July 12, 2001 up to April 12, 2006, the bonds' maturity date.

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5. TRADE RECEIVABLES

This account consists of receivables for:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Gas distribution	383,220,984,573	307,225,882,901	261,310,189,484	265,397,574,424
Gas transmission	72,648,129,406	88,976,621,708	139,921,646,490	104,799,252,473
Sales of Liquid Petroleum Gas (LPG)	266,024,400	369,181,200	784,239,100	751,903,800
Total	456,135,138,379	396,571,685,809	402,016,075,074	370,948,730,697
Allowance for doubtful accounts ..	(9,031,864,523)	(7,456,207,876)	(7,490,052,490)	(7,126,796,742)
Net	447,103,273,856	389,115,477,933	394,526,022,584	363,821,933,955

The changes in the allowance for doubtful accounts are as follows:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Beginning balance	7,456,207,876	7,490,052,490	7,126,796,742	22,498,461,451
Provisions for the period (see Note 22)	2,262,831,833	956,906,827	1,079,397,278	3,575,658,043
Reversal of allowance	(687,175,186)	(990,751,441)	(716,141,530)	(18,947,322,752)
Ending balance	9,031,864,523	7,456,207,876	7,490,052,490	7,126,796,742

Details of aging of receivables based on invoice dates are as follows:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Up to 1 month	274,007,753,134	214,190,024,353	214,459,095,907	176,496,684,063
> 1 month – 3 months	110,909,399,130	115,963,339,955	154,399,914,537	121,860,256,741
> 3 months – 6 months	26,427,681,825	34,779,315,707	17,774,378,709	21,459,732,901
> 6 months – 1 year	34,898,338,414	14,699,882,506	2,245,520,133	33,080,354,666
> 1 year	9,891,965,876	16,939,123,288	13,137,165,788	18,051,702,326
Total	456,135,138,379	396,571,685,809	402,016,075,074	370,948,730,697

Total trade receivables denominated in U.S. Dollars amounted to US\$ 32,654,919, US\$ 24,363,268 US\$ 19,755,790 and US\$ 21,987,894 as of June 30, 2003 and December 31, 2002, 2001 and 2000, respectively, for natural gas distribution and US\$ 8,762,316, US\$ 9,947,007, US\$ 13,460,822 and US\$ 10,877,607 as of June 30, 2003 and December 31, 2002, 2001 and 2000, respectively, for natural gas transmission.

Based on the review of the status of the individual receivable accounts at end of period, the Company's management is of the opinion that the allowance for doubtful accounts is adequate to cover any loss from uncollectible accounts.

Trade receivables amounting to Rp 240,549,070,660 are used to secure the standby letter of credit facilities with PT Bank Mandiri (Persero) Tbk as provided in the Fiduciary Guarantee Deed of Notary BRAY Mahyastoeti Notonagoro, S.H. No. 106 dated October 27, 2000 (see Note 31).

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6. OTHER RECEIVABLES

- This accounts represents receivables from:

	June 30, 2003	December 31,		
		2002	2001	2000
The Government of the Republic of Indonesia (US\$ 25,853,746)	214,198,282,959	—	—	—
Transasia Pipeline Company Pvt, Ltd. (US\$ 19,500,000) (see Note 25)	161,557,500,000	174,330,000,000	—	—
Others	6,928,058,973	9,942,072,391	6,509,280,690	3,277,855,676
Total	382,683,841,932	184,272,072,391	6,509,280,690	3,277,855,676

Receivables from the Government of the Republic of Indonesia represent receivables in relation to the two-step loans where funds were available for the Company to withdraw as of June 30, 2003 pending the completion of certain administrative matters.

Management is of the opinion that all of the above receivables are collectible. Hence, no allowance for doubtful accounts has been provided.

7. INVENTORIES

This account consists of:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000
Technical parts	45,179,593,275	46,252,182,804	52,116,653,251	45,821,152,485
LPG tanks	867,189,585	869,139,240	899,819,657	921,455,399
LPG	58,278,531	70,647,767	56,980,217	80,702,347
Total	46,105,061,391	47,191,969,811	53,073,453,125	46,823,310,231
Allowance for inventory obsolescence	(3,323,894,750)	(3,323,894,750)	(589,658,313)	—
Net	42,781,166,641	43,868,075,061	52,483,794,812	46,823,310,231

The changes in the allowance for inventory obsolescence are as follows:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000
Beginning balance	3,323,894,750	589,658,313	—	—
Provisions for the period (see Note 22)	—	2,734,236,437	589,658,313	—
Ending balance	3,323,894,750	3,323,894,750	589,658,313	—

The technical parts represent inventories that are related to gas distribution and transmission such as pipes, gas meters and other spare parts.

Based on the review of the condition of inventories, the Company's management is of the opinion that the slow-moving inventories do not require any allowance as these can be used in the operations and that the allowance for inventory obsolescence is adequate to cover any loss from obsolete and non-moving inventories.

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7. INVENTORIES (continued)

As of June 30, 2003, all of the Company's inventories are covered by insurance against losses from fire and other risks under blanket policies. The Company's management is of the opinion that the insurance coverage of Rp 14,331,800,000 is adequate to cover possible losses from such risks. The Subsidiary's inventories are not covered by insurance against losses from fire and other risks.

8. ADVANCES

This account consists of advances for:

	June 30, 2003	December 31,		
		2002	2001	2000 As Restated (see Note 36)
Purchases of natural gas ("Take-or-Pay") (US\$ 8,336,648 in 2003 and 2002, US\$ 5,934,272 in 2001 and 2000)	69,069,130,337	74,529,634,908	61,716,425,472	56,939,336,770
Employee bonuses	10,005,783,603	10,867,073,478	9,205,104,591	—
Others	5,153,043,105	37,179,313	1,015,953,104	49,906,688
Total	<u>84,227,957,045</u>	<u>85,433,887,699</u>	<u>71,937,483,167</u>	<u>56,989,243,458</u>

The advances for purchase of natural gas under the "Take or Pay" arrangements pertain to the payments for the difference between the delivered quantity and the minimum purchase quantity of natural gas as stated in the Gas Purchase Agreements (see Note 30a). Such advances will be applied against future deliveries of quantities over the minimum specified purchase quantities of natural gas. As of June 30, 2003 and December 31, 2002, 2001 and 2000, the gas volume paid for in advance by the Company amounts to 3,539,780 mmbtu, 3,539,780 mmbtu, 2,747,348 mmbtu and 2,747,348 mmbtu, respectively (unaudited).

Based on the Board of Commissioners Letter No. 057/8231/KOMI/2002 dated November 14, 2002, the Board of Commissioners approved the advance payment of a portion of the employees' annual bonus in November 2002. The approval was based on earnings after tax expense up to September 30, 2002 amounting to Rp 521.2 billion. The annual employees' bonus will be determined and approved during the General Stockholder's Meeting based on the earnings of the preceding year. Accordingly, the above advanced bonus will be charged to operations in 2003 when the full bonus from the 2002 earnings is determined and approved (see Note 35a).

Based on the Board of Commissioners Letter No. 058/K/DK/PGN/2001 dated November 26, 2001, the Board of Commissioners approved the advance payment of a portion of the employees' annual bonus in December 2001. The annual employees' bonus is determined and approved during the General Stockholder's Meeting based on the earnings of the preceding year. Accordingly, the above advanced bonus will be charged to operations in 2002 when the full bonus from the 2001 earnings is determined and approved. The 2001 bonus was approved in the stockholder's meeting held on June 17, 2002 (see Note 19).

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9. PREPAID TAXES AND EXPENSES

This account consists of:

	December 31,			
	June 30, 2003	2002	2001	2000 As Restated (see Note 36)
Prepaid taxes				
Value-added taxes	187,375,384,060	187,375,246,866	—	—
Prepaid expenses				
Rent	2,234,020,073	972,492,259	586,855,969	507,157,512
Insurance	536,155,490	1,208,688,000	1,050,000,000	945,700,875
Others	56,419,019	30,101,870	111,325,071	10,542,550
Total	<u>190,201,978,642</u>	<u>189,586,528,995</u>	<u>1,748,181,040</u>	<u>1,463,400,937</u>

The value-added tax relates to the transfer of assets by the Company to Transgasindo in connection with the Asset Transfer Agreement. Based on the letter from Tax Office No. 00009/407/02/051/03 dated August 7, 2003, the Tax Office agreed to refund this value-added tax amounting to Rp 187,375,384,060, which amount was received by Transgasindo on September 15, 2003.

10. PROPERTY, PLANT AND EQUIPMENT

This account consists of:

	June 30, 2003			
	Beginning Balances	Additions	Deductions/ Reclassification	Ending Balances
Carrying Value				
<i>Direct Ownership</i>				
Landrights	84,321,882,329	165,390,250	(1,940,360,122)	82,546,912,457
Buildings and improvements	64,550,698,670	1,616,703,368	(877,255,640)	65,290,146,398
Machinery and equipment	2,590,512,875,826	8,222,826,450	(357,630,279,294)	2,241,105,422,982
Vehicles	11,539,532,882	778,831,425	(850,141,747)	11,468,222,560
Office equipment	16,320,948,243	415,657,500	(9,926,268)	16,726,679,475
Furniture and fixtures	34,079,669,141	586,008,147	(6,781,850,100)	27,883,827,188
<i>Constructions in Progress</i>	<u>1,604,995,681,309</u>	<u>1,161,977,418,656</u>	<u>(4,641,338,027)</u>	<u>2,762,331,761,938</u>
Total Carrying Value	<u>4,406,321,288,400</u>	<u>1,173,762,835,796</u>	<u>(372,731,151,198)</u>	<u>5,207,352,972,998</u>
Accumulated Depreciation				
<i>Direct Ownership</i>				
Buildings and improvements	12,848,301,523	1,728,910,046	(46,957,820)	14,530,253,749
Machinery and equipment	410,535,805,477	122,703,909,467	(39,901,056,851)	493,338,658,093
Vehicles	3,693,814,992	1,036,648,605	(142,669,940)	4,587,793,657
Office equipment	10,428,072,222	1,592,164,382	(31,310,843)	11,988,925,761
Furniture and fixtures	21,382,572,353	2,154,536,508	(2,928,575,199)	20,608,533,662
Total accumulated depreciation	<u>458,888,566,567</u>	<u>129,216,169,008</u>	<u>(43,050,570,653)</u>	<u>545,054,164,922</u>
Net Book Value	<u>3,947,432,721,833</u>			<u>4,662,298,808,076</u>

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10.. PROPERTY, PLANT AND EQUIPMENT (continued)

	December 31, 2002, As Restated (see Note 36)				
	Beginning Balances	Additions	Deductions/ Reclassification	Ending Balances	
Carrying Value					
<i>Direct Ownership</i>					
Landrights	83,975,921,698	295,632,753	50,327,878	84,321,882,329	
Buildings and improvements	62,263,399,298	1,041,721,797	1,245,577,575	64,550,698,670	
Machinery and equipment	2,432,266,260,771	231,514,962,890	(73,268,347,835)	2,590,512,875,826	
Vehicles	8,686,215,373	3,375,963,969	(522,646,460)	11,539,532,882	
Office equipment	15,494,506,616	2,690,972,596	(1,864,530,969)	16,320,948,243	
Furniture and fixtures	32,326,357,976	4,060,871,055	(2,307,559,890)	34,079,669,141	
<i>Constructions in Progress</i>	270,256,125,776	1,766,733,020,882	(431,993,465,349)	1,604,995,681,309	
Total Carrying Value	<u>2,905,268,787,508</u>	<u>2,009,713,145,942</u>	<u>(508,660,645,050)</u>	<u>4,406,321,288,400</u>	
Accumulated Depreciation					
<i>Direct Ownership</i>					
Buildings and improvements	10,153,800,895	2,621,756,388	72,744,240	12,848,301,523	
Machinery and equipment	222,165,703,337	289,472,774,756	(101,102,672,616)	410,535,805,477	
Vehicles	2,461,444,687	1,748,956,167	(516,585,862)	3,693,814,992	
Office equipment	7,811,965,749	2,837,302,308	(221,195,835)	10,428,072,222	
Furniture and fixtures	14,844,180,486	9,093,404,483	(2,555,012,616)	21,382,572,353	
Total accumulated depreciation	<u>257,437,095,154</u>	<u>305,774,194,102</u>	<u>(104,322,722,689)</u>	<u>458,888,566,567</u>	
Net Book Value	<u>2,647,831,692,354</u>			<u>3,947,432,721,833</u>	
December 31, 2001					
	Beginning Balances	Additions	Deductions/ Reclassifications	Revaluation	Ending Balances
Carrying Value					
<i>Direct Ownership</i>					
Landrights	55,571,587,016	1,241,130,122	(154,279,951)	27,317,484,511	83,975,921,698
Buildings and improvements	59,107,829,347	533,379,388	2,801,933,867	(179,743,304)	62,263,399,298
Machinery and equipment	2,276,421,301,981	18,812,935,527	(563,615,082,269)	700,647,105,532	2,432,266,260,771
Vehicles	7,429,533,124	2,437,418,800	(1,858,723,227)	677,986,676	8,686,215,373
Office equipment	13,419,845,184	2,306,925,150	(274,126,796)	41,863,078	15,494,506,616
Furniture and fixtures	24,312,259,767	5,070,657,714	(35,724,699)	2,979,165,194	32,326,357,976
<i>Constructions in Progress</i>	250,256,980,966	72,061,143,895	(52,061,999,085)	—	270,256,125,776
Total Carrying Value	<u>2,686,519,337,385</u>	<u>102,463,590,596</u>	<u>(615,198,002,160)</u>	<u>731,483,861,687</u>	<u>2,905,268,787,508</u>
Accumulated Depreciation					
<i>Direct Ownership</i>					
Buildings and improvements	7,720,123,112	3,280,769,572	(847,091,789)	—	10,153,800,895
Machinery and equipment	600,555,186,329	229,130,694,092	(607,520,177,084)	—	222,165,703,337
Vehicles	3,217,757,875	1,453,382,370	(2,209,695,558)	—	2,461,444,687
Office equipment	6,004,496,185	2,081,596,360	(274,126,796)	—	7,811,965,749
Furniture and fixtures	10,237,872,104	8,773,203,494	(4,166,895,112)	—	14,844,180,486
Total Accumulated Depreciation	<u>627,735,435,605</u>	<u>244,719,645,888</u>	<u>(615,017,986,339)</u>	—	<u>257,437,095,154</u>
Net Book Value	<u>2,058,783,901,780</u>				<u>2,647,831,692,354</u>

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10. PROPERTY, PLANT AND EQUIPMENT (continued)

	December 31, 2000			
	Beginning Balances	Additions	Deductions/ Reclassifications	Ending Balances
Cost				
<i>Direct Ownership</i>				
Landrights	55,735,301,039	93,500,000	(257,214,023)	55,571,587,016
Buildings and improvements	40,025,513,513	1,813,065,023	17,269,250,811	59,107,829,347
Machinery and equipment	2,249,905,093,406	10,289,986,323	16,226,222,252	2,276,421,301,981
Vehicles	5,615,152,676	2,244,828,265	(430,447,817)	7,429,533,124
Office equipment	11,413,399,820	2,613,659,703	(607,214,339)	13,419,845,184
Furniture and fixtures	11,044,808,023	10,239,387,867	3,028,063,877	24,312,259,767
<i>Constructions in Progress</i>	207,825,692,694	98,689,738,427	(56,258,450,155)	250,256,980,966
Total Cost	<u>2,581,564,961,171</u>	<u>125,984,165,608</u>	<u>(21,029,789,394)</u>	<u>2,686,519,337,385</u>
Accumulated Depreciation				
<i>Direct Ownership</i>				
Buildings and improvements	5,601,770,724	2,151,586,376	(33,233,988)	7,720,123,112
Machinery and equipment	369,875,425,423	230,056,051,912	623,708,994	600,555,186,329
Vehicles	1,871,436,549	1,560,418,271	(214,096,945)	3,217,757,875
Office equipment	4,630,249,210	1,753,703,851	(379,456,876)	6,004,496,185
Furniture and fixtures	7,377,536,898	2,863,217,697	(2,882,491)	10,237,872,104
Total Accumulated Depreciation	<u>389,356,418,804</u>	<u>238,384,978,107</u>	<u>(5,961,306)</u>	<u>627,735,435,605</u>
Net Book Value	<u>2,192,208,542,367</u>			<u>2,058,783,901,780</u>

The deductions of property, plant and equipment consist of sales of property, plant and equipment are as follows:

	June 30, 2003	December 31,		
		2002	2001	2000
Net book value	—	—	180,015,821	45,444,069
Proceeds	—	—	(764,557,126)	(528,685,372)
Gain on sale of property, plant and equipment	—	—	584,541,305	483,241,303

The terms of the landrights ("Hak Guna Bangunan") owned by the Company will expire on various dates from 2004 to 2030 but can be extended. As of June 30, 2003, the titles of the Company's landrights totaling 15,162,044 square meters, which are mainly used for the transmission pipelines, are still under the names of the previous owners. The transfer of such titles to the Company's name is still in process.

The additions to property, plant and equipment include capitalized borrowing costs amounting to Rp 25,317,235,363, Nil, Rp 1,016,845,189 and Rp 34,864,578,815 for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively.

The deductions include reclassifications from construction in progress to machinery and equipment, and others totaling Rp 4,641,338,027, Rp 431,993,465,349, Rp 52,061,999,085 and Rp 56,258,450,155 for the six months ended 30 June 2003 and the years ended December 31, 2002, 2001 and 2000, respectively.

In 2002, the Company adopted directly the balances from the audited financial statements of the Subsidiary, stated in Indonesian Rupiah for consolidation purposes. In 2003, with the effectivity of the change in reporting currency of the Subsidiary from Rupiah to US Dollar, the deductions from property, plant and equipment as of June 30, 2003, also include the foreign currency translation difference resulting from translation of the financial statements of the Subsidiary amounting to Rp 410,542,678,262.

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10. PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charged to operations amounted to Rp 129,216,169,008, Rp 305,774,194,102, Rp 244,719,645,888 and Rp 238,384,978,107 for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively (see Note 22).

Based on the Appraisal Report No. WS-096/LP/XII/2001 of PT Winara Sabena dated December 19, 2001, the fair value of the property and equipment of the Grissik-Duri pipeline as of September 30, 2001 was Rp 2,029,353,500,000. The valuation was performed using the replacement cost approach, except for land, which was valued using the market approach. The commercial net book values of the appraised assets and the revaluation increment as of September 30, 2001 amounted to Rp 1,297,869,638,313 and Rp 690,842,811,854, respectively, net of the tax effect on the revaluation increment (see Note 26). Based on Directorate General of Tax Decision Letter No. KEP-05/WPJ.07/KP.01.04/2002 dated January 28, 2002, the Tax Office approved the revalued amount as of September 30, 2001. In 2002, in connection with the transfer of assets to Transgasindo, the Company paid tax at the rate of 15% computed on the revaluation increment of assets transferred or a total amount of Rp 134,103,066,005 which was remitted to the Tax Office in April 2002 and recorded as a deduction to the revaluation increment in the consolidated balance sheets.

Construction in progress mainly represents the Grissik-Singapore Pipeline Project and Duri Compressor Facilities Project (see Note 30). As of June 30, 2003, the Company's management estimated the percentage of completion of these projects in financial terms to range from 68% to 73%. The Grissik-Singapore Pipeline Project has been completed and commenced its commercial operations in September 2003. The additional Duri Compressor Facilities Project has been finished and will be operating on July 2003, except for two out of the six compressors, which are being repaired and scheduled to be completed on February 1, 2004.

Based on management's assessment, there are no events or changes in circumstances, which may indicate impairment in the value of property, plant and equipment as of June 30, 2003 and December 31, 2002, 2001 and 2000.

As of June 30, 2003, the Company's property, plant and equipment, except landrights and underground pipelines, are covered by insurance against losses from fire and other risks under blanket policies for US\$ 378,302,469 and Rp 77,226,377,445, while the Subsidiary's property, plant and equipment are covered by insurance against losses from fire and other risks under blanket policies for US\$ 195,829,945. The management of the Company and the Subsidiary are of the opinion that the sums insured are adequate to cover possible losses from such risks.

As of June 30, 2003, landrights, covering 79,983 square meters comprising of 33,720 square meters located at Jakarta and 46,263 square meters located at the Surabaya branch including buildings thereon with a book value of Rp 199,381,770,000 and all moveable assets located at the Surabaya branch with a book value of Rp 93,022,322,000 are pledged as collateral for the standby letter of credit facilities with PT Bank Mandiri (Persero) Tbk (see Note 31).

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11. TRADE PAYABLES

- This account consists of:

	December 31,			
	June 30, 2003	2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Purchases of natural gas				
Perusahaan Pertambangan				
Minyak dan Gas Bumi Negara (Pertamina) (US\$ 26,959,748 and Rp 1,241,879,884 in 2003, US\$ 26,189,715 and Rp 426,227,845 in 2002, US\$ 23,374,617 and Rp 387,541,845 in 2001 and US\$ 22,430,656 and Rp 633,155,252 in 2000)	224,603,393,319	234,562,280,163	243,483,557,293	215,855,298,039
Lapindo Brantas, Inc. (US\$ 3,391,833 in 2003 and US\$ 3,585,521 in 2002)	28,101,339,803	32,054,554,247	---	---
Total	<u>252,704,733,122</u>	<u>266,616,834,410</u>	<u>243,483,557,293</u>	<u>215,855,298,039</u>

The net outstanding balance has been netted-off with the trade receivables totaling Rp 2,872,275,539, Rp 2,307,177,188, Rp 2,396,100,077 and Rp 2,521,645,712 as of June 30, 2003 and December 31, 2002, 2001 and 2000, respectively, related to the sale of gas to Pertamina's fuel gas filling stations (SPBG) in Jakarta and gas transmission to certain of Pertamina's customers.

Details of the aging of payables based on invoice dates are as follows:

	December 31,			
	June 30, 2003	2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Up to 1 month	143,630,564,841	133,645,551,581	110,313,952,876	114,095,408,165
> 1 month – 3 months	109,074,168,281	132,971,282,829	129,789,609,557	101,759,889,874
> 3 months – 6 months	—	—	2,015,980,632	—
> 6 months – 1 year	—	—	1,364,014,228	—
> 1 year	—	—	—	—
Total	<u>252,704,733,122</u>	<u>266,616,834,410</u>	<u>243,483,557,293</u>	<u>215,855,298,039</u>

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12. OTHER PAYABLES

This account consists of:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Dividends for the year 2002 (see Note 19)	414,583,616,000	—	—	—
Liabilities to contractors (see Note 30)	236,573,030,897	379,360,678,585	3,355,468,960	3,200,446,859
Transasia Pipeline Company Pvt. Ltd. (US\$ 7,039,692 in 2003 and US\$ 200,673 in 2002) (see Note 30)	58,323,848,220	1,794,018,408	—	—
ConocoPhillips (Grissik) Ltd. (US\$ 6,114,353 in 2003, US\$ 4,951,271 in 2002, US\$ 2,297,386 in 2001 and US\$ 457,891 in 2000)	50,657,414,605	44,264,366,047	23,892,812,320	4,393,467,826
Contribution to small business enterprises and Cooperatives program (see Notes 19 and 29)	7,055,563,000	—	—	—
Community development (see Note 19)	3,844,450,000	—	—	—
Bonuses	1,834,244,944	1,834,244,944	1,834,244,944	1,834,244,944
Gas guarantee deposits	1,163,159,576	1,010,320,877	1,739,854,744	678,999,884
Others	7,252,879,540	11,829,969,126	2,669,153,257	2,683,192,509
Total	<u>781,288,206,782</u>	<u>440,093,597,987</u>	<u>33,491,534,225</u>	<u>12,790,352,022</u>

As of June 30, 2003 and 2002, liabilities to contractors represent liabilities in connection with the construction of the Grissik-Singapore project (see Note 30).

The liabilities to ConocoPhillips (Grissik) Ltd, include the Ship-or-Pay arrangement pertaining to the toll fee advances relating to the difference between the delivered quantity and the minimum agreed quantity of natural gas under the Gas Transportation Agreements (see Note 30). Such advances will be applied to toll fees relating to the subsequent of delivered quantity in excess of the minimum agreed quantity of natural gas. As of June 30, 2003 and December 31, 2002, 2001 and 2000, the gas volume relating to toll fees received in advance by the Subsidiary amounted to 7,720,451 mmscf, 4,306,232 mmscf, 3,705,461 mmscf and Nil mmscf, respectively (unaudited).

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13. ACCRUED EXPENSES

This account consists of:

	June 30, 2003	December 31,		2000 As Restated (see Note 36)
		2002 As Restated (see Note 36)	2001	
Interest (US\$ 2,242,844 and Rp 5,274,254,875 in 2003, US\$ 1,599,101 and Rp 6,159,714,046 in 2002, US\$ 2,044,702 and Rp 7,829,608,787 in 2001, and US\$ 2,307,674 and Rp 4,498,700,164 in 2000) (see Note 15)	23,856,217,965	20,455,678,735	29,094,505,115	26,640,835,540
Transasia Pipeline Company Pvt. Ltd. Salary expense (US\$ 1,225,000)	10,149,125,000	—	—	—
Operation and maintenance expenses (US\$ 193,556 in 2003, US\$ 98,628 and Rp 1,416,172,687 in 2002 and US\$ 74,164 and Rp 1,372,014,126 in 2001 and US\$ 1,116,052 and Rp 4,058,523,483 in 2000)	1,603,611,460	2,297,907,006	2,143,339,726	14,767,037,625
Consultant fee for the selling of Subsidiary's share (US\$ 1,977,527) . .	—	17,679,089,771	—	—
Others	5,104,588,994	569,691,914	335,763,878	292,339,768
Total	<u>40,713,543,419</u>	<u>41,002,367,426</u>	<u>31,573,608,719</u>	<u>41,700,212,933</u>

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14. TAXES PAYABLE

This account consists of:

	June 30, 2003	December 31,		
		2002	2001	2000 As Restated (see Note 36)
Income tax				
Employees income tax				
Article 21	482,179,073	1,423,482,887	3,018,197,528	2,406,524,450
Withholding tax Article 23	5,834,840,611	15,450,265,901	917,282,948	989,675,234
Corporate income tax				
Article 25	12,491,772,000	15,394,408,000	11,757,476,000	3,106,107,000
Final income tax Article 29 (see Note 26)	67,119,487,480	212,588,912,829	—	—
Value - added tax	17,553,677,319	24,212,545,298	12,582,341,509	14,469,894,206
Tax on asset revaluation (see Note 10)	—	—	89,402,054,337	—
Total	<u>103,481,956,483</u>	<u>269,069,614,915</u>	<u>117,677,352,322</u>	<u>20,972,200,890</u>

On February 5, 2003, the Company received a Tax Collection Letter (Surat Tagihan Pajak) No. 00001/109/02/051/03 for a penalty on late payment of value added tax related to the assets transferred to Transgasindo in 2002 of Rp 16,894,329,011 which penalty was paid in March 2003. In 2002, the penalty was recorded as Other Charges (Income) — Miscellaneous-Net in the consolidated statement of income and the related payable was recorded in Taxes Payable in the consolidated balance sheet.

Based on several tax assessment letters received in 2000, the Company was assessed additional value added tax and penalties for 1999 amounting to Rp 15,598,606,633. However, on August 28, 2000, the Company filed an objection to the Tax Office. Subsequently, on August 14, 2001, the Tax Office reversed Rp 11,032,178,373 of the above tax assessment. The difference between the amount assessed and the amount accepted by the tax office is presented as part of Miscellaneous — Net under Other Charges (Income) in the 2001 Statement of Income.

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15. LONG-TERM LOANS

This account consists of long-term loans obtained from the Government of the Republic of Indonesia, which are funded by:

	June 30, 2003	December 31,		
		2002 As Restated (see Note 36)	2001	2000 As Restated (see Note 36)
Gas Transmission and Distribution Project				
Asian Development Bank (US\$ 142,628,419 in 2003, US\$ 106,505,957 in 2002, US\$ 110,920,707 in 2001 and US\$ 117,567,151 in 2000)	1,181,676,448,018	952,163,251,023	1,153,575,348,120	1,128,056,810,583
Japan Bank for International Cooperation (formerly Export-Import Bank of Japan) (US\$ 90,284,945 in 2003, US\$ 94,092,117 in 2002, US\$ 101,706,462 in 2001 and US\$ 109,224,765 in 2000)	748,010,770,236	841,183,530,338	1,057,747,207,400	1,048,011,624,296
European Investment Bank (US\$ 48,617,229 in 2003, US\$ 6,536,622 in 2002, US\$ 7,090,700 in 2001 and US\$ 7,652,058 in 2000)	402,793,744,999	58,437,398,267	73,743,285,096	73,421,497,186
Gas Distribution and Utilization Project				
International Bank for Reconstruction and Development (1990)	81,619,339,853	97,343,364,900	130,064,531,670	161,830,860,888
Japan Bank for International Cooperation (formerly Export-Import Bank of Japan)	—	—	762,914,807	2,288,744,418
International Bank for Reconstruction and Development (1986)	—	—	—	7,118,441,727
Gas Development Project				
International Bank for Reconstruction and Development (1996) (US\$ 625,484 in 2003, US\$ 781,853 in 2002, US\$ 1,094,591 in 2001 and US\$ 1,407,329 in 2000)	5,182,134,774	6,989,765,641	11,383,746,192	13,503,321,563
Others				
Government of the Republic of Indonesia	—	—	—	8,333,334,667
Total Long-term Loans	2,419,282,437,880	1,956,117,310,169	2,427,277,033,285	2,442,564,635,328
Current Portion	(229,871,888,179)	(183,513,189,401)	(206,259,050,664)	(207,833,836,394)
Long-term Portion — Net	<u>2,189,410,549,701</u>	<u>1,772,604,120,768</u>	<u>2,221,017,982,621</u>	<u>2,234,730,798,934</u>

Gas Transmission and Distribution Project

- Asian Development Bank (ADB) (SLA-832/DP3/1995)

Based on the Loan Agreement No. 1357-IND dated June 26, 1995, ADB agreed to lend to the Government of the Republic of Indonesia (Government) an aggregate amount equivalent to

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15. LONG-TERM LOANS (continued)

US\$218,000,000 to assist the Government in financing the Gas Transmission and Distribution Project ("the Project") in Central Sumatra and Batam Island.

On October 31, 1995, the Company and the Government entered into a related Subsidiary Loan Agreement No. SLA-832/DP3/1995, which provides for the Government's relending of the ADB loan proceeds of US\$ 218,000,000 to the Company. The Company will undertake the Project in accordance with the Project Agreement with ADB dated June 26, 1995. The loan is subject to the interest rate of the ADB loan to the Government plus a Government fee of 0.50% (including a 0.15% banking fee) per year and a commitment fee at the rate of 0.75% per year calculated on the amount of loan not yet drawn, payable on May 15 and November 15 of each year. The ADB's annual interest rate of the loan is 6.31%, 6.34%, 6.70% and ranging from 6.46% to 6.53% for the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively. The principal amount of the loan is repayable in 32 (thirty two) equal semi-annual installments on May 15 and November 15 of each year, with the first installment due on November 15, 1999 and the last payment falling due on May 15, 2015.

As stipulated under the Project Agreement dated June 26, 1995 between the Company and ADB, the Company must obtain prior consent from ADB for any loans obtained after the date of the agreement, except for loans obtained to finance the project, which will cause the Company's debt service ratio to be 1.3:1 or less or the debt to equity ratio to exceed 70:30.

- *Japan Bank for International Cooperation (JBIC) (Formerly Export-Import Bank of Japan) (SLA-879/DP3/1995)*

Based on the Loan Agreement dated October 23, 1995, JBIC agreed to lend to the Government of the Republic of Indonesia an aggregate amount equivalent to US\$ 195,000,000 to assist the Government in financing the Gas Transmission and Distribution Project in Central Sumatra and Batam Island.

On March 12, 1996, the Company and the Government entered into a related Subsidiary Loan Agreement No. SLA-879/DP3/1996, which provides for the Government's relending of the JBIC loan proceeds of US\$ 195,000,000 to the Company, which shall undertake the Project. The loan is subject to the interest rate of the JBIC loan to the Government plus a Government fee of 0.50% (including a 0.15% banking fee) per year, payable on May 15 and November 15 of each year. The JBIC's annual interest rate of the loan is 1.65% for the six months ended June 30, 2003, ranges from 1.65% to 2.31% in 2002, ranges from 4.31% to 6.96% in 2001 and ranges from 6.27% to 7.17% in 2000. The principal amount of the loan is repayable in 32 (thirty two) equal semi-annual installments on May 15 and November 15 of each year, with the first installment due on November 15, 1999 and the last payment falling due on May 15, 2015.

- *European Investment Bank (EIB) (SLA-877/DP3/1996)*

Based on the Loan Agreement No. FI No 1.8070 dated July 20, 1995 between the EIB, the Government of the Republic of Indonesia and the Company, EIB agreed to lend to the Government of the Republic of Indonesia an aggregate amount equivalent to ECUS 46,000,000 to assist the Government in financing the Gas Transmission and Distribution Project in Central Sumatra and Batam Island. The latest date of the withdrawal of this loan was extended to June 15, 2004 from December 15, 2002.

On March 1, 1996, the Company and the Government entered into a related Subsidiary Loan Agreement No. SLA-877/DP3/1996, which provides for the Government's relending of the EIB loan proceeds of ECUS 46,000,000 or its equivalent to the Company, which will undertake the Project. The loan is subject to the interest rate of the EIB loan to the Government plus a Government fee of 0.50% (including 0.15% banking fee) per year, payable on January 15 and July 15 of each year. The EIB's annual interest rate of the loan ranged from 4.35% to 7.41% for the six months ended June 30, 2003 and 6.95%, 7.41% and 7.41% in the years ended December 31, 2002, 2001 and 2000, respectively. The principal amount of the loan is repayable in 32 (thirty two) equal semi-annual installments on

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15. LONG-TERM LOANS (continued)

- January 15 and July 15 of each year, with the first installment due on January 15, 1999 and the last payment falling due on July 15, 2014.

Under the Loan Agreement, the Company undertakes, among other things, that it shall maintain certain financial covenants each year commencing in 1999 such as a debt service ratio of 1.3 : 1 or more and a debt to equity ratio of at least 70:30.

Any overdue repayments of installments, interest and commitment charges will bear a penalty at the rate of 2% above the interest rate per year.

The Loan Agreements, Subsidiary Loan Agreements and Project Agreement require the Company, among others things, to carry out the Project with due diligence, efficiency and in conformity with sound business practices, perform all obligations for the execution of the Project and operations, such as the requirement to establish a subsidiary, furnish such reports and information as may reasonably be requested, insure the Project facilities, maintain separate accounts for the Project and for its overall operations, not to sell, lease or dispose of any of its assets and not to incur any debt, except under certain conditions.

Gas Distribution and Utilization Project

- *International Bank for Reconstruction and Development (IBRD) (SLA-528/DD1/1990)*

Based on the Loan Agreement No. 3209-IND dated July 6, 1990, IBRD agreed to lend to the Government of the Republic of Indonesia an aggregate amount equivalent to US\$ 86,000,000 to assist the Government in financing the Gas Utilization Project ("the Project") in Surabaya and Medan.

On August 24, 1990, the Company and the Government entered into a related Subsidiary Loan Agreement No. SLA-528/DD1/1990, which provides for the Government's relending of a portion of the IBRD loan proceeds of US\$ 76,000,000 that was subsequently reduced to US\$ 66,300,000, to the Company, which will undertake the Project. Since the withdrawals and repayments of the loan are in Rupiah currency, the loan is subject to interest at the rate of 13%, plus a Government fee of 0.25% per year. The principal amount of the loan is repayable in 20 (twenty) semi-annual installments on February 15 and August 15 of each year, with the first installment due on February 15, 1996 and the last installment falling due on August 15, 2005.

- *Japan Bank for International Cooperation (JBIC) (Formerly Export-Import Bank of Japan) (SLA-258/DD1/1987)*

Based on the Loan Agreement dated March 11, 1987, JBIC agreed to lend to the Government of the Republic of Indonesia an aggregate amount equivalent to US\$ 905,000,000 to assist the Government in financing the Gas Distribution Project ("the Project") in Jakarta, Bogor and Medan.

On April 24, 1987, the Company and the Government entered into a related Subsidiary Loan Agreement No. SLA-258/DD1/1987, which provides for the Government's relending of the JBIC loan proceeds equivalent to Rp 11,689,634,451 to the Company, which will undertake the Project. The loan is subject to interest at the rate of 6% plus a Government fee of 0.40% per year, payable on April 15 and October 15 of each year. The principal amount of the loan is payable in 21 (twenty one) equal semi-annual installments on April 15 and October 15 of each year, with the first installment due on April 15, 1992 and the last installment falling due on April 15, 2002.

- *International Bank for Reconstruction and Development (IBRD) (SLA-222/DD1/1986)*

Based on the Loan Agreement No. 2690-IND dated June 5, 1986, IBRD agreed to lend to the Government of the Republic of Indonesia an aggregate amount equivalent to US\$ 34,000,000 to assist the Government in financing the Gas Distribution Project ("the Project") in Jakarta, Bogor and Medan.

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15. LONG-TERM LOANS (continued)

On September 3, 1986, the Company and the Government entered into a related Subsidiary Loan Agreement No. SLA-222/DD1/1986, which provides for the Government's relending of the IBRD loan proceeds of US\$ 32,600,000 to the Company, which will undertake the Project. The loan, which was payable in 21 (twenty one) semi-annual installments on April 15 and October 15 of each year, was subject to interest at the rate of 12% per annum, since the withdrawals and repayments of the loan are in Rupiah currency, plus banking fee of 0.40% per year. The loan was fully paid on October 15, 2001.

Gas Development Project

• *International Bank for Reconstruction and Development (IBRD) (P305-0 IND)*

In its letter dated August 1, 1996, the IBRD through the World Bank, as executing agency, agreed to grant to the Government of the Republic of Indonesia an advance not exceeding US\$ 2,000,000 to finance technical assistance/consultancy services required for the preparation of a project to develop a gas pipeline from South Sumatra to West Java. This borrowing bears interest at the rate determined by the World Bank plus 0.50% and a service charge of 0.75% per year, payable every January 1 and July 1 of each year. The interest rate of the loan ranged from 3.95% to 4.26% for six months ended June 30, 2002, ranging from 5.24% to 6.52%, 6.72% to 7.00% and 6.42% for the years ended December 31, 2002, 2001 and 2000, respectively. The principal amount of the loan shall be repaid in 10 (ten) equal semi-annual installments on January 1 and July 1 of each year, with the first installment due on July 1, 2000 and the last installment falling due on January 1, 2005.

Others

• *Government of the Republic of Indonesia*

On March 10, 1998, the Company entered into a Loan Agreement No. RDI-333/DP3/1998 with the Government of the Republic of Indonesia, for a loan for a maximum amount of Rp 75,000,000,000, to cover the Company's deficit incurred in relation to its payments for gas purchases in the first quarter of 1998. This loan was approved by the Ministry of Finance in its Letter No. S-160/MK.17/1998 dated March 9, 1998. The loan, which was subject to interest at the annual rate of 6%, was fully repaid on March 9, 2001.

No collateral is specified in the Loan Agreements between the Government and the lenders or in the related Subsidiary Loan Agreements between the Government and the Company.

16. DUE TO A STOCKHOLDER OF THE SUBSIDIARY

This account consists of loans obtained by Transgasindo, the Subsidiary, from Transasia Pipeline Company Pvt., Ltd. (Transasia), a minority stockholder of the Subsidiary, which can be drawn down on the achievement of several installments based on performance milestones as described in the Strategic Partnership Agreement (see Note 30). The proceeds are to be used to finance part of the cost of the Grissik-Singapore Pipeline Project (see Note 10).

The first installment loan amounting to US\$ 19,846,800 was funded based on the Shareholder Loan Agreement dated December 4, 2002. The second installment loan amounting to US\$ 6,800,000 (which includes capitalized interest) was funded based on the Shareholder Loan Agreement dated January 28, 2003.

These loans bear interest at 13% per annum, payable monthly. Any interest not paid when due shall be capitalized. Overdue amounts payable (principal or interest) shall bear interest at a rate equal to 2% per year in excess of the interest rate. All payments to the stockholders shall be made free and clear of, and without deduction or withholding for taxes and other charges. The loans have no definite maturity dates but will not be payable during the 12 (twelve) month period subsequent to the balance sheet date as of June 30, 2003.

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17. GOVERNMENT PROJECT FUNDS

This account consists of:

	June 30, 2003	December 31,		
		2002	2001	2000
Beginning balance	28,471,652,858	46,122,408,000	79,390,719,194	64,926,390,219
Additional funds during the period	8,438,087,407	—	6,291,093,910	14,464,328,975
Funds approved as paid-in capital	—	(17,650,755,142)	(39,559,405,104)	—
Ending balance	36,909,740,265	28,471,652,858	46,122,408,000	79,390,719,194

These funds pertain to the financing received from the Government for the development of the gas distribution network in several provinces in Indonesia. Once the related projects are completed and the Government issues the approval to recognize the funds as capital, the approved funds are treated as part of paid-in capital.

In 2003, the Company obtained approval for Government funding of Rp 136,200,679,000 for certain projects.

On May 6, 2002 based on Government Decision Letter (PP) No. 23, the Government approved the amount of Rp 17,650,755,142 from the Government project funds to be part of the Government's equity in the Company recorded as part of Other Paid-in Capital under the Stockholder's Equity section in the consolidated balance sheet.

On February 19, 2001, based on Government Decision Letter (PP) No. 9 the Government approved the amount of Rp 61,964,047,014 from the Government project funds to be part of the Government's equity in the Company. Of this amount, Rp 22,148,161,910 and Rp 256,480,000 were already previously recorded as part of the Capital Stock and Other Paid-in Capital, respectively. The remaining balance of Rp 39,559,405,104 is recorded as part of Other Paid-in Capital under the Stockholder's Equity section in the consolidated balance sheet.

18. CAPITAL STOCK

As of June 30, 2003 and December 31, 2002, 2001 and 2000, the Company is wholly owned by the Government of the Republic of Indonesia.

As of those dates, the Company's authorized capital consists of 800,000 shares of stock with a nominal value of Rp 1,000,000 per share. The subscribed and fully paid capital consists of 200,000 shares of stock with a nominal value totaling Rp 200,000,000,000.

19. APPROPRIATIONS OF RETAINED EARNINGS AND DISTRIBUTIONS OF INCOME

Based on the minutes of the Company's General Stockholder's Meeting held on June 20, 2003, the stockholder ratified the following decisions, among others:

- a. Payment of dividends amounting to Rp 414,583,616,000 (or Rp 2,072,918.08 per share). These dividends are to be paid in monthly installments from September to December 2003 (see Note 12). Up to November 28, 2003, the dividends have been paid by the Company.
- b. Contributions to the Government program for the development of small business enterprises and cooperatives amounting to Rp 11,055,563,000 (see Note 29).
- c. Contributions to community development programs amounting to Rp 8,844,450,000.

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**19. APPROPRIATIONS OF RETAINED EARNINGS AND DISTRIBUTIONS OF INCOME
(continued)**

- d. Appropriation for a general reserve of Rp 18,118,367,205.
- e. Appropriation for an investment reserve of Rp 652,954,313,000.
- f. Approval of bonuses for Directors and Commissioners amounting to Rp 968,000,000, and the distribution of bonuses for employees to be determined by the directors (see Note 22).

Based on the minutes of the Company's General Stockholder's Meeting held on June 17, 2002, the stockholder ratified the following decisions, among others:

- a. Payment of dividends amounting to Rp 158,563,923,000 (or Rp 792,819.62 per share). These dividends were paid on November 22, 2002.
- b. Contributions to the Government program for the development of small business enterprises and cooperatives amounting to Rp 4,756,917,000 (see Note 29).
- c. Contributions to community development programs amounting to Rp 3,171,278,000.
- d. Appropriation for a general reserve of Rp 150,635,728,125.
- e. Approval of bonuses for the year 2001 amounting to Rp 37,037,175,978 (see Note 22).

Based on the minutes of the Company's General Stockholder's Meeting held on June 27, 2001, the stockholder ratified the following decisions, among others:

- a. Payment of dividends amounting to Rp 47,421,882,960 (or Rp 237,109.41 per share). The dividends were paid on July 27, 2001.
- b. Contributions to the Government program for the development of small business enterprises and cooperatives amounting to Rp 1,495,693,677 (see Note 29).
- c. Appropriation for a general reserve of Rp 938,879,285.
- d. Approval of bonuses for the year 2000 amounting to Rp 20,758,954,973 (see Note 22).

Based on the Ministry of State-owned Enterprises Letter No. S-139/M-BUMN/2001 dated December 10, 2001, the Company paid additional dividends to the Government amounting to Rp 50,000,000,000 (or Rp 250,000 per share) from the general reserve on December 13, 2001.

Based on the minutes of the Company's General Stockholder's Meeting held on June 6, 2000, the stockholder ratified the following decisions, among others:

- a. Payment of dividends amounting to Rp 200,147,113,610 (or Rp 1,000,735.57 per share). The dividends were paid on July 5, 2000 and September 5, 2000.
- b. Contributions to the Government program for the development of small business enterprises and cooperatives amounting to Rp 12,008,826,817 (see Note 29).
- c. Appropriation for a general reserve of Rp 160,333,772,869.
- d. Approval of bonuses for the year 1999 amounting to Rp 34,082,749,175 (see Note 22).

The appropriation of retained earnings for a general reserve was established for business development and an investment reserve was established as a reserve for investment in the Grissik-Singapore transmission pipeline.

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20. REVENUES

This account consists of:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year)	2000 (One Year)
Gas distribution	1,466,264,606,607	2,587,015,045,823	2,124,503,439,308	1,575,870,300,551
Gas transmission	261,528,195,099	561,612,368,381	650,647,015,797	601,003,632,995
Sales of LPG	2,316,469,653	4,870,051,418	7,246,412,797	6,467,313,546
Total	1,730,109,271,359	3,153,497,465,622	2,782,396,867,902	2,183,341,247,092
Sales adjustments	(1,338,788,547)	(1,685,800,658)	(2,127,932,258)	(1,553,200,634)
Net	<u>1,728,770,482,812</u>	<u>3,151,811,664,964</u>	<u>2,780,268,935,644</u>	<u>2,181,788,046,458</u>

The sales adjustments pertain to corrections made to customers' invoices upon reconciliation of the gas consumption between the Company and the customers.

Gas distribution consists of natural gas sales to:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year)	2000 (One Year)
Industrial	1,432,990,380,558	2,530,609,039,143	2,076,844,671,137	1,537,213,117,366
Commercial	14,439,597,314	26,320,110,212	20,487,879,396	15,169,054,068
Households	8,288,087,600	10,609,740,851	6,300,162,650	5,003,506,400
Fuel gas filling stations (SPBG)	6,128,084,662	13,868,343,152	16,392,816,261	16,284,433,918
Minimum sales	4,322,253,773	5,475,831,996	4,389,794,115	2,200,188,799
Others	96,202,700	131,980,469	88,115,749	—
Total	<u>1,466,264,606,607</u>	<u>2,587,015,045,823</u>	<u>2,124,503,439,308</u>	<u>1,575,870,300,551</u>

Net sales to the customers which account for sales exceeding 10% of the total consolidated net sales consist of sales to ConocoPhillips (Grissik) Ltd. amounting to Rp 256,051,541,905 or 15%, Rp 419,173,982,678 or 13%, Rp 641,364,410,534 or 23% and Rp 590,188,037,109 or 27% of total consolidated net sales for the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000, respectively.

21. COST OF REVENUES

This account consists of:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year)	2000 (One Year) As Restated (see Note 36)
Natural gas purchases	950,345,078,460	1,743,095,377,452	1,594,865,504,447	1,104,933,154,782
LPG gas				
Beginning balance	70,647,767	56,980,217	80,702,347	69,296,227
Purchases	2,001,980,871	4,348,766,098	6,527,961,226	5,747,739,711
Ending balance	(58,278,531)	(70,647,767)	(56,980,217)	(80,702,347)
Sub-total	2,014,350,107	4,335,098,548	6,551,683,356	5,736,333,591
Total	<u>952,359,428,567</u>	<u>1,747,430,476,000</u>	<u>1,601,417,187,803</u>	<u>1,110,669,488,373</u>

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21. COST OF REVENUES (continued)

Net purchases from suppliers involving purchases in excess of 10% of the total consolidated purchases are for purchases from Pertamina amounting to Rp 774,233,264,690 or 82%, Rp 1,571,839,661,623 or 90%, Rp 1,593,518,543,731 or 100% and Rp 1,104,933,154,782 or 100% of total consolidated purchases for the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000, respectively.

22. OPERATING EXPENSES

This account consists of:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Distribution and transportation				
Depreciation (see Note 10)	124,127,161,024	290,972,380,387	232,128,819,396	231,739,107,414
Repairs and maintenance	36,957,572,257	61,814,981,121	41,758,231,830	26,152,807,999
Salaries, wages and employee benefits (see Note 19)	13,173,044,369	29,043,139,046	22,880,943,232	26,166,273,584
Rent	3,792,324,757	9,663,187,515	8,656,559,179	8,118,498,533
Traveling and transportation	916,505,248	917,268,469	505,959,557	521,245,995
Fuel and chemicals	651,316,410	1,179,981,052	1,113,638,655	727,774,611
Professional fees	498,634,679	625,814,575	205,743,950	252,206,979
Communications	297,145,803	628,247,141	374,339,046	2,300,808,715
Utilities	353,636,884	747,285,349	554,919,439	435,960,238
Tools and spare parts	226,667,628	668,512,680	385,803,116	543,233,130
Office supplies	263,242,755	511,892,568	483,142,506	304,866,735
Representation and entertainment	143,647,071	196,970,696	161,112,433	133,518,129
Training and education	94,801,988	128,839,453	166,350,615	357,454,600
Taxes and license	38,372,138	664,236,379	615,624,758	160,636,682
Insurance	11,935,923	216,913,182	1,167,861,386	1,169,118,658
Small business enterprises and cooperatives costs (see Note 29)	990,000	1,500,000	36,086,000	—
Provision for inventory obsolescence	—	2,734,236,437	589,658,313	—
Others	505,943,834	598,223,838	754,739,319	514,663,317
Total	182,052,942,768	401,313,609,888	312,539,532,730	299,598,175,319

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22. OPERATING EXPENSES (continued)

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
General and administrative				
Salaries, wages and employee benefits (see Note 19)	40,883,621,696	72,643,351,885	54,705,548,680	71,580,461,316
Rent	8,878,896,412	9,482,199,437	7,995,103,688	7,898,870,313
Professional fees	6,542,027,196	10,646,378,085	4,864,857,145	4,970,907,883
Traveling and transportation	4,894,857,394	7,909,835,884	5,894,808,629	6,983,634,425
Depreciation (see Note 10)	3,874,768,119	12,368,745,263	9,171,934,847	5,418,410,737
Representation and entertainment	3,642,539,491	10,798,272,425	6,751,309,932	5,045,072,935
Training and education	3,622,960,172	4,653,970,547	6,345,628,762	5,098,249,576
Insurance (see Notes 10 and 28)	2,267,981,200	20,153,694,620	12,907,229,353	8,477,159,457
Allowance for doubtful accounts (see Note 5)	2,262,831,833	956,906,827	1,022,058,060	2,273,150,585
Repairs and maintenance	1,941,247,886	7,496,389,733	2,903,430,195	4,303,950,972
Utilities	1,673,397,308	3,160,562,729	2,201,643,350	1,570,724,775
Promotion	1,666,671,026	1,508,586,191	1,995,150,654	1,252,362,397
Communications	1,633,530,579	3,213,050,696	2,448,512,656	2,249,694,756
Office supplies	1,254,094,449	3,210,403,340	2,334,492,176	2,537,250,010
Fuels and chemicals	610,473,015	1,035,686,550	797,706,660	653,205,727
Celebration	400,861,520	608,347,659	575,401,423	461,069,742
Taxes and licenses (see Note 26)	396,781,343	1,288,553,424	1,057,980,535	1,106,561,453
PUKK costs (see Note 29)	98,098,380	79,863,555	123,693,630	90,813,926
Amortization of deferred charges	88,170,333	13,256,462	1,307,088,326	25,126,592,568
Tools and spare parts	26,885,449	49,215,250	13,252,000	196,716,897
Others	666,323,386	2,918,273,037	1,891,489,065	2,861,528,682
Total	87,327,018,187	174,195,543,599	127,308,319,766	160,156,389,132
Marketing				
Salaries, wages and employee benefits (see note 19)	3,358,597,960	8,951,557,075	7,471,695,877	8,866,765,403
Depreciation (see Note 10)	1,214,239,866	2,433,068,452	3,418,891,645	1,227,459,956
Rent	950,875,529	1,014,881,740	874,717,939	643,350,369
Repairs and maintenance	197,881,969	430,341,262	436,693,901	347,289,541
Taxes and licenses	150,971,570	173,624,675	168,535,552	100,241,982
Office supplies	168,520,815	344,508,244	292,304,626	175,088,642
Traveling and transportation	115,841,735	130,614,576	109,290,530	71,207,501
Fuels and chemicals	114,299,545	242,490,837	189,532,700	160,152,934
Communications	110,396,558	219,323,688	154,912,013	147,319,183
Promotion	109,676,817	372,126,863	356,481,124	320,942,400
Utilities	82,321,322	162,437,987	120,549,277	142,068,110
Professional fees	70,349,316	188,869,053	335,892,630	329,041,746
Provision for doubtful accounts (see Note 5)	—	—	57,339,218	1,302,507,458
Others	238,575,882	274,392,208	237,103,330	166,704,414
Total	6,882,548,884	14,938,236,660	14,223,940,362	14,000,139,639
Total Operating Expenses	276,262,509,839	590,447,390,147	454,071,792,858	473,754,704,090

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23. INTEREST EXPENSE

This account consists of interest incurred on loans from the Government of the Republic of Indonesia and on the Subsidiary's stockholder's loan, which are funded by:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Asian Development Bank	32,198,045,029	74,437,948,852	98,564,375,517	30,653,133,368
Transasia Pipeline Company Pvt, Ltd,	—	1,992,238,916	—	—
Japan Bank for International Cooperation (Previously Export-Import Bank of Japan)	7,725,668,190	22,262,439,987	88,907,739,115	64,632,973,342
European Investment Bank	2,056,873,893	4,394,540,718	6,124,204,779	6,001,727,835
International Bank for Reconstruction and Development	5,608,710,684	14,371,158,278	24,759,064,349	21,973,847,193
Government of the Republic of Indonesia	—	—	(63,888,989)	1,815,276,182
Total	<u>47,589,297,796</u>	<u>117,458,326,751</u>	<u>218,291,494,771</u>	<u>125,076,957,920</u>

24. GAIN (LOSS) ON FOREIGN EXCHANGE — NET

Gain or loss on foreign exchange mainly results from restatements of assets and liabilities in foreign currencies and difference in exchange on operational transactions denominated in foreign currencies.

25. OTHER CHARGES (INCOME) — NET

In 2002, this account mainly consisted of the gain from the sale of Transgasindo's shares owned by the Company. On November 12, 2002, the Company sold 40% or 274,898 shares of Transgasindo to Transasia Pipeline Company Pvt., Ltd. at a price of US\$ 130,000,000 or equivalent to Rp 1,184,950,000,000. The carrying value of shares sold amounted to Rp 323,095,304,119 and the Company recorded a gain amounting to Rp 825,923,057,013, net of consultants' fees of Rp. 35,931,638,868, under "Other charges (income) — Net" in the consolidated statements of income. The Company has received 85% of the sales proceeds while the remaining 15% was recorded as "Other Receivables" in the consolidated balance sheet as of June 30, 2003. This amount was received by the Company in July 2003 (see Note 6).

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26. INCOME TAXES

Tax expense (benefit) of the Company and Subsidiary are as follows:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Current				
Parent company	153,019,940,200	497,173,392,800	126,361,074,200	23,201,599,600
Subsidiary	—	55,981,625,000	—	—
Sub-total	<u>153,019,940,200</u>	<u>553,155,017,800</u>	<u>126,361,074,200</u>	<u>23,201,599,600</u>
Deferred				
Parent company	(126,504,776)	11,721,692,794	(5,241,993,069)	(1,309,650,030)
Subsidiary	(16,632,488)	22,814,334	—	—
Sub-total	<u>(143,137,264)</u>	<u>11,744,507,128</u>	<u>(5,241,993,069)</u>	<u>(1,309,650,030)</u>
Total	<u>152,876,802,936</u>	<u>564,899,524,928</u>	<u>121,119,081,131</u>	<u>21,891,949,570</u>

Transgasindo, the Subsidiary, did not provide for current tax expense for the six months ended June 30, 2003 as it incurred a tax loss amounting to US\$ 2,706,806 (equivalent to Rp 23,546,505,394) which is available to offset future taxable income for a period of up to 5 (five) years after the year in which the loss was incurred.

Current taxes

The reconciliation between income before tax expense (benefit), as shown in the Statements of Income, and estimated taxable income is as follows:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Income before tax expense (benefit) per consolidated statements of income	581,391,107,615	1,690,328,554,394	433,722,509,559	28,509,820,179
Income before tax expense (benefit) of the Subsidiary	<u>(65,677,969,925)</u>	<u>(65,719,073,680)</u>	—	—
Income before tax expense (benefit) of the Company	<u>515,713,137,690</u>	<u>1,624,609,480,714</u>	<u>433,722,509,559</u>	<u>28,509,820,179</u>
Temporary differences				
Provision for doubtful accounts — net of reversal	1,575,656,645	(33,844,613)	363,255,748	3,575,658,043
Share in net earnings of a Subsidiary	(9,373,247,599)	(134,165,958,116)	—	—
Depreciation	421,682,586	(39,072,309,317)	17,473,310,231	(5,501,933,148)
Provision for inventory obsolescence	—	2,734,236,437	589,658,313	—
Total temporary differences	<u>(7,375,908,368)</u>	<u>(170,537,875,609)</u>	<u>18,426,224,292</u>	<u>(1,926,275,105)</u>

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26. INCOME TAXES (continued)

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Permanent differences				
Taxes and licenses —				
net	3,819,166,500	24,270,467,032	(2,745,198,902)	29,647,160,863
Representation and				
entertainment	3,582,478,492	10,782,252,853	6,995,529,914	5,234,811,413
Other non-deductible				
expenses	1,966,412,173	46,763,335,809	6,380,790,523	43,335,001,571
Interest income subject to				
final tax recorded on a				
net of tax basis	(5,014,241,570)	(27,314,983,266)	(51,971,025,426)	(30,207,639,177)
Sales of gas tanks — net ..	(2,308,918,840)	(730,556,685)	(670,887,061)	(6,447,511,059)
Rental income subject to				
final tax	(286,491,947)	—	(11,326,340)	—
Gain on sale of property,				
plant and equipment	—	145,125,106,993	—	—
Salaries, wages and				
employee benefits	—	4,335,749,143	11,135,297,832	9,222,464,088
Total permanent differences ..	<u>1,758,404,808</u>	<u>203,231,371,879</u>	<u>(30,886,819,460)</u>	<u>50,784,287,699</u>
Estimated taxable income	<u>510,095,634,130</u>	<u>1,657,302,976,984</u>	<u>421,261,914,391</u>	<u>77,367,832,773</u>
Estimated taxable income (annualized)	<u><u>1,020,191,268,260</u></u>			

The current tax expense and the estimated tax refunds are as follows:

	2003 (Six Months)	2002 (One Year)	2001 (One Year)	2000 (One Year) As Restated (see Note 36)
Estimated taxable income (rounded-off)	<u>1,020,191,268,000</u>	<u>1,657,302,976,000</u>	<u>421,261,914,000</u>	<u>77,367,832,000</u>
Current tax expense	<u>153,019,940,200</u>	<u>497,173,392,800</u>	<u>126,361,074,200</u>	<u>23,201,599,600</u>
Prepayments of income taxes				
Article 22	—	3,477,329,269	—	10,920,651
Article 23	10,949,820,720	13,384,959,224	554,075,623	805,067,576
Article 25	74,950,632,000	224,421,836,000	137,089,712,000	90,241,724,000
Transfer of building	—	94,098,062,478	—	—
Total	<u>85,900,452,720</u>	<u>335,382,186,971</u>	<u>137,643,787,623</u>	<u>91,057,712,227</u>
Estimated taxes payable				
Company	67,119,487,480	161,791,205,829	—	—
Subsidiary	—	50,797,707,000	—	—
Total estimated taxes payable	<u>67,119,487,480</u>	<u>212,588,912,829</u>	—	—
Estimated tax refunds				
Current period				
Parent	—	—	(11,282,713,423)	(67,856,112,627)
Subsidiary	(3,437,015,680)	—	—	—
Prior period	—	(11,282,713,423)	(64,489,881,041)	—
Total estimated tax refunds ...	<u>(3,437,015,680)</u>	<u>(11,282,713,423)</u>	<u>(75,772,594,464)</u>	<u>(67,856,112,627)</u>

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26. INCOME TAXES (continued)

The Company will file its 2003 Annual Tax Return (SPT) on a basis consistent with the above tax computation. The estimated taxable income in 2002 conformed with the tax return, filed by the Company to the Tax Office.

Based on the tax decision letter dated April 28, 2003, the Tax Office agreed to pay Rp 10,168,879,210 for the Company's 2001 claim for a tax refund. The difference of Rp 1,113,834,213 between the amount claimed by the Company and the amount refunded by the Tax Office is charged to the 2003 operations as part of Miscellaneous Income — Net under Other Charges (Income) in the 2003 consolidated Statement of Income.

Based on the tax decision letter dated February 7, 2002, the Tax Office agreed to pay Rp 64,489,881,041 for the Company's 2000 claim for a tax refund. The difference of Rp 3,366,231,586 between the amount claimed by the Company and the amount refunded by the Tax Office was charged to the 2001 operations as part of Miscellaneous Income — Net under Other Charges (Income) in the 2001 Statement of Income.

Based on the tax decision letter dated July 26, 2000, the Company was assessed additional tax and penalties in relation to the 1999 corporate income tax of Rp 8,281,128,981 which was recorded as part of Miscellaneous Income — Net under Other Charges (Income) in the 2000 Statement of Income.

Deferred taxes

The details of deferred tax expense (benefit) are as follows:

	<u>2003</u> <u>(Six Months)</u>	<u>2002</u> <u>(One Year)</u> <u>As Restated</u> <u>(see Note 36)</u>	<u>2001</u> <u>(One Year)</u> <u>As Restated</u> <u>(see Note 36)</u>	<u>2000</u> <u>(One Year)</u> <u>As Restated</u> <u>(see Note 36)</u>
Temporary differences at the maximum tax rate of 30%				
<i>Company</i>				
Depreciation	(126,504,776)	11,721,692,794	(5,241,993,069)	(2,374,991,640)
Provision for doubtful accounts	(472,696,994)	10,153,384	(108,976,724)	(1,072,697,413)
Provision for inventory obsolescence	—	(820,270,931)	(176,897,494)	—
Valuation allowance	472,696,994	810,117,547	285,874,218	2,138,039,023
<i>Subsidiary</i>				
Depreciation	(16,632,488)	22,814,334	—	—
Deferred tax expense (benefit)	<u>(143,137,264)</u>	<u>11,744,507,128</u>	<u>(5,241,993,069)</u>	<u>(1,309,650,030)</u>

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26. INCOME TAXES (continued)

The reconciliation between tax expense computed using the prevailing tax rate at 30% based on the accounting income before tax expense (benefit) and the tax expense (benefit) as reported in the consolidated statements of income for the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000 is as follows:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Income before tax expense (benefit) of the Company	515,713,137,690	1,624,609,480,714	433,722,509,559	28,509,820,179
Tax expense (benefit) computed using maximum rate of 30%	154,713,941,307	487,382,844,214	130,116,752,868	8,552,946,054
Tax effect of the Company's permanent difference	527,521,403	60,969,411,269	(9,266,045,955)	15,235,286,077
Valuation allowance	472,696,994	810,117,547	285,874,218	2,138,039,023
Share in net earnings of a Subsidiary	(2,811,974,280)	(40,249,787,435)		
Tax assessment correction	—	—	—	(4,025,571,584)
Progressive tax rate effect	(8,750,000)	(17,500,000)	(17,500,000)	(8,750,000)
Tax expense — Company	152,893,435,424	508,895,085,595	121,119,081,131	21,891,949,570
Tax expense (benefit) — Subsidiary	(16,632,488)	56,004,439,333	—	—
Tax expense per consolidated statements of income	<u>152,876,802,936</u>	<u>564,899,524,928</u>	<u>121,119,081,131</u>	<u>21,891,949,570</u>

The tax effect of significant temporary differences between accounting and tax reporting are as follows:

	2003 (Six Months)	2002 (One Year) As Restated (see Note 36)	2001 (One Year) As Restated (see Note 36)	2000 (One Year) As Restated (see Note 36)
Deferred tax assets				
Allowance for doubtful accounts	2,709,559,357	2,236,862,363	2,247,015,747	2,138,039,023
Allowance for inventory obsolescence	997,168,425	997,168,425	176,897,494	—
Difference in foreign currency translation of the Subsidiary's deferred tax assets	879,445	—	—	—
Property, plant and equipment	—	—	3,280,396,545	—
Allowance for deferred tax assets	<u>(3,706,727,782)</u>	<u>(3,234,030,788)</u>	<u>(2,423,913,241)</u>	<u>(2,138,039,023)</u>
Net	<u>879,445</u>	<u>—</u>	<u>3,280,396,545</u>	<u>—</u>
Deferred tax liabilities				
Property, plant and equipment	<u>(8,320,973,317)</u>	<u>(8,464,110,583)</u>	<u>—</u>	<u>(50,722,601,028)</u>
Deferred tax assets (liabilities) — net	<u>(8,320,093,872)</u>	<u>(8,464,110,583)</u>	<u>3,280,396,545</u>	<u>(50,722,601,028)</u>

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26. INCOME TAXES (continued)

In 2001, the deferred tax liability was reduced by Rp 48,761,004,504, being the tax effect of the reversal of a portion of the temporary difference relating to certain property, plant and equipment due to the revaluation (see Note 10).

Deferred tax assets and liabilities, other than accumulated tax losses, arose from the difference in the methods or basis used for accounting and tax reporting purposes, mainly comprising depreciation on property, plant and equipment, allowance for doubtful accounts and allowance for inventories obsolescence. The difference in the basis of recording of property, plant and equipment is due to the differences in the estimated useful lives of the assets for accounting and tax reporting purposes. The difference in the basis of provision for doubtful accounts and provision for inventory obsolescence are due to the difference in timing of recognition of expenses for accounting and tax reporting purposes.

Based on the review of the adequacy of the valuation allowance at the end of the period, the management is of the opinion that the valuation allowance for deferred tax assets is adequate to cover the possibility that such tax benefits that will not be realized.

27. SIGNIFICANT BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the Company and the Subsidiary grant loans to employees to finance employees' housing. As of June 30, 2003 and December 31, 2002, 2001 and 2000, the balance of loans to employees amounted to Rp 476,333,153, Rp 592,632,779, Rp 983,542,185 and Rp 1,656,301,179, respectively.

28. RETIREMENT AND OTHER EMPLOYEES BENEFITS

The Company provides retirement and other benefits to its active and retired employees, as follows:

a. PT Asuransi Jiwasraya (Persero)

The Company has a defined benefit retirement insurance plan for all its qualified permanent employees, which is covered in a cooperative agreement with PT Asuransi Jiwasraya (Persero). The Company's premium contributions amounted to Rp 1,192,765,000 for the six months ended June 30, 2003 and Rp 9,939,709,672, Rp 10,168,684,979 and Rp 5,601,119,973 for the years ended December 31, 2002, 2001 and 2000, respectively, and are recorded as part of Insurance Expense under General and Administrative Expenses in the consolidated statements of income (see Note 22).

In 2002, the Company fully amortized the balance of the deferred one-time retirement premium as of December 31, 2001 amounting to Rp 8,750,161,918. The unamortized balance of the deferred one-time retirement premium ("Premi Sekaligus") amounting to Rp 8,750,161,918 as of December 31, 2001 and Rp 10,000,185,048 as of December 31, 2000 is presented as part of Deferred Charges under Non-current Assets in the consolidated balance sheets. Amortization amounting to Rp 8,750,161,918, Rp 1,250,023,130 and Rp 1,250,023,130 for the years ended December 31, 2002, 2001 and 2000, respectively, is recorded as part of Insurance Expense under the General and Administrative Expenses in the consolidated statements of income (see Note 22).

b. Yayasan Kesejahteraan Pegawai Perusahaan Umum Gas Negara

The Company also provides additional post retirement health care benefits for its retired employees, as covered in a cooperative agreement with Yayasan Kesejahteraan Pegawai Perusahaan Umum Gas Negara (Yakaga). Contributions to Yakaga amounting to Nil for the six months ended June 30, 2003, Nil in 2002, Rp 2,722,942,395 in 2001 and Rp 1,920,000,000 in 2000 are recorded as part of Insurance Expense under General and Administrative Expenses in the Statements of Income (see Note 22). In 2003, there were no contributions to Yakaga.

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28. RETIREMENT AND OTHER EMPLOYEES' BENEFITS (continued)

The accumulated contributions to Yakaga include Rp 8.7 billion for social, education and additional retirement benefits for the Company's active and retired employees which was appropriated from the Company's earnings for the period 1984 up to 1996, prior to the Company becoming a state-owned company. This contribution was approved by the Board of Commissioners in its Letter No. 83/K/DK/PGN/1999 dated June 30, 1999. As of June 30, 2003, December 31, 2002, 2001 and 2000, the net assets of Yakaga amounted to Rp 12.0 billion, Rp 11.5 billion, Rp 10.4 billion and Rp 9.3 billion, respectively (unaudited).

On June 20, 2000, the Ministry of Manpower issued Decree No. Kep-150/Men/2000 (Decree), regarding the Settlement of Work Dismissal and Determination of Separation, Appreciation and Compensation Payments by Companies. The Decree requires companies to pay their employees termination, appreciation and compensation benefits in case of employment dismissal based on the employees' number of years of service, provided certain conditions set forth in the Decree are met.

On February 25, 2003, Labor Law No. 13 Year 2003 (Law No. 13/2003) was approved by the House of Representatives of the Republic of Indonesia (RI) and the President of RI. On March 25, 2003, the President of RI signed and legalized Law No. 13/2003 which was subsequently published in the State Gazette Year 2003 No. 39. The Government Regulation and Ministry of Manpower Decision on the implementing guidelines of this Law have not been issued.

The management obtained an actuarial calculation as of June 30, 2003 to assess the actuarial liability based on the provisions of the Labor Law. The actuarial calculation was prepared by PT Sienco Aktuarindo Utama, an independent actuary, based on its report dated October 22, 2003, using the "Projected Unit Credit" method which utilized the following assumptions:

Actuarial discount rate	:	10% per annum
Mortality rate	:	Tabel mortalita "The 1958 Commissioners Standard Ordinary Mortality Table".
Wages and salaries increase	:	8% per annum
Retirement age	:	55

Management of the Company is of the opinion that the existing retirement insurance and the Company's policy regarding retirement benefits adequately covers the benefits required under the Kep-150 and Labor Law No. 13/2003. Accordingly, no accrual for such benefits under Kep-150 and Labor law was made for the six months ended June 30, 2003 and the years ended December 31, 2002 and 2001.

In connection with the Employee Secondment Agreement between the Company and Transgasindo, during the secondment period, Transgasindo agreed to continue the participation of the seconded employees in the prevailing defined benefit retirement insurance plan and worker social security program (Jamsostek). Upon the occurrence of a termination of employment relationship, voluntary resignation or retirement of seconded employees for any reason within the secondment period, the Company will be obliged to settle all obligations, including financial liabilities such as payments of severance pay, service entitlements and compensation to and/or in respect of the termination of the employee relationship (see Note 30). The Management of the Subsidiary is of the opinion that the retirement benefits program is adequate to cover the benefits provided for the aforementioned Law.

29. DEVELOPMENT OF SMALL BUSINESS ENTERPRISES AND COOPERATIVES PROGRAM

Under a program established by the Government of the Republic of Indonesia, the management of state-owned enterprises undertake measures to foster the development of small business enterprises and cooperatives ("Pembinaan Usaha Kecil dan Koperasi — PUKK"). The Company allocates approximately 3% of net income each year to fund the development of small business enterprises and cooperatives selected by the Company or determined by the Government of the Republic of Indonesia. The appropriations

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**29. DEVELOPMENT OF SMALL BUSINESS ENTERPRISES AND COOPERATIVES PROGRAM
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amounted to Rp 11,055,563,000 in 2003 from 2002 net income, Rp 4,756,917,000 in 2002 from 2001 net income, Rp 1,495,693,677 in 2001 from 2000 net income (before restatement) and Rp 12,008,826,817 in 2000 from 1999 net income (see Note 19). These appropriations are treated as dividends paid to the Government of the Republic of Indonesia, as the stockholder of the Company. The funds for this program are maintained separately by the Company before being paid out in the form of grants and loans to designated small enterprises and cooperatives. The cost of administering the program is presented as PUKK Costs under the Operating Expenses in the Statements of Income (see Note 22).

30. SIGNIFICANT AGREEMENTS

The Company has the following significant agreements:

a. Gas Purchase Agreements (GPA)

i. Jakarta, Bogor, Cirebon and Medan

The Company has an agreement with Pertamina for the supply of natural gas for Jakarta, Bogor, Cirebon and Medan. The original agreement expired on March 30, 2001.

Based on the latest interim extension letter, the Company and Pertamina mutually agreed on November 16, 2001 to set the gas prices at US\$ 1.82 per mmbtu for Jakarta and Bogor, US\$ 1.00 per mmbtu for Medan and Rp 3,000 per mmbtu for Cirebon from March 31, 2001 up to March 31, 2002; US\$ 1.91 per mmbtu for Jakarta and Bogor, US\$ 2.00 per mmbtu for Medan and Rp 6,000 per mmbtu for Cirebon from April 1, 2002 up to March 31, 2003; and, US\$ 1.96 per mmbtu for Jakarta and Bogor, US\$ 2.40 per mmbtu for Medan and Rp 9,000 per mmbtu for Cirebon from April 1, 2003 up to March 31, 2004. Up to March 28, 2002, the final agreement has not yet been signed. This letter is valid until March 31, 2002 or until the Gas Sales and Purchase Agreement was signed, whichever is earlier. The sale and purchase agreement was signed on April 4, 2002 (see Notes v, vi and vii).

ii. Surabaya

The Company has an agreement with Pertamina for the supply of natural gas for Surabaya, East Java, from gas fields managed by BP/Britoil/Bimantara. Pertamina agreed to supply gas totaling 719.9 bscf with a content of 1000 btu/scf gas at a price of US\$ 2.16 per mmbtu. The gas purchases are secured by a standby letter of credit issued by PT Bank Mandiri (Persero) (see Note 31). This agreement is valid for 25 (twenty five) years starting May 4, 1990 or until the contracted quantity is supplied.

The Company also has another agreement with Pertamina for the gas supply for Surabaya, East Java, taken from the gas field managed by Lapindo Brantas, Inc. This agreement has been amended several times. Based on the latest amendment which was covered in Agreement No. 021.P/3/UT/2002 dated December 30, 2002, the gas price is agreed to be in the range of US\$ 2.16 per mmbtu up to US\$ 2.6 per mmbtu for the period from July 25, 2002 up to December 31, 2007.

iii. West Java

The Company has an agreement with Pertamina for the supply of natural gas to Muara Karang for distribution to West Java, taken from the ONWJ gas field. Pertamina agreed to supply gas totaling 197,541 bbtu at the gas price of US\$ 2.90 per mmbtu. The gas purchases are covered by a standby letter of credit issued by PT Bank Mandiri (Persero) (see Note 31). This agreement is valid up to December 31, 2009 or until the contracted quantity is supplied.

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30. SIGNIFICANT AGREEMENTS (continued)

iv. South Sumatra — West Java

On June 26, 2003, the Company entered into a gas sale and purchase agreement with Pertamina involving gas deliveries from South Sumatra to West Java, with gas deliveries being supplied by Pertamina from its oil and gas operations in South Sumatra. Pertamina agreed to supply gas totaling 1.006 tcf with a content of 1,000 btu/scf gas for 12 years added with supply of gas in line with the field capability based on Pertamina's best efforts starting from May 1, 2006 or such other date as agreed, at the latest by December 31, 2006. This agreement is valid up to December 31, 2025 or until the contracted quantity is delivered.

On the same date, the Company also entered into (i) Mutual Understanding On Gas Infrastructure and Commerce with Pertamina whereby both parties agreed to jointly carry out the development of gas infrastructure and gas markets based on a partnering arrangement for one year time and (ii) Mutual Understanding with Pertamina whereby the Company agreed to provide gas distribution facilities, using Pagardewa — Cilegon pipeline to be built by the Company, to be used by Pertamina to distribute gas from Pertamina gas fields. The daily gas transmission involved amounts to approximately 300 mmscf for 20 years. This mutual understanding is valid for one year.

v. Medan

On April 4, 2002, the Company entered into a Gas Purchase Agreement with Pertamina for natural gas supply in the Medan area, from gas produced from the DO Hulu Rantau oil and gas field. Pertamina agreed to supply gas totaling 43.81 bscf at a gas price of US\$ 1.00 per mmbtu from March 31, 2001 up to March 31, 2002, US\$ 2.00 per mmbtu from April 1, 2002 up to March 31, 2003 and US\$ 2.40 per mmbtu from April 1, 2003 up to March 31, 2004. Thereafter, the gas price will be subject to negotiation between the parties. This agreement is valid until March 31, 2011, or until the contracted quantity has been supplied.

vi. Jakarta and Bogor

On April 4, 2002, the Company entered into a gas sales and purchase agreement with Pertamina for the supply of natural gas in Jakarta and Bogor, taken from oil and gas field at DOH Cirebon developed by Pertamina. Pertamina will supply gas totaling 365.00 bscf with a content of 1,000 btu/scf at US\$ 1.82 per mmbtu starting March 31, 2001 to March 31, 2002, at US\$ 1.91 per mmbtu from April 1, 2002 to March 31, 2003 and at US\$ 1.96 mmbtu from April 1, 2003 to March 31, 2004. Afterwards, from April 1, 2004 until the expiry of the agreement, the price will be based on negotiation. This agreement is valid for 10 years or until the contracted quantity is delivered.

vii. Cirebon

On April 4, 2002, the Company entered into gas sales and purchase agreement with Pertamina for the supply of natural gas in Cirebon, taken from oil and gas field at DOH Cirebon developed by Pertamina. Pertamina will supply gas totaling 14.60 bscf in 1,000 btu/scf at Rp 3,000 per mmbtu starting March 31, 2001 to March 31, 2002, at Rp 6,000 per mmbtu from April 1, 2002 to March 31, 2003 and at Rp 9,000 from April 1, 2003 to March 31, 2004. Afterwards, from April 1, 2004 until the expiry of the agreement, the price will be based on negotiation. This agreement is valid for 10 years or until the contracted quantity is delivered.

The Company is required to buy and pay for the minimum purchase quantity per year for each of the above gas purchase agreements (GPAs). The difference between the purchased quantity and the minimum purchase quantity is recorded as Make Up Gas, which can be realized anytime if the minimum quantity has been taken or at a specified period after the related agreement ends. The

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30. SIGNIFICANT AGREEMENTS (continued)

outstanding balance of the Make Up Gas is presented as part of Advances in the Consolidated Balance Sheets (see Note 8).

viii. Jakarta

On March 22, 2001, the Company entered into a Gas Sales and Purchase, and Transportation Agreement with Pertamina Domestic Supply and Marketing (PDSM), and Pertamina Operation, Exploration and Production — Karangampel (POEP). PDSM purchases gas from POEP to supply gas to the fuel gas filling stations (SPBG) in Jakarta, using the Company's pipeline facilities. The average daily gas purchase is 2-3 mmscf and the tariff paid to the Company is Rp 24 per premium gasoline-liter equivalent. Each month, the cost of the volume of gas used by PDSM is directly deducted from the invoice for gas purchases from POEP (see Note 11). The agreement is valid for 2 (two) years.

ix. Jakarta and Bogor

On November 20, 2001, the Company entered into a Gas Purchase Agreement with PT Energasindo Heksa Karya (EHK) for the supply of gas for Jakarta and Bogor, taken from the natural gas field ex Sukatani, which is being developed by EHK. EHK will supply natural gas to the Company totaling 2,190 bscf with a content of 1000 btu/scf gas at a price of US\$ 2.15 per mmbtu. The agreement is valid for 3 (three) years.

b. Gas Transportation Agreements

i. Trans-Central Sumatra Gas Pipeline System I

On January 29, 1997, the Company entered into an agreement with Pertamina and Asamera (Overseas) Limited, now ConocoPhillips Grissik Ltd. (Conoco), for the gas transportation of Conoco using the Company's Trans-Central Sumatra Gas Pipeline System. The base transportation capacity through the Company's mainline is 310,000 mscf per day and the transportation tariff is US\$ 0.62 per mscf. This agreement is valid for 20 years, and shall be extended for not more than 135 days for the delivery of Make Up Gas.

This agreement was entered into in connection with the Petroleum Transfer and Exchange Agreement (PTEA) dated January 28, 1997 among Pertamina, Conoco and PT Caltex Pacific Indonesia (CPI), whereby Conoco supplies natural gas to CPI using the Company's pipeline facilities. The PTEA is valid for 15 years or at the latest, until December 31, 2013.

On March 9, 2002, in connection with the transfer of CSTU operation to Transgasindo, the Company, Transgasindo and Pertamina entered into a novation agreement for the novation of the Company's rights and obligations under the above-mentioned gas transportation agreement to Transgasindo.

ii. Trans — Central Sumatra Gas Pipeline System II

On December 21, 2000, the Company entered into another agreement with Pertamina and Gulf Resources (Grissik) Ltd. (now ConocoPhillips (Grissik) Ltd.), for the transportation of additional gas for Conoco using the Company's Trans-Central Sumatra Gas Pipeline System. The tier 1 transportation tariff is US\$ 0.62 per mscf and the tier 2 transportation tariff is US\$ 0.44 per mscf which are charged depending on the volume of gas transported. This agreement is valid for 20 years.

This agreement was entered into in connection with the Gas Supply and Exchange Agreement (GSEA) dated December 21, 2000 among Pertamina, Conoco and CPI, whereby Conoco supplies natural gas to CPI using the Company's pipeline facilities. The GSEA is valid for 20 years but subject to extension.

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30. SIGNIFICANT AGREEMENTS (continued)

If Conoco fails to deliver the required quantity under the above GTAs, Conoco shall have a Ship-or-Pay obligation, which is subject to make-up rights, i.e., Gulf receives a credit against certain amounts otherwise paid or owed if the Ship-or-Pay quantity is met. Accordingly, the Company records the related toll fees from this Ship-or-Pay arrangement as liabilities subject to make-up rights (see Note 12).

iii. Grissik — Sakernan — Batam — Singapore Gas Transmission Project

On February 12, 2001, the Company entered into an agreement with Gulf Resources (Grissik) LTD. (now ConocoPhillips Grissik Ltd.), Gulf Resources (South Jambi) LTD., and Santa Fe Energy Resources (Jabung) Limited (the "PSC Operators") for a natural gas transmission project. Under the agreement, the Company will receive gas from the PSC Operators (Operators in charge at the Corridor Block PSC, South Jambi Block PSC and the Jabung Block PSC), and then transport the gas received to the boundary delivery points. This agreement is valid for 20 years.

iv. On April 17, 2002, the Company entered into a memorandum of understanding with Pertamina and Gulf Resources (Grissik) LTD., (now ConocoPhillips Grissik Ltd.), for natural gas transmission project. Under the agreement, the Company will receive gas gradually increasing from 20 mmscfd in 2003 to 50 mmscfd from PSC operators (operator in charge at the corridor Block PSC), then transport the gas received to the boundary delivery points. The gas transmission will begin in August 2003 (at the earliest) or begin on April 1, 2004 (at the latest) for a period of 15 years.

v. Medan Transmission Project

The Company has an agreement with Pertamina for the supply of natural gas for Medan, taken from Pantai Pakam Timur via Wampu Meter Station. The transportation fee charged for the natural gas transferred starting from the Wampu Meter Station to PLN Sicanang is Rp 389 per mmbtu while the transportation fee charged for the natural gas transferred from Pantai Pakam Timur Meter Station to PLN Sicanang is Rp 153 per mmbtu. This agreement will expire once the gas volume transferred has reached the contracted volume.

During a meeting held on December 7, 2001, the Company and Pertamina agreed that the toll fee payable by PLN each month will be offset against the Company's liabilities for gas purchases from Pertamina DO Hulu Rantau (see Note 11).

c. Project Agreement

The Company entered into a Project Agreement with ADB dated June 26, 1995 in connection with the Gas Transmission and Distribution Project, which is funded in part by the ADB, JBIC and EIB, through Loan Agreements with the Government (see Note 15). The Project Agreement sets out the Company's obligations as the executing agent of the Project, which covers the supply and construction of the transmission pipeline between Grissik and Duri, and a spur pipeline from Sakernan to Batam; supply and construction of ancillary and offsite equipment and facilities; consulting, management and financial services, as well as institutional strengthening of the Company and human resources development. The Project Agreement has concurrent terms with the loan agreement with the ADB.

As of June 30, 2003, the Grissik — Duri pipeline has been completed while the construction of the Sakernan — Batam pipeline project is still on-going (see Note 10).

d. Land Use Agreements

The Company has several land use agreements with Pertamina, Conoco and CPI, as the owners of the land used by the Company to construct a gas meter station in connection with the PTEA and GSEA. The agreements are valid for as long as the PTEA and GSEA are in effect.

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30. SIGNIFICANT AGREEMENTS (continued)

On March 9, 2002, the Company and Transgasindo entered into a Borrow and Use of Land Agreement, whereby the Company granted permission to Transgasindo for the use of the plots of land located at the Grissik-Duri Transmission Pipeline route and other land used for supporting facilities of the Grissik-Duri Transmission Pipeline for the purpose of continued gas transmission business activities, without any compensation. The land, except the State Land, will continue to have the status of land acquired and/or owned by the Company until such time as the land title and/or rights is transferred to Transgasindo, or in respect of the State Land, until their borrow and use agreements are transferred to Transgasindo. This agreement is valid for a term of the earlier of 3 (three) years or the execution of the deed of transfer of title and the novation agreement, which can be extended by submission of the application not later than 1 (one) month prior to the expiration of this agreement.

On September 13, 2002, the Company entered into the Amendment of the Borrow and Use of Land Agreement with Transgasindo to also include the land, which land certificates will be or are being applied for by the Company, and State Land, involving approximately 135 hectares. Upon transfer of all titles and/or title certificates of the land (except the State Land), Transgasindo shall pay the Company US\$ 5,200,000 for the land. This will be payable in the form of and by executing and delivering to the Company promissory notes pursuant to the Grissik-Duri Land Promissory Note Agreement. This agreement is valid for a term up to the execution of the deed of transfer of title and the novation agreement.

e. Coordination Agreement

On February 12, 2001, the Company entered into a Coordination Agreement with Power Gas Limited (PG), Singapore for the coordination of the construction, commissioning, operation and maintenance of the Company's pipeline segment and the PG pipeline in connection with the Gas Supply Agreement (GSA) between Pertamina and Gas Supply Pte Limited.

The term of this agreement is concurrent with the GSA or expires at such later date as the parties may agree.

f. Agreement Related To Grissik-Singapore Pipeline Project Construction

a. On November 12, 2002, the Company, Transgasindo and Transasia entered into an Asset Transfer Agreement wherein the Company wishes to construct, sell and deliver additional Duri Compression Facilities for the Grissik-Duri Pipeline and the Grissik-Singapore Pipeline (collectively referred to as Assets) at a price of US\$ 470 million at the transfer date, subject to the terms and conditions and any arrangements entered into by and between the Company and third parties that relate to, and are necessary for, the ownership, operation, maintenance and repair of the Assets. In relation to the transfer of assets, Transgasindo is obliged to remit value added tax at 10% of the value of assets transferred.

The title and all rights to the Assets are retained by the Company to the exclusion of Transgasindo, any creditors of Transgasindo and all other persons whomsoever, until the transfer date. The Grissik-Singapore Pipeline Project was operational on schedule, however the first delivery of gas was delayed until September 9, 2003. Due to the technical reasons, the Additional Duri Compression Facilities Project, which were targeted to be completed by May 2003, was delayed. As of date of this report, the Additional Duri Compression Facilities have not been completed. Management expects that the Grissik-Singapore Assets will be transferred in November 2003. In the event of a delay in the transfer of assets, the Company is obliged to pay liquidated damages of US\$ 12,000 per day, up to a maximum of US\$ 3 million, to Transasia. The Company is not charged penalty on the delay of the transfer of Grissik Duri Compressor because the existing capacity of gas is sufficient to fulfill the requirement based on the transportation gas agreement.

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30. SIGNIFICANT AGREEMENTS (continued)

The purchase price shall be paid in two tranches. The first tranche amounting to US\$ 189 million shall be paid in installments upon satisfaction of the funding conditions confirmed by the Company. The second tranche amounting to US\$ 281 million shall be satisfied by Transgasindo by executing and delivering to the Company a promissory note (Grissik-Singapore Promissory Note).

- b. On November 12, 2002, the Company entered into a Strategic Partnership Agreement (SPA) with Transgasindo, Transasia, Petronas International Corporation Ltd., Conoco Indonesia Holding Ltd., SPC Indo-Pipeline Co., Ltd. and Talisman Transgasindo Ltd. to set forth the terms and conditions which will govern the operation and management of Transgasindo and the relationship of the stockholders.

Each stockholder agreed to make capital contributions or provide stockholder loans in its pro rata portion (based on its then current stockholding) of up to a maximum aggregate amount of US\$ 144 million as committed funding in respect of the Grissik-Singapore Pipeline and to provide up to a maximum aggregate amount of US\$ 15 million of contingent funding, if determined necessary. The committed funding will be made available upon receipt of the funding notice from Transgasindo. The notice shall specify whether such funding shall comprise of an equity contribution or a stockholder loan.

During the term of the SPA, all cash receipts of Transgasindo shall be paid into a general cash flow account and shall be applied in the order of priority as set out in the SPA. In the event that Transgasindo is unable to fulfill any of its payment obligations as set out in the SPA, each stockholder shall provide its pro rata portion (based on its then current stockholding) of up to a maximum aggregate amount of the lesser of US\$ 100 million and the total principal amount for the time being outstanding under the Grissik-Duri Promissory Notes or the Grissik-Singapore Promissory Notes.

- g. **Employee Secondment Agreement**

On March 9, 2002, the Company and Transgasindo entered into an Employees Secondment Agreement for the secondment of certain permanent employees of the Company in the gas transmission sector to Transgasindo for the period from March 9, 2002 up to February 28, 2003. At the expiry of this agreement, the employees shall be offered an option to become permanent employees of Transgasindo or remain as the permanent employees of the Company. On November 12, 2002, both parties entered into the Amended and Restated Employee Secondment Agreement, which extended the period to February 29, 2004. On the same day, the Company also entered into the Transfer of Employees Agreement effective on February 29, 2004 for the transfer of certain seconded employees of the Company and at the same time governed the Employee Secondment Agreement with Transgasindo effective from February 29, 2004 to November 2007 for the re-secondment of employees of the Company during the aforementioned period.

On November 12, 2002, Transgasindo entered into the Investor Secondment Agreement with Transasia. Based on the agreement, Transasia agreed to make available employees to Transgasindo. This agreement is effective from October 14, 2002 to the earlier of October 14, 2007 and the termination of the SPA.

31. COMMITMENTS AND CONTINGENCIES

As of June 30, 2003, the Company had the following commitments and contingencies:

- a. The land covering the area along the 536 km natural gas transmission pipeline from Grissik to Duri is still in the certification process. During the land certification process, there have been disputes with

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31. COMMITMENTS AND CONTINGENCIES (continued)

several inhabitants of the land in Batanghari and Tanjung Jabung used for the Grissik-Duri pipeline, who are claiming additional compensation.

The Company is named as a defendant in Case No. 04/PDT.G/2001/PN.MBLN which was filed by several inhabitants in Batanghari (plaintiff) at the Muara Bulian State Court on March 19, 2001 whereby the claim of the plaintiff was rejected based on the Court Decision dated June 26, 2003. The plaintiff appealed to the Jambi High Court and based on the decision of the Jambi High Court No. 47/Pdt/2001/PT.JBI dated November 27, 2001, the appeal was rejected by the High Court. However, the plaintiff appealed to the Supreme Court. Up to November 28, 2003, there have been no further developments in this case, however management believes that the Company has a strong position.

The Company is also named as a defendant in Case No. 06/PDT.G/2001/PN.KTL which was filed by some inhabitants in Tanjung Jabung on November 15, 2001 at the Kuala Tungkal State Court. Based on the decision of State Court dated April 22, 2002, the plaintiffs' claim was rejected and the plaintiffs appealed to the Jambi High Court. Based on decision No. 31/PDT/2002/PT.JBI dated August 14, 2002, the Jambi High Court affirmed the State Court decision and the plaintiff appealed to the Supreme Court. Up to November 28, 2003, there have been no further developments in this case, however management believes that the Company has a strong position.

Management and its legal counsel believe that the above mentioned cases individually or in the aggregate will not have material adverse effects on the Company's financial condition or result of operations.

- b. On March 27, 2003, JBIC agreed to provide a loan to the Government of the Republic of Indonesia based on Loan Agreement No. IP-51.1 for a total aggregate amount equivalent to JP¥ 49,088,000,000 to assist the Government in financing the development of a gas transmission pipeline from South Sumatra to West Java and a distribution pipeline in West Java. On May 28, 2003, the Company and the Government entered into a Subsidiary Loan Agreement No. SLA-1156/DP3/2003, which provides for the Government's relending of the JBIC loan proceeds not exceeding JP¥ 49,088,000,000 to the Company. Up to November 28, 2003, the Company has not yet drawn funds from this facility.
- c. On September 15, 2000, the Company and the Government entered into a Subsidiary Loan Agreement No. SLA-1139/DP3/2000, which provides for the Government's relending of the EIB loan proceeds not exceeding 70 million Euros to the Company as part of the financing of the Gas Transmission and Distribution Project Phase 2. As of November 28, 2003, the Company has withdrawn US\$ 61.6 million from this facility.
- d. The Company has standby letters of credit (SBLC) facilities with PT Bank Mandiri (Persero) Tbk, which are used to guarantee the payments of the Company's gas purchases for the East Java and West Java areas (see Note 30a). The facilities, which have set annual maximum limits, will expire in 2009 and 2016. Certain time deposits with PT Bank Mandiri (Persero) Tbk, trade receivables and certain landrights and buildings are used as collateral to secure the Company's obligations under the SBLC facilities (see Notes 4, 5 and 10).
- e. The Company has capital expenditure commitments relating to the development and construction of gas transmission and distribution projects, which have been committed under the related contractual agreements (see Notes 15 and 30).
- f. The Company has purchase commitments under the Gas Purchase Agreements (see Note 30).
- g. As of June 30, 2003, the Company has available loan proceeds not yet drawn under the subsidiary loan agreements financed by JBIC, ADB and EIB of US\$ 1,087,192, US\$ 30,127,025 and US\$ 206,948, respectively.

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32. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

As of June 30, 2003, the Company's monetary assets and liabilities denominated in U.S. Dollar are as follows:

Assets			
Cash and cash equivalents	US\$	26,339,583	
Trade receivables — net		41,417,235	
Other receivables		45,353,746	
Advances		8,336,648	
Total Assets			121,447,212
Liabilities			
Trade payables		30,351,582	
Other payables		37,525,570	
Accrued expenses		3,661,400	
Current maturities of long-term loans		23,949,769	
Long-term loans — net of current maturities		258,206,308	
Due to a stockholder of the Subsidiary		26,646,801	
Total Liabilities			380,341,430
Liabilities — net	(US\$)	258,894,218	
Rupiah Equivalent			(2,144,938,596,130)

As of November 28, 2003, the rate of exchange of bank notes published by Bank Indonesia was Rp 8,537 to US\$ 1. If such exchange rate had been used as of June 30, 2003, the Company's net foreign exchange loss would have increased by approximately Rp 65.2 billion.

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33. SEGMENT INFORMATION

The Company and the Subsidiary operate in Indonesia and have three main operating divisions, which are distribution, transmission and other operations. Those divisions form the basis for the primary segment reporting of the Company.

Primary consolidated information based on business segments is as follows:

For the six months ended June 30, 2003

	Distribution	Transmission	Other Operations	Consolidation
REVENUES				
Sales	1,464,925,818,060	261,528,195,099	2,316,469,653	1,728,770,482,812
Segment Expense				
Cost of revenues	(950,345,078,460)	—	(2,014,350,107)	(952,359,428,567)
Salaries and employee benefits	(21,602,480,986)	(19,171,439,300)	(176,736,986)	(40,950,657,272)
Depreciation	(19,959,244,649)	(107,087,125,788)	(58,210,539)	(127,104,580,976)
Repairs and maintenance	(2,829,441,335)	(35,191,535,192)	(93,146,650)	(38,114,123,177)
Other expenses	(16,260,246,515)	(12,857,080,508)	(1,185,460,038)	(30,302,787,061)
Total segment expenses	<u>(1,010,996,491,945)</u>	<u>(174,307,180,788)</u>	<u>(3,527,904,320)</u>	<u>(1,188,831,577,053)</u>
RESULTS				
Segment income	453,929,326,115	87,221,014,311	(1,211,434,667)	539,938,905,759
The Company and Subsidiary's unallocated expenses				39,790,361,353
Income from operations				500,148,544,406
Interest expenses				47,589,297,796
Gain on foreign exchange — net				(118,068,257,464)
Interest income				(5,454,325,150)
Others — net				(5,309,278,391)
Other income — net				(81,242,563,209)
Income before tax expense (benefit)				581,391,107,615
Tax expense (benefit):				
Current				153,019,940,200
Deferred				(143,137,264)
Tax expense — net				152,876,802,936
Income before minority interest				428,514,304,679
Minority interest				(6,314,196,082)
Net Income				<u>422,200,108,597</u>
OTHER INFORMATION				
Segment Assets	953,990,077,720	1,601,417,183,980	7,022,313,433	2,562,429,575,133
Unallocated assets				3,561,982,982,128
Total consolidated assets				6,124,412,557,261
SEGMENT LIABILITIES				
Unallocated liabilities	262,928,575,395	126,468,660,875	49,336,237	389,446,572,507
Total liabilities				3,437,113,153,621
Capital expenditures	<u>20,854,787,195</u>	<u>23,077,796,950</u>	<u>1,186,251,909</u>	<u>45,118,836,054</u>

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33. SEGMENT INFORMATION (continued)

For the year ended December 31, 2002 (As Restated – Note 36)

	Distribution	Transmission	Other Operations	Consolidation
REVENUES				
Sales	2,585,329,245,165	561,612,368,381	4,870,051,418	3,151,811,664,964
Segment expense				
Cost of revenues	(1,743,095,377,452)	—	(4,335,098,548)	(1,747,430,476,000)
Salaries and employee benefits	(56,441,549,057)	(7,924,433,553)	(708,582,346)	(65,074,564,956)
Depreciation	(43,025,405,595)	(257,050,770,290)	(97,619,780)	(300,173,795,665)
Repairs and maintenance	(11,069,880,029)	(53,297,840,111)	(160,982,725)	(64,528,702,865)
Other expenses	(26,529,323,076)	(18,405,400,951)	(1,343,047,389)	(46,277,771,416)
Total segment expenses	(1,880,161,535,209)	(336,678,444,905)	(6,645,330,788)	(2,223,485,310,902)
RESULTS				
Segment income	705,167,709,956	224,933,923,476	(1,775,279,370)	928,326,354,062
The Company and Subsidiary's unallocated expenses				114,392,555,245
Income from operations				813,933,798,817
Interest expense				117,458,326,751
Gain on foreign exchange — net				(159,459,495,425)
Interest income				(27,965,775,581)
Others — net				(806,427,811,322)
Other income — net				876,394,755,577
Income before tax expense (benefit)				1,690,328,554,394
Tax expense (benefit):				
Current				553,155,017,800
Deferred				11,744,507,128
Tax expense — net				564,899,524,928
Income before minority interest				1,125,429,029,466
Minority interest				(9,714,634,347)
Net Income				1,115,714,395,119
OTHER INFORMATION				
Segment Assets	890,598,446,151	2,076,100,615,649	7,001,109,584	2,973,700,171,384
Unallocated assets				2,796,388,218,715
Total consolidated assets				5,770,088,390,099
SEGMENT LIABILITIES	270,953,633,685	79,151,817,868	41,961,880	350,147,413,433
Unallocated liabilities				2,808,646,814,057
Total liabilities				3,158,794,227,490
Capital expenditures	27,626,900,722	236,961,098,809	91,552,500	264,679,552,031

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33. SEGMENT INFORMATION (continued)

For the year ended December 31, 2001 (As Restated – Note 36)

	Distribution	Transmission	Other Operations	Consolidation
REVENUES				
Sales	2,122,375,507,050	650,647,015,797	7,246,412,797	2,780,268,935,644
Segment expense				
Cost of revenues	(1,594,865,504,447)	—	(6,551,683,356)	(1,601,417,187,803)
Salaries and employee benefits	(45,019,869,314)	(4,991,238,860)	(342,344,120)	(50,353,452,294)
Depreciation	(43,276,770,693)	(197,566,056,218)	(1,065,598,532)	(241,908,425,443)
Repairs and maintenance	(8,600,492,830)	(34,700,857,167)	(174,678,637)	(43,476,028,634)
Other expenses	(18,962,742,174)	(14,039,299,574)	(1,379,538,855)	(34,381,580,603)
Total segment expenses	(1,710,725,379,458)	(251,297,451,819)	(9,513,843,500)	(1,971,536,674,777)
RESULTS				
Segment income	411,650,127,592	399,349,563,978	(2,267,430,703)	808,732,260,867
Unallocated expenses				83,952,305,884
Income from operations				724,779,954,983
Interest expense				218,291,494,771
Loss on foreign exchange — net				132,788,205,512
Interest income				(51,971,025,425)
Others — net				(8,051,229,434)
Other charges — net				291,057,445,424
Income before tax expense (benefit)				433,722,509,559
Tax expense (benefit):				
Current year				126,361,074,200
Deferred				(5,241,993,069)
Tax expense — net				121,119,081,131
Net Income				312,603,428,428
OTHER INFORMATION				
Segment assets	812,772,962,412	1,968,245,614,542	7,605,569,386	2,788,624,146,340
Unallocated assets				1,525,551,242,532
Total consolidated assets				4,314,175,388,872
SEGMENT LIABILITIES	169,939,399,093	1,955,679,313	88,888,296	171,983,966,702
Unallocated liabilities				2,681,519,119,142
Total liabilities				2,853,503,085,844
Capital expenditures	33,562,921,249	20,500,295,054	—	54,063,216,303

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33. SEGMENT INFORMATION (continued)

For the year ended December 31, 2000 (As Restated – Note 36)

	Distribution	Transmission	Other Operations	Consolidation
REVENUES				
Sales	1,574,317,099,917	601,003,632,995	6,467,313,546	2,181,788,046,458
Segment expense				
Cost of revenues	(1,104,933,154,782)	—	(5,736,333,591)	(1,110,669,488,373)
Salaries and employee benefits	(52,933,168,787)	(3,865,268,637)	(508,610,082)	(57,307,047,506)
Depreciation	(36,324,749,376)	(199,086,552,203)	(180,692,506)	(235,591,994,085)
Repairs and maintenance	(6,423,256,146)	(21,566,369,475)	(139,888,310)	(28,129,513,931)
Other expenses	(15,993,835,246)	(15,762,789,478)	(1,142,688,085)	(32,899,312,809)
Total segment expenses	(1,216,608,164,337)	(240,280,979,793)	(7,708,212,574)	(1,464,597,356,704)
RESULTS				
Segment income	357,708,935,580	360,722,653,202	(1,240,899,028)	717,190,689,754
Unallocated expenses				119,826,835,759
Income from operations				597,363,853,995
Loss on foreign exchange — net				475,666,573,599
Interest expense				125,076,957,920
Interest income				(30,207,637,177)
Others — net				(1,681,860,526)
Other charges — net				568,854,033,816
Income before tax expense (benefit) ...				28,509,820,179
Tax expense (benefit):				
Current				23,201,599,600
Deferred				(1,309,650,030)
Tax expense — net				21,891,949,570
Net Income				6,617,870,609
OTHER INFORMATION				
Segment assets	788,346,042,283	1,402,480,959,105	7,204,265,478	2,198,031,266,866
Unallocated assets				1,136,276,578,847
Total consolidated assets				3,334,307,845,713
SEGMENT LIABILITIES	220,072,099,177	8,623,406,515	22,616,870	228,718,122,562
Unallocated liabilities				2,555,887,177,678
Total liabilities				2,784,605,300,240
Capital expenditures	57,028,048,367	25,718,015,834	166,180,818	82,912,245,019

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33. SEGMENT INFORMATION (continued)

Secondary consolidated information based on business segment is as follows:

As of June 30, 2003 and for the six months then ended

Description	Revenues	Carrying Value of Segment Assets	Additions to Property, Plant And Equipment
1. Head Office	—	—	1,128,643,999,742
2. Medan	110,588,268,488	90,659,216,233	2,095,278,492
3. Jakarta	764,451,077,962	463,737,309,735	6,101,929,011
4. Bogor	122,965,213,667	82,935,207,698	1,306,685,008
5. Cirebon	7,978,875,450	21,769,131,104	64,536,594
6. Surabaya	466,735,505,340	301,911,526,382	12,472,609,999
7. Jambi	256,051,541,905	1,601,417,183,981	23,077,796,950
Total	1,728,770,482,812	2,562,429,575,133	1,173,762,835,796

As of December 31, 2002 and for the year then ended (As Restated – Note 36)

Description	Revenues	Carrying Value of Segment Assets	Additions to Property, Plant And Equipment
1. Head Office	—	—	1,745,033,593,911
2. Medan	194,334,292,473	86,564,522,480	3,324,909,023
3. Jakarta	1,394,424,627,529	401,771,514,848	7,708,377,437
4. Bogor	201,497,316,147	64,573,787,089	3,346,252,511
5. Cirebon	14,286,759,265	18,925,058,783	4,209,299,116
6. Surabaya	799,713,470,615	325,764,672,535	9,129,615,135
7. Jambi	547,555,198,935	2,076,100,615,649	236,961,098,809
Total	3,151,811,664,964	2,973,700,171,384	2,009,713,145,942

As of December 31, 2001 and for the year then ended (As Restated – Note 36)

Description	Revenues	Carrying Value of Segment Assets	Additions to Property, Plant And Equipment
1. Head Office	—	—	48,400,374,293
2. Medan	115,729,760,740	67,115,358,447	5,489,751,391
3. Jakarta	1,190,309,937,216	353,161,570,702	8,652,841,796
4. Bogor	161,523,672,522	59,073,495,596	6,463,424,767
5. Cirebon	14,252,519,740	17,230,698,077	3,863,566,046
6. Surabaya	657,088,634,893	323,797,408,976	9,093,337,249
7. Jambi	641,364,410,533	1,968,245,614,542	20,500,295,054
Total	2,780,268,935,644	2,788,624,146,340	102,463,590,596

As of December 31, 2000 and for the year then ended (As Restated – Note 36)

Description	Revenues	Carrying Value of Segment Assets	Additions to Property, Plant And Equipment
1. Head Office	—	—	43,071,920,589
2. Medan	66,876,001,727	52,850,283,818	3,993,527,708
3. Jakarta	930,671,592,722	343,451,923,594	30,019,285,709
4. Bogor	112,013,251,752	46,076,465,982	11,635,187,987
5. Cirebon	10,827,370,860	14,420,582,918	3,470,939,744
6. Surabaya	471,211,792,288	338,751,051,449	8,075,288,037
7. Jambi	590,188,037,109	1,402,480,959,105	25,718,015,834
Total	2,181,788,046,458	2,198,031,266,866	125,984,165,608

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34. ECONOMIC ENVIRONMENT

Indonesia continues to experience economic conditions mainly resulting from general price increases of commodities and services, and reduced economic activities. The Indonesian economy remains affected by the uncertainties in the social and political sectors, the recapitalization of the banks and the restructuring of non-performing corporate debts.

The Company is mainly affected by volatility in exchange rates because significant portions of its transactions are in US Dollar currency (see Note 32). The Company will continue its business strategy that is mainly aimed at further improving its financial condition and consolidating its operations in order to become a world-class gas transmission and distribution company.

Resolution of the unstable economic conditions is dependent on the fiscal, monetary and other measures that are being implemented and will be undertaken by the Indonesian Government; actions which are beyond the Company's control, to achieve economic recovery. It is not possible to determine the future effects a continuation of the current economic conditions may have on the Company's liquidity and earnings, including the effect on transactions with the Company's stockholders, customers and suppliers.

35. SUBSEQUENT EVENTS

The significant events subsequent to June 30, 2003 are as follows:

- a. Based on the Decision Letter of the Board of the Directors No. 100K/78231/UT/2003 dated July 9, 2003 regarding the 2002 bonus payments, the Board of Directors determined the basis for computing the 2002 bonus. The bonus paid in advance, received by the employees at the end of 2002, will be deducted from the final bonus payment. (see Note 8).
- b. On July 19, 2003, the Company and Lapindo Brantas, Inc, (Lapindo) signed a Principles Of Natural Gas Sales And Purchase Agreement for Wunut Field (PPJBG) whereby Lapindo agreed to supply gas totaling 50 mmscfd/day starting July 19, 2003 up to December 31, 2004 and totaling 80 mmscfd, 80 mmscfd, 60 mmscfd and 40 mmscfd in 2004, 2005, 2006 and 2007, respectively at gas prices ranging from US\$ 2.46/mmbtu up to US\$ 2.60/ mmbtu. This PPJBG, which is valid up to December 31, 2007 or until the Gas Sales And Purchase Agreement is effective, whichever is earlier, also regulates minimum purchases to be taken by the Company each year.
- c. On July 24, 2003, the Company established PGN Euro Finance 2003 Limited (PGNEF), Mauritius, a wholly owned subsidiary, in connection with the issuance of Guaranteed Notes. The sole purpose of the Subsidiary is to issue debt securities and obtain loans to finance the operations of the Company.
- d. On July 28, 2003, PGNEF conducted an offering of Guaranteed Notes with a fixed interest rate on the international market. Proceeds from the issuance of the Guaranteed Notes will be lent to the Company to finance the development of gas transmission projects, additional working capital and other general corporate purposes. On September 8, 2003, PGNEF issued US\$ 150,000,000 Guaranteed Notes Due 2013 with interest at the rate of 7.5% per annum and an issue price of 98.669%. The proceeds, which amounted to US\$ 145,353,500, were received by the Company on September 11, 2003.
- e. On August 15, 2003 as amended on August 26, 2003, the Company entered into a term sheet with Ellipse Energy Jatirarangon Wahana Ltd. (EEJW) for the supply of gas taken from Jatirarangon Block, whereby EEJW is the PSC operator and has the right to market natural gas from the Block. The quantity to be supplied per year is 3.65 bcf at a fixed price of US\$ 2.55 per mmbtu for 10 years. This term sheet is valid for 6 months or until the gas sales and purchase agreement is signed or until terminated based on mutual agreement among the parties, whichever is earlier. As a payment guarantee, the Company will provide a standby letter of credit with a value of 80 times the daily contracted gas purchase quantity times the contract price.

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35. SUBSEQUENT EVENTS (continued)

- f. Based on the Decision Letter of the Ministry of State-owned Enterprises No. KEP-281/M-MBU/2003 dated October 15, 2003, regarding the removal and election of members of the Company's commissioners, and Notarial Deed No. 51, as notarized by Aulia Taufani S.H., dated September 11, 2003, the members of the Company's board of commissioners are as follows:
- | | |
|--------------------------------|--|
| DR. Sumarno Surono | - Chairman of the Board of Commissioners |
| Ir. Bemby Uripto | - Commissioner |
| Ir. Pudja Sunasa | - Commissioner |
| DR. Ir. Sahala Lumban Gaol | - Commissioner |
| DR. Ir. Nenny Miryani Saptadji | - Independent Commissioner |
- g. Based on Loan Agreement No. 4712-Ind dated October 1, 2003, the International Bank for Reconstruction and Development agreed to lend to the Government of the Republic of Indonesia (Government) the amount of US\$ 141 million to finance a project to be carried out by the Company and PT Perusahaan Listrik Negara (Persero) (PLN). The Government shall relend the loan proceeds to the Company and PLN via two-step loan. This project is expected to be completed on June 30, 2008. The Project to be carried out by the Company relates to preparation of a rationalized gas pricing policy, corporate restructuring of the Company, preparation for an initial public offering for a share of the Company's distribution activities and preparation for the involvement of a strategic partner in the Company's transmission operations. On the same date, the Company entered into a Project agreement with the International Bank for Reconstruction and Development in connection with the commitment to execute the above project. Up to November 28, 2003, the related Subsidiary Loan Agreement has not yet been signed.
- h. In November 2003, the Company plans to conduct an Initial Public Offering of its shares which will be listed on the Jakarta and Surabaya Stock Exchanges and will be offered in the domestic and international markets, whereby the proceeds after deducting issuance costs will be used principally to fund a part of project development costs. The Initial Public Offering also is expected to include a Stock Allocation Plan consisting of a bonus share grant and a discounted share purchase plan.
- i. At a meeting on November 3, 2003, the stockholder approved the following:
1. Decrease in the par value of the "Dwiwarna" Series A share and Series B shares from Rp 1,000,000 per share to Rp 500 per share.
 2. Increase in the Company's capital stock from Rp 800,000,000,000 to Rp 7,000,000,000,000.
 3. Increase in the subscribed and paid-up capital of the Republic of Indonesia in the Company from Rp 200,000,000,000, consisting of 200,000 shares to Rp 1,750,000,000,000 consisting of 3,500,000,000 shares divided into 1 "Dwiwarna" Series A share and 3,499,999,999 Series B shares.
Increase in the subscribed and paid-up capital of Rp 1,550,000,000 arising from:
 - a. Capitalization of Government project funds amounting to Rp 57,466,640,246, based on Government Regulation No. 9, year 2001, dated February 19, 2001 and Government Regulation No. 23 year 2002, dated May 6, 2002.
 - b. Capitalization of revaluation increment of property, plant and equipment amounting to Rp 556,739,745,849.
 - c. Capitalization of portion of retained earnings amounting to Rp 935,793,613,905
 4. Change in the Company's status from a private company to a public company.

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35. SUBSEQUENT EVENTS (continued)

5. Sale of the Company's shares to the public through a Public Offering in the capital markets with details as follows:
 - a. new shares consisting of 820,987,000 Series B shares
 - b. shares owned by the Republic of Indonesia consisting of up to 864,198,000 Series B shares. The conduct of the sale of the shares owned by the Republic of Indonesia will be determined in a General Stockholder's Meeting which will be held before the Public Offering and after the issuance of a Government Regulation.
6. Resolution on the stock ownership program for the Company's employees through the Employees Stock Allocation (ESA), of 4% of the Company's subscribed and paid-up capital after the Public Offering, to be implemented in three ways as follows:
 - a. Granting of bonus shares at twice the employee's take-home pay and subject to a lock-up for twelve months, all of which will be at the Company's expense.
 - b. Purchase of shares, through the use of the 2004 advances for employees' bonus, at thrice the employees' take-home pay with an 18% discount to be shouldered by the Company and subject to a lock-up for twelve months.
 - c. Purchase for cash of the fixed stock allocation with an 18% discount to be shouldered by the Company and subject to a lock-up for six months.
7. Resolution on the status of the 2003 Government project funds amounting to Rp 136,200,679,000. Such funds will be approved to become additional equity of the Republic of Indonesia in the Company and converted to Series B shares at the par value.
8. Plan for the issuance of new Series B shares in connection with the conversion of the Government project funds, which were received by the Company for the years 1999/2000, 2000 and 2001, amounting to Rp 28,471,652,858 to become additional equity of the Republic of Indonesia in the Company and converted to Series B shares at the par value.

36. RESTATEMENT OF THE PRIOR YEARS' FINANCIAL STATEMENTS

The 2002 financial statements were restated for the following adjustments and reclassifications:

- a. Elimination of the difference arising from transactions among entities under common control of Rp 145,125,106,993 against the property, plant and equipment revaluation increment in Transgasindo. The related depreciation expense in 2002 of Rp 14,613,292,024 was reversed. Due to the adjustment of the depreciation expense, the minority interest decreased by Rp 5,881,850,040.
- b. Reinstatement of a loan payable previously written-off totaling Rp 2,999,214,822.
- c. Additional provisions for inventory obsolescence of Rp 2,347,440,208.
- d. Reversal of depreciation expense for assets on a standby basis of Rp 8,645,257,446.
- e. Reduction of gain on sale of investments (recognized under "Other charges (income)" by Rp 70,937,180,920 and an increase in the foreign exchange gain by Rp 22,739,876,801 relating to the sale of an ownership interest in the Subsidiary to Transasia.
- f. Valuation allowance was provided for the deferred tax effect relating to the allowance for doubtful accounts and inventory obsolescence.
- g. Linepack of Rp 20,395,781,261 has been reclassified as part of Other Payables instead of Accrued Expenses.

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PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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36. RESTATEMENT OF THE PRIOR YEARS' FINANCIAL STATEMENTS (continued)

h. Interest income has been presented net of the related final tax amounting to Rp 6,797,156,563.

Accordingly, the significant effects of the above restatements in the 2002 consolidated financial statements are as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Trade receivables — net	391,422,655,121	389,115,477,933
Inventories	46,215,515,269	43,868,075,061
Property, plant and equipment	4,069,299,279,358	3,947,432,721,833
Total assets	5,896,609,565,018	5,770,088,390,099
Trade payables	268,924,011,595	266,616,834,410
Other payables	419,643,729,754	440,093,597,987
Accrued expenses	60,084,418,281	41,002,367,426
Deferred tax liability-net	5,535,766,240	8,464,110,583
Long-term loans — net of current Maturities	1,769,604,905,946	1,772,604,120,768
Minority interest	328,646,088,427	334,527,648,467
Total stockholder's equity	2,385,685,795,605	2,248,294,861,284
Revenues	3,153,512,037,868	3,151,811,664,964
Cost of revenues	1,748,923,057,350	1,747,430,476,000
Operating expenses	611,179,494,732	590,447,390,147
Income from operations	793,409,485,786	813,933,798,817
Gain on foreign exchange — net	136,719,618,624	159,459,495,425
Interest expense	(116,090,509,347)	(117,458,326,751)
Interest income	34,762,932,144	27,965,775,581
Miscellaneous expense (income) — net	873,179,964,252	806,427,811,322
Tax expense — deferred	(11,240,076,027)	(11,744,507,128)
Minority interest	(52,030,088,427)	9,714,634,347
Net income	1,105,556,309,025	1,115,714,395,119

The 2001 financial statements were restated to take into account the:

- a. Valuation allowance for the deferred tax effect arising in relation to the allowance for doubtful accounts and inventory obsolescence.
- b. Difference between the amount claimed by the Company and the amount refunded by the Tax office has been reclassified as part of other charges (income) — miscellaneous, instead of as operating expenses

Accordingly, the significant effects of the above restatements in the 2001 financial statements are as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Deferred tax assets	5,704,309,786	3,280,396,545
Total assets	4,316,599,302,113	4,314,175,388,872
Total stockholder's equity	1,416,973,808,270	1,414,549,895,028
Operating expenses	459,314,496,255	454,071,792,858
Income from operations	719,537,251,586	724,779,954,983
Interest expense	(210,997,176,902)	218,291,494,771
Tax expenses (benefit) — deferred	(6,080,857,154)	5,241,993,069
Net income	317,127,846,125	312,603,428,428

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PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
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36. RESTATEMENT OF THE PRIOR YEARS' FINANCIAL STATEMENTS (continued)

The 2000 financial statements were restated due to the following adjustments and reclassifications:

- a. Effective January 1, 2001, the Company changed its accounting policy for income tax from the tax liability method to the deferred tax method based on PSAK No. 46.
- b. Trade Receivables have been reduced by Rp 5,886,300,496 for the overstatement of the related foreign exchange gain, by Rp 3,409,276,910 for the net-off against trade payables and by Rp 1,843,299,555 for the increase in allowance for doubtful accounts.
- c. The net-off of Advances on take-or-pay by Rp 23,188,887,425 against trade payables has been reversed.
- d. Operating expenses have been increased by Rp 34,082,749,175 for the expenses pertaining to bonuses, gratuity (tantiem) and management expenses, which were directly charged to Unappropriated Retained Earnings in 2000.
- e. Prepaid tax amounting to Rp 67,856,112,627 has been presented as Estimated Tax Refunds instead of Prepaid Tax.
- f. Prepaid tax Article 25 and the related tax payable amounting to Rp 3,106,107,000 has not been offset.
- g. Value added tax penalty amounting to Rp 12,596,683,549 has been presented as part of Taxes Payable instead of Accrued Expenses.
- h. Accrued interest amounting to Rp 25,670,414,096 has been presented as part of Accrued Expenses instead of as Current Maturities of Long-term Loans.
- i. Liabilities for accrued expenses amounting to Rp 3,426,627,798 have been presented as part of Accrued Expenses instead of Other Payables.
- j. Payable to Nova Gas International Ltd. (currently known as Transcanada Pipelines Ltd.) amounting to Rp 11,834,096,564 has been presented as part of Other Payables instead of Long-term Liabilities.
- k. Interest income has been presented net of the related final tax amounting to Rp 5,357,027,720.

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PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2003 And December 31, 2002, 2001 and 2000
(Expressed in Rupiah Unless Otherwise Stated)

36. RESTATEMENT OF THE PRIOR YEARS' FINANCIAL STATEMENTS (continued)

Accordingly, the significant effects of the above restatements in the 2000 financial statements are as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Trade receivables	374,753,181,204	363,821,933,955
Advances	34,813,632,807	56,989,243,458
Prepaid tax and expenses	66,213,406,564	1,463,400,937
Estimated tax refunds	—	67,856,112,627
Total assets	3,318,944,098,537	3,334,307,845,713
Trade payables	194,102,593,137	215,855,298,039
Other payables	11,329,825,256	12,790,352,022
Accrued expenses	17,282,491,145	41,700,212,933
Taxes payables	5,269,410,341	20,972,200,890
Current maturities of long-term loans	233,504,250,490	207,833,836,394
Deferred tax liability-net	—	50,722,601,028
Long-term loans — net of current maturities	2,246,564,895,498	2,234,730,798,934
Total stockholder's equity	531,499,913,476	470,311,826,279
Cost of revenues	1,109,584,025,184	1,110,669,488,373
Operating expenses	437,795,483,104	473,754,704,090
Income from operations	634,408,538,170	597,363,853,995
Interest expense	124,106,536,477	125,076,957,920
Interest income	35,564,664,897	30,207,637,177
Loss on foreign exchange — net	469,987,902,815	475,666,573,599
Miscellaneous expense (income) — net	2,820,708,252	(1,681,860,526)
Tax benefit — Deferred	—	1,309,650,030
Net income	49,856,455,923	6,617,870,609

37. REISSUANCE OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has reissued its consolidated financial statements for the six months ended June 30, 2003 and for the years ended December 31, 2002, 2001 and 2000. These financial statements have been audited by Prasetio, Sarwoko & Sandjaja, Public Accountants, with Independent Auditors' Report No. RPC-1308/02 dated October 22, 2003. In order to comply with Article 64 of Capital Market Law No. 8 Year 1995 on the submission of registration statement for Initial Public Offering, the aforementioned consolidated financial statements have been reissued with changes as well as additional disclosures in Note 5, 6, 10, 17, 25, 30, 35 and 37 to the consolidated financial statements.

**PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

June 30, 2002 and 2003

(Expressed in Rupiah)

	June 30, 2002 (Unaudited)	June 30, 2003 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	460,268,064,400	287,030,201,275
Short-term investment — net	203,480,000,000	22,350,000,000
Trade receivables — net	381,983,185,776	447,103,273,856
Other receivables	11,610,058,254	382,683,841,932
Inventories — net	48,803,978,618	42,781,166,641
Advances	55,467,008,250	84,227,957,045
Prepaid tax and expenses	390,118,690,260	190,201,978,642
Total Current Assets	1,551,730,985,558	1,456,378,419,391
NON-CURRENT ASSETS		
Property, plant and equipment		
Carrying value	3,174,903,909,476	5,207,352,972,998
Accumulated depreciation	(300,802,875,688)	(545,054,164,922)
Net book value	2,874,101,033,788	4,662,298,808,076
Estimated tax refunds	11,282,713,423	3,437,015,680
Deferred charges — net	8,964,828,584	1,821,980,961
Others	2,237,430,025	476,333,153
Total Non-Current Assets	2,896,586,005,820	4,668,034,137,870
TOTAL ASSETS	4,448,316,991,378	6,124,412,557,261

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)
June 30, 2002 and 2003
(Expressed in Rupiah)

	June 30, 2002 (Unaudited)	June 30, 2003 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade payables	256,677,498,444	252,704,733,122
Other payables	196,923,327,777	781,288,206,782
Accrued expenses	30,134,817,417	40,713,543,419
Taxes payable	399,298,131,105	103,481,956,483
Current maturities of long-term loans	183,240,231,776	229,871,888,179
Total Current Liabilities	1,066,274,006,519	1,408,060,327,985
NON-CURRENT LIABILITIES		
Deferred tax liability — net	8,354,197,670	8,320,093,872
Long-term loans — net of current maturities	1,784,669,723,499	2,189,410,549,701
Due to a Stockholder of the Subsidiary	—	220,768,754,570
Total Non-Current Liabilities	1,793,023,921,169	2,418,499,398,143
MINORITY INTEREST IN EQUITY OF THE SUBSIDIARY	546,024,133	213,194,968,987
GOVERNMENT PROJECT FUNDS	28,471,652,858	36,909,740,265
STOCKHOLDERS' EQUITY		
Capital stock — Rp 1,000,000 par value per share		
Authorized — 800,000 shares		
Subscribed and fully paid — 200,000 shares	200,000,000,000	200,000,000,000
Other paid-in capital	57,466,640,246	57,466,640,246
Unrealized gain from increase in market value of securities held available for sale	150,000,000	2,350,000,000
Revaluation increment of property, plant and equipment	556,739,745,849	556,739,745,849
Difference in foreign currency translation	—	(113,060,662,245)
Difference arising from transactions resulting in changes in the equity of a Subsidiary	—	(76,427,556,755)
Retained earnings		
Appropriated	317,249,080,044	1,054,034,265,168
Unappropriated	428,395,920,560	366,645,689,618
Total Stockholder' Equity	1,560,001,386,699	2,047,748,121,881
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	4,448,316,991,378	6,124,412,557,261

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Six Months Ended June 30, 2002 and 2003
(Expressed in Rupiah)

	2002	2003
	(Unaudited)	(Audited)
REVENUES	1,574,430,659,259	1,728,770,482,812
COST OF REVENUES	873,128,777,932	952,359,428,567
GROSS PROFIT	<u>701,301,881,327</u>	<u>776,411,054,245</u>
OPERATING EXPENSES		
Distribution and transportation	178,747,461,748	182,052,942,768
General and administrative	67,457,453,255	87,327,018,187
Marketing	6,459,074,250	6,882,548,884
Total Operating Expenses	<u>252,663,989,253</u>	<u>276,262,509,839</u>
INCOME FROM OPERATIONS	<u>448,637,892,074</u>	<u>500,148,544,406</u>
OTHER CHARGES (INCOME)		
Interest expense	58,412,486,235	47,589,297,796
Gain on foreign exchange — net	(207,608,905,644)	(118,068,257,464)
Interest income	(16,197,518,380)	(5,454,325,150)
Miscellaneous — net	2,584,919,802	(5,309,278,391)
Other Income — Net	<u>(162,809,017,987)</u>	<u>(81,242,563,209)</u>
INCOME BEFORE TAX EXPENSE (BENEFIT)	611,446,910,061	581,391,107,615
TAX EXPENSE (BENEFIT)		
Current	170,895,371,150	153,019,940,200
Deferred	11,634,594,217	(143,137,264)
Tax Expense — Net	<u>182,529,965,367</u>	<u>152,876,802,936</u>
INCOME BEFORE MINORITY INTEREST	<u>428,916,944,694</u>	<u>428,514,304,679</u>
MINORITY INTEREST	(521,024,134)	(6,314,196,082)
NET INCOME	<u>428,395,920,560</u>	<u>422,200,108,597</u>
EARNINGS PER SHARE	<u>2,141,980</u>	<u>2,111,001</u>

PT PERUSAHAAN GAS NEGARA (PERSERO) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2002 and 2003
(Expressed in Rupiah)

	2002	2003
	(Unaudited)	(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,531,822,783,522	1,623,955,322,809
Payments to suppliers	(789,491,895,150)	(901,938,052,150)
Payment for income taxes — net of tax restitution	(346,569,803,116)	(310,334,695,443)
Payment for operating expenses and other operating activities ...	(76,860,349,827)	(106,235,402,329)
Payment for interest expense	(64,279,338,611)	(53,668,904,257)
Payments to employees	(37,748,921,692)	(29,680,228,478)
Payment — other taxes	(12,180,128,062)	(12,003,721,844)
Receipts from interest income	23,567,718,840	7,206,066,279
Net Cash Provided by Operating Activities	<u>228,260,065,904</u>	<u>217,300,384,587</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from time deposits	54,242,925	101,002,751,508
Addition to property, plant and equipment	(377,423,553,042)	(1,267,286,320,599)
Increase in deferred charges	(21,902,000)	(7,914,200)
Net Cash Used in Investing Activities	<u>(377,391,212,117)</u>	<u>(1,166,291,483,291)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan borrowings	—	598,352,445,042
Payments of loans	(95,249,915,001)	(100,871,086,164)
Payments to:		
Small business enterprises and cooperatives and community development	(2,000,000,000)	(9,000,000,000)
Investments from subsidiary's shareholders	25,000,000	—
Net Cash Provided by (Used in) Financing Activities	<u>(97,224,915,001)</u>	<u>488,481,358,878</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(246,356,061,214)</u>	<u>(460,509,739,826)</u>
Effects of foreign exchange rate changes on cash and cash equivalents	(103,866,450,695)	(44,769,720,921)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>810,490,576,309</u>	<u>792,309,662,022</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>460,268,064,400</u></u>	<u><u>287,030,201,275</u></u>

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