



INDONESIAN PETROLEUM ASSOCIATION

2006 ANNUAL REPORT

**THIRTY-FIFTH GENERAL MEETING**

**DECEMBER 6<sup>th</sup>, 2006**

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SECTION 1

**INDONESIAN PETROLEUM ASSOCIATION**  
**President's Report for CY 2006**

by

**Chris B Newton**

On behalf of

**IPA Board of Directors**

**December 2006**

<http://www.ipa.or.id>



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# INDONESIAN PETROLEUM ASSOCIATION

## President's Report for CY 2006

**Report Date: 6 December 2006**  
**Effective Date: Mid November 2006**

### **OVERVIEW**

This time last year I, on behalf of the board, presented the IPA President's report, and indicated the board believed that while a lot had been achieved in 2005, a lot remained to be done in 2006 in terms of realizing the full potential contribution of the oil and gas industry to the Indonesian economy and hence the welfare of the Indonesian people.

We had two key conclusions this time last year.

- ✚ We must never forget that in a depletion business not investing is not an option if production is to be sustained and that every day other countries are finding new ways to secure a disproportionate share of the global upstream investment dollar for themselves. So not repositioning and enhancing Indonesia's competitiveness is not an option.
  
- ✚ Indonesia is fortunate in that explorationists remain very optimistic as to the nations undiscovered resource base. The coming together of this resource potential with the global swing back to production and reserve growth via exploration presents Indonesia with a tremendous opportunity to secure its hydrocarbon future by enhancing the investment environment.

Against this background we noted specifically that the IPA's goal remained to work cooperatively and constructively with the government of Indonesia and all stakeholders to continuously adapt to the changing environment and create a sustainable industry for the long term.

To achieve this, the IPA Board and its committees met in January 2006 and established five clear objectives to drive investment competitiveness and the longer term sustainability of the industry.

### **IPA OBJECTIVES**

In establishing its long and short term objectives early in 2006 the IPA commenced by reviewing the government policy framework for the oil and gas sector and looked at how the IPA could support government objectives.

Figure 1\* shows government objectives for the oil and gas sector are focused on "Expanding oil and gas revenue contribution in the national economy" by:

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\* {Refers to Figures in Attachments}



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- + Ensuring availability of oil and gas for energy and industrial feedstock
  - + Growing petroleum business activities, specifically through growth in
    - The Number of Players
    - Petroleum Acreage
    - Investment and Operational Expenditure
    - Reserves, Production & Petroleum Utilization
    - Job Opportunities
    - Technology
    - Value Added Activities

Which together all enhance government tax and non tax revenues.

High level alignment between stakeholder objectives is a critical first step towards success and it is clear from the above that government and the IPA / industry are aligned and there is a solid foundation for constructive cooperation.

Based on the IPA charter, the IPA Board and Committees confirmed the **IPA Long Term Objective** as to:

***“Work collaboratively with all stakeholders to enhance investment in and hence the economic health of the petroleum industry to deliver greater benefits to government, investors, communities, employees, customers and the environment.”***

The Board established *five focused objectives for 2006 summarized as:*

- Strengthen IPA partnership with government to support delivery on national production and investment objectives.
- Promote exploration investment.
- Support national energy objectives by enhancing gas supply through promotion of gas exploration, development & infrastructure investment.
- Improve Indonesia’s investment competitiveness with respect to taxation by taking opportunities presented in the new tax law to harmonize existing laws and regulations.
- Enhance investment efficiency by streamlining the complex VAT and Duties regime where different procedures apply to different vintages of PSC’s.

I will report later on delivery against these objectives. However, it is noteworthy that through the year there was escalating recognition among all stakeholders on the need to improve the investment environment by enhancing regulatory clarity, consistency, predictability and certainty along with **THE URGENCY OF BUILDING COMPETITIVENESS TO ATTRACT OIL AND GAS INVESTMENT IN INDONESIA**, the theme in fact of the 2005 IPA annual convention.

The first 8 months of 2006 recorded rapidly increasing oil prices peaking in July when WTI closed at a new nominal record of US\$77.03 / bbl. Since then we have seen a pull back with a floor apparent in the WTI US\$55-60 / bbl range. This translates into a 2006 YTD average WTI spot oil price of US\$67.15 / bbl which compares with the significantly higher 1980 (previous peak) nominal year average of US\$35.69 / bbl. In 2006 dollar



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terms however, this 2006 YTD average is still less than the 1980 average of over US\$80 /bbl.

An industry report<sup>^</sup> recently rephrased Charles Dickens' opening paragraph to *A tale of two Cities* by saying "For the global oil industry it is both the best of times and the worst of times" citing rising costs, falling reserves replacement ratios and declining quality of the upstream investment opportunity set. This cost - price and access – opportunity squeeze is increasingly challenging the industry's ability to grow and generate economic returns. As a result, the industry as a whole is giving more money back to shareholders than it is investing in exploration for example. Caught in the vice of fixed prices and rising costs, non oil priced linked upstream gas businesses around the world are facing even more challenging times.

All around the world, politicians in oil producing countries started to focus on securing a larger share of oil and gas revenues for host governments and some moved aggressively to do so. Some countries that had started down the road of structural and fiscal reform to enhance investment competitiveness continued to stimulate investment. However, some stepped sideways towards resource nationalism despite the history of underinvestment and declining production that normally follows such steps.

Indonesia has largely recognized that high oil prices apply to all countries and attracting an increased share of the highly mobile upstream investment dollar means increasing Indonesia's relative investment attractiveness. Clarification of the process for offer and award of working areas by revision to KepMen 1480/2004 is an example. The Menko Economy (KEP-57) decree in October 2006 establishing a cross ministerial team to look at "harmonization and synchronization" of fiscal and other issues impacting investors in the oil and gas sector is a good example of the recognition of the need to resolve long-standing issues, particularly for existing investors who are the future of the industry. Turning this recognition into timely constructive resolution of the multiple remaining issues is the next challenge.

## **INDUSTRY MILESTONES**

Before diving into details, let's step back, like last year, and review 2006 industry milestones.

This is how the IPA Board sees / forecasts them at the time of writing:

- **Oil Prices** reached record levels in nominal terms with Sumatra Light Crude (ICP Minas) averaging US\$66.18 bbl YTD vs. US\$53.98 bbl over 2005.{Figure2}<sup>\*</sup>
- **Oil and Condensate Production** continued the decline from its peak of 12 years ago, averaging approximately 1.03 mmstb/d compared with 1.06 mstb/d in 2005 despite all operators highly incentivised by strong prices to maximize production.{Figure 3}

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<sup>\*</sup> 2006 Global Upstream Performance Review, J S Herold Inc and Harrison Lovegrove & Co





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- The slow **Gas Production** decline from its 1996 peak of 8.7 bcf/d appears to have continued with 2006 production expected to be around 7.7 bcf/d or 2% below 2005 levels.{Figure 4}.
  - **Gas Exports** as LNG or via the three export pipelines look set to decline by some 4.5% largely due to the natural decline of some major fields. Domestic gas sales however look set to increase some 3.4% in line with government objectives.
  - The slump in **Consumption of Petroleum Products** that began post the 1 October 2005 subsidy reductions continued for the first few months of the year however latest data shows a strong demand recovery suggesting an overall 4% increase in consumption of petroleum products will be recorded by year end. Total 2006 consumption is now expected to be around 67.6 million kl or some 1.16 mmstb/d, significantly above crude oil and condensate production levels. {Figures 5 & 6}.
  - Despite reduced export volumes, high prices are projected to result in oil and gas retaining its CY 2005 share of total **Exports** at 22%. Oil and Gas **Imports** are projected to increase in absolute terms with the share of total imports remaining steady at 30%.{Figure 7}
  - The resulting **Oil and Gas Trade Balance** will record a further decline {Figure 8} and oil and gas revenues as a percentage of GDP and Budget revenues will likely decline slightly in 2006.{Figure 9}
  - **Proven Oil Reserves** continued a slow decline as production yet again exceeded proven reserves additions. {Figure 10}
  - **Gas Reserves** growth appears to have stalled as production exceeded the modest exploration additions.{Figure 11}
  - A total of 5 **Contracts were Signed** in 2006, as a carry over from the delayed award of the 2005 licensing round. More contracts may however be signed before year end. {Figure 12}
  - **2D and 3D Seismic Activity** are expected to exceed 2005 levels by year end (3D already has) and with seismic activity being a leading indicator of drilling, there is cause for optimism here. **Seismic Acquisition Costs** continued to increase and are now up some 25% over the last year and the order book has extended out 6-9 months.
  - **New Field Wildcat Exploration Drilling** may just reach 2005 levels at year end and be some 20% above the 35 year lows recorded in 2004 but well below levels necessary to replace reserves. Appraisal drilling activity levels are however expected to be well down on 2005 levels at year end suggesting total E&A drilling activity levels could reach lows not seen in a couple of decades.{Figure 13 & Figure 14}
  - Most disappointingly, **Reserve Additions** from this exploration drilling activity have to date been extremely disappointing with some modest gas discoveries in the Natuna Sea, Madura and Makassar Straits the only discoveries of note. These discoveries represent a very small fraction of reserves produced. The appraisal drilling was equally as disappointing with high profile discoveries such as Jeruk being downgraded as a result. Industry finding costs will not be good.
  - **Total Expenditures** by production sharing contractors may, by year end, reach the record of US\$7.0 billion (m.o.d.) level set in 2005 if there is the usual 2H increase in investment and expenditure. {Figure 15}



- **Exploration and Development Investment** levels are however unlikely to exceed 2005 levels, the former being disappointing given that last year we predicted Indonesia would benefit from a global swing back to growth through exploration investment. Some of this under investment is due to rig availability particularly offshore. {Figure 16}
- **Production Expenditures** are expected to increase marginally over 2005 levels and with production volumes down slightly, unit costs will record a further increase reflecting the progressing maturity and capital intensity of the legacy upstream assets.
- While **Unit Cost Recovery** is expected to increase over 2005, the higher revenues should result in increased government revenue over 2005 levels.
- Increased investment activity across the energy chain globally created a situation of **Hyper Inflated Costs in both Materials and Services**. Costs for drilling rigs, steel for platforms and wells, and services ranging from engineering design and project management have soared and delivery schedules have lengthened dramatically {Figure 17}. IHS\* estimates that globally the average project capital cost variance from mid 2005 to mid 2006 was some 38%. While upstream oil players enjoyed enhanced margins despite the higher costs, the domestic gas players were caught in a dramatic margin squeeze of US\$70 / bbl oil costs and gas priced at US\$15-20 / boe.
- The **Cost of Drilling** increased significantly as rig availability, especially offshore reached its tightest level in years. Day rates for some deepwater rigs nearly doubled again in 2006. However, for some shallower water rig classes the market looks like it may have peaked back in August, along with oil prices resulting in a mere 30% increase over 2005 rates. The result for Indonesia was delayed drilling program implementation and cost increases. {Figures 18,19 & 20}
- Indonesia has not fully participated in the offshore rig utilization boom. However it has certainly been impacted by the costs for these globally mobile units. {Figure 21}. The reason why Indonesian offshore drilling activity has not boomed in line with global activity is complex with relative investment attractiveness likely a contributing factor.
- The December 2004 **Constitutional Court** rulings that Domestic Gas Obligations must be equal to 25% (not up to 25%) was addressed by an announcement in the government gazette during the year however clarity on this issue is yet to materialize with a lot of statements by various sectors of government reserving all gas for domestic consumption which implies a 100% domestic market obligation.
- BPHMigas announced winners of the tenders to develop sections of the Kalimantan – Java and Trans Java pipelines. However progress on the latter project is likely to be delayed as debate on gas reserves and deliverability to underpin the pipeline continue along with the debate on whether exports or domestic supply provide the highest economic benefit to Indonesia.
- Despite increasing oil prices, the government maintained its commitment not to further increase **Petroleum Product Prices**, and as such the **Petroleum Product Subsidies** budget had to be revised upwards to US\$5.5 billion. The final cost for 2006 is likely to be around US\$6.0 billion, well below the record US\$9.1 billion recorded in 2005. The higher 2006 prices were offset by reduced

\* Jonathan Green, Economics & Consulting Division, IHS Inc,



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- subsidies and reduced volumes of subsidized fuel with many industries, including PLN having to pay full international prices for fuel. {Figure 22}
- Rising international and domestic oil and **Fuel Prices** plus a strong policy push towards enhanced utilization of indigenous fuels such as gas and coal has increased demand for gas and has started to pull up domestic prices. The latter are however at historic low levels on an energy equivalent basis compared to competing fuels.{Figure 23}.
  - A new **Director General of Oil and Gas** was appointed with a clear vision on the division of responsibilities between Migas and BPMigas.
  - The **Cepu** project finally moved forward with agreement between the parties on joint operatorship and submission of a PoD. However a 2008 production start for this project, which is critical to the nations 2009 oil production target of 1.3 MMSTBD appears a stretch given industry capacity constraints and other issues.
  - **Development and financing of the Tangguh LNG Project** progressed as Indonesia's third LNG project moved ahead with a new LNG sales model including BP as the seller's representative. The LNG price to the anchor customer, China was also renegotiated in response to higher oil prices and industry costs plus a much tighter LNG market.
  - The volume and value **of M&A activity** looks set to decline in 2006 over 2005 with companies holding on to assets with reserves and production in an industry that is on average cash long but opportunity short. This supply constraint along with high prices pushed asset prices up to levels not seen since the early 1980's.
  - The Director General of Tax moved for the first time to capture tax on the sale of a PSC working interest by retrospectively assessing tax on one transaction.
  - While there was ongoing consolidation at the top of the food chain the high price environment spawned many new smaller oil and gas companies and company participation in the oil and gas sector increased slightly as measured by IPA company and associate membership {Figure 24}. The pickup in IPA Professional Division membership also signals the beginnings of an activity turnaround {Figure 25}.
  - 2006 again demonstrated the power of mother-nature and the forces that have contributed to Indonesia's petroleum endowment. Earthquakes, volcanic eruptions, mud eruptions and tsunami all showed the importance of greater understanding of these forces by geoscientists.
  - The IPA held a very successful **Geoscience Conference and Exhibition** in Jakarta in August in conjunction with the SEG, HAGI, IATMI and IAGI. This provided a forum for geoscientists to come together in the absence of an IPA Annual Convention.
  - The Conference attendance exceeded all expectations on delegates and exhibitors reflecting both the quality of the speakers, papers and organization plus the vibrancy in the industry as exploration investors in particular looked for new opportunities.
  - Shell and Petronas opened **new service stations** in Jakarta as enabled by the New Oil and Gas Law and the Downstream Implementing Regulations of 2004. The benefit of this service sector competition should ultimately accrue to customers.
  - The Ministry of Energy and Mineral Resources began preparing legislation regarding the exploitation of coal bed methane to provide legal clarity for investors.



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While 2006 total expenditures by production sharing contractors were forecast to reach record levels, program implementation, especially in exploration, appears to be well below forecasts again. We have not yet seen any data on 2006 2H investment and cost trends however 2006 1H data is less than 50% of 2005 total costs and expenditures. {Figures 15 & 16}. While investment is usually 2H loaded it is unlikely full year 2006 investment and activity levels will meet their oil price driven expectations. Costs, both operating and capital will certainly have exceeded expectations and this will again be a major contributor to the near record total expenditure levels. Further data and analysis will be needed to understand if Indonesia has managed to reverse the trend of decline in its share of global upstream investment that is the barometer of its investment competitiveness.

Should the tremendous opportunity presented to resolve, conflicting, unregulated and uncertain fiscal issues impacting investor confidence in the oil and gas sector be taken, then 2006 will certainly be recorded as a year when a lot was finally achieved. Otherwise, it will be recorded as a year when record oil prices and increasingly mature production operations pushed up industry costs, squeezed margins and deferred investment to another day.

### **IPA BOARD PROCESSES**

The IPA Board of Directors meets every month and the directors also meet with the various committee members formally and informally many more times a month. Our objective is to stay in touch with the issues faced by our 42 member companies and then represent the members before our numerous stakeholders to resolve issues that are impacting investment and the sustainability of the industry. We only push issues that are in the best interest of all stakeholders and at the BoD level we try to stay focused on the five objectives we set at the annual January brainstorming and objective setting session. All IPA company members and the service sector committee are invited to this session and it is one of the ways the Board tries to stay in touch with the real issues.

### **THE INVESTMENT ENVIRONMENT**

In the past few years we have discussed the “Investment Environment” at length along with the need for Indonesia to increase its investment competitiveness to recapture its share of the globally fickle and increasingly mobile investment dollar.

We will not dwell on the issues again this year as the board believes recognition of the issues is now relatively widespread and the challenge is to quickly and efficiently develop and implement solutions that are acceptable to the majority of stakeholders at a time when competition between countries for capital is more intense than ever. Indonesia is not just competing with other countries for capital but with oil and gas company shareholders who it has been noted received more money in the last 12 months through dividends and share buybacks than the industry invested in exploration.

It is however worth taking a brief stock-take against last year’s view on the Investment Environment to see how we have progressed to determine if our reasons for optimism were well founded and to refine our view going forward.



Last year we tabled the following as reasons for optimism and we can now review our cause for optimism with the benefit of hindsight.

<b>2005 Year End Causes for Optimism</b>	<b>2006 Year in Review</b>
<ul style="list-style-type: none"> <li>We have much improved macro economic and political stability and a government prepared to take the tough decisions.</li> </ul>	<ul style="list-style-type: none"> <li>Further improvements evident in 2006</li> </ul>
<ul style="list-style-type: none"> <li>We have gradually improving regulatory clarity with a New Oil and Gas Law and most of its supporting implementing regulations in place.</li> </ul>	<ul style="list-style-type: none"> <li>Slow progress but accelerating at year end with new regulatory initiatives.</li> <li>Many opportunities presented in the tax area.</li> <li>Many issues remain unresolved and some new ones have appeared in domestic gas.</li> </ul>
<ul style="list-style-type: none"> <li>Inherent geological prospectivity, high oil prices, rising domestic gas demand and a regional LNG market turnaround encouraging upstream investment.</li> </ul>	<ul style="list-style-type: none"> <li>Still very positive although industry capacity constraints causing investment delays and cost over runs.</li> <li>Disappointing 2006 exploration drilling activity levels and results question prospectivity and resource materiality?</li> <li>Seismic acquisition is picking up and may be a leading indicator of new drilling investment to come?</li> </ul>
<ul style="list-style-type: none"> <li>Looking after existing investors by rapidly resolving their problems and turn them into Indonesia's 'Oil Ambassadors'.</li> </ul>	<ul style="list-style-type: none"> <li>Some progress but the list of unresolved issues is significant.</li> </ul>
<ul style="list-style-type: none"> <li>A government aware of the industry issues and taking some actions to improve problems in the industry "investment environment".</li> </ul>	<ul style="list-style-type: none"> <li>Increased awareness of the issues</li> <li>Improving dialogue and industry engagement.</li> </ul>
<ul style="list-style-type: none"> <li>New Energy Blue Print and clear 2009 production vision.</li> </ul>	<ul style="list-style-type: none"> <li>Well communicated and correctly focused.</li> </ul>
<ul style="list-style-type: none"> <li>A global shift back to exploration presents Indonesia with the opportunity to recapture its fair share of global exploration investment.</li> </ul>	<ul style="list-style-type: none"> <li>Industry has the funds and appetite for exploration.</li> <li>Materiality and quality of exploration investment opportunity set questioned by some.</li> <li>2005 block awards much delayed and 2006 work area offering delayed although a record number of areas (41)</li> </ul>



	<p>offered.</p> <ul style="list-style-type: none"> <li>• Capacity constraints delay work program implementation.</li> <li>• Low 2004 &amp; 2005 new block investor quality results in low program implementation.</li> <li>• Fiscal uncertainties discourage investors as does “Tax on Exploration Investment” for post 2001 PSC’s.</li> </ul>
<ul style="list-style-type: none"> <li>• Increasing numbers of local and regional players with new skills and cost structures ready to take their rightful place in a maturing industry.</li> </ul>	<ul style="list-style-type: none"> <li>• The smaller local and regional players often lack the technology and balance sheet strength for frontier exploration or mature field redevelopment.</li> <li>• New players often short of skilled and experienced people – the biggest capacity constraint in the Industry.</li> </ul>

At the end of 2005 the Board said “These upstream industry crossroads can be successfully navigated and the industry turn-around accelerated if all stakeholders work together” with specific recommendations made to the government. The table below reviews the take up of these recommendations.

<b>IPA Recommendation</b>	<b>Action / Status</b>
<ul style="list-style-type: none"> <li>• Looking after existing investors by rapidly resolving their problems and turn them into Indonesia’s ‘Oil Ambassadors’.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Recognition of many of the problems however resolution is proving slow and some have not been addressed.</li> </ul>
<ul style="list-style-type: none"> <li>• Taking a global perspective and recognizing that capital flows to the countries with the highest risk-weighted returns.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Some recognition and certainly no overtly backward steps like some resource rich countries.</li> </ul>
<ul style="list-style-type: none"> <li>• Maintaining the regulatory reform momentum and recognize that rapidly resolving remaining uncertainty will quickly promote new investment.</li> </ul>	<ul style="list-style-type: none"> <li>➤ High recognition and good industry engagement in some areas, however slower than hoped for resolution.</li> <li>➤ Good engagement by Migas and BPMigas at year end on outstanding regulatory issues.</li> </ul>
<ul style="list-style-type: none"> <li>• Taking a long term perspective consistent with industry investment time horizons and capital intensity.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mixed messages.</li> </ul>
<ul style="list-style-type: none"> <li>• Seize the opportunity presented by the industry’s renewed interest in exploration to attract much needed new</li> </ul>	<ul style="list-style-type: none"> <li>➤ Some renewed IOGC interest however well below expectations.</li> <li>➤ Gas DMO implementation lacks clarity and efficiency.</li> </ul>



investment in Indonesia's frontier areas from exploration oriented IOGC's <sup>*</sup>	
<ul style="list-style-type: none"> <li>• Developing a new and more efficient partnership between regulators and investors that delivers on regulatory objectives while at the same time delivers on investor objectives of investing as quickly and efficiently as possible and driving down investment cycle times.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Some encouraging statements but few positive developments as regulator is also under pressure to reduce costs in an industry where costs are rising with global trends and natural field maturity.</li> <li>➤ Masterlist arrangements for old PSC cumbersome and inefficient</li> </ul>
<ul style="list-style-type: none"> <li>• Supporting the development of domestic capital markets as a source of debt and equity funding for local participants.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Efforts to enhance transparency and market credibility but still no viable capital raising opportunities for new exploration and development focused companies.</li> </ul>

From the above one could conclude that the combination of a strong oil pricing environment, the depth of the Indonesian investment opportunity set plus the recognition by many stakeholders of the need to improve the investment environment and Indonesia's relative investment competitiveness is cause for continuing optimism.

One may also be concerned that in an upstream business increasingly dominated by gas, domestic gas prices have lagged well behind competing fuels, costs have blown out and margins crushed while regulatory clarity on the role of gas exports and DMO implementation for example has decreased.

We believe a lot of the above gas regulatory issues are under discussion and market forces will eventually prevail. In the meantime however, a lot of investment may well be deferred.

We have noted many times that Indonesia's upstream industry is mature and mature areas create a host of investment challenges:

- Larger project technical challenges
- Increasing capital intensity with declining margins and hence returns
- Probability of making material new discoveries decreases as does the average find size
- Costs and technical complications of maintaining production from existing fields rises
- More capital each year just to maintain production.

Many of the above challenges also become political challenges as industry observers note increasing costs, falling production volumes and question operating efficiency and the cost recovery mechanism etc. This often results in enhanced regulatory focus at a time when lighter handed regulation may actually enhance operating efficiency and

<sup>\*</sup> IOGC = International Oil and Gas Company



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promote investment. This is a critical issue especially for existing investors who drive the majority share of exploration and production investment in Indonesia.

There is escalating debate and misunderstanding about PSC cost recovery and there is an urgent need for education and communication with all stakeholders to explain that cost recovery is in essence no different to deductible costs in any other business.

IOGC's<sup>^</sup> still dominate production and investment in Indonesia's upstream industry playing a critical role in mobilizing technology, capabilities, funding and exploration risk capital. The latter is demonstrated by the fact that 59% of exploration drilling in 2006 was by IOGC's all be it down slightly from the 10 year average of 61%.

These IOGC's have a global investment opportunity set and shareholders demand their capital is deployed towards the best risk adjusted returns. For Indonesia to capture it's fair share of this investment, it has to offer "*Quality Reserves and Quality Fiscal Terms*" and an attractive "*Investment Environment*" which can be summed up as the ease with which investors can invest and the confidence they have that the political and regulatory regime will protect their investment.

Continuous improvement is required in response to a changing Industry environment and enhanced competitive intensity from other countries and shareholders seeking a piece of the large but limited investment pool controlled by these IOGC's.

Industry cashflows have dramatically improved industry funding capacity in the last few years. However, skilled and experienced human resources along with equipment and services are now the critical capacity constraint. IOGC's are therefore increasingly allocating their most precious resource – skilled people, to projects with the highest capital and people productivity. This again means quality and material opportunities with an enabling regulatory and operating environment.

Some progress was made in 2006 while a lot remains to be done and high oil prices do not leave room for complacency.

### **2006 BOARD AND COMMITTEE PERFORMANCE AGAINST OBJECTIVES**

I would now like to take a moment to assess 2006 IPA performance against objectives set at the 'brainstorming' session held in January 2006. Here we identified a plethora of issues and then grouped and high-graded them into five priority areas as set out in the table below.

It is unfortunately apparent that many of these priority issues will be rolled over to 2007 as 'remaining priorities'. However the Board believes that progress is being made.

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<sup>^</sup> International Oil and Gas Companies





<b>2006 IPA Objective</b>	<b>Progress Against Objective</b>
<p>❑ Support government petroleum sector objectives by strengthening the partnership with government to maximize production from and investment in the petroleum industry. Do this by:</p> <ul style="list-style-type: none"> <li>• Institutionalizing dialogue – listen and provide constructive input.</li> <li>• Leveraging IPA’s position &amp; membership to help government resolve problems.</li> <li>• Demonstrating IPA’s commitment to the 'National Interest'.</li> </ul>	<ul style="list-style-type: none"> <li>➤ IPA – Government engagement well below optimal levels. However, some good workshops and interactions and very encouraging recent developments.</li> <li>➤ IPA worked hard to respond to and anticipate government requests.</li> <li>➤ Good cooperation on a number of fronts including <ul style="list-style-type: none"> <li>▪ Fiscal terms study with BPMigas</li> <li>▪ Tax white paper and road map</li> <li>▪ 2006 Draft PSC optimization.</li> </ul> </li> </ul>
<p>❑ Promote Exploration Investment to increase reserves and production</p> <ul style="list-style-type: none"> <li>• Complete collaboration on Fiscal Terms Study and develop recommendations</li> <li>• Incorporate recommendations on tax and duty issues and fully integrate with Fiscal Terms Study to enhance overall exploration investment competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>➤ Excellent cooperation on joint Fiscal Terms Study with BPMigas however, high oil prices have seen this initiative fizzle out.</li> <li>➤ Decree 1480 revision as MR 40 on tender process for working areas may enhance clarity and does introduce seismic options.</li> <li>➤ Implementation of VAT and import duties reimbursements for old PSC’s largely resolved except VAT court cases.</li> <li>➤ VAT reimbursement for post 2001 PSC’s largely unresolved; however this is being worked on by many parties.</li> <li>➤ Regressed with draft 2006 PSC introducing concept of reimbursement of taxes paid during the exploration stage only out of any future production.</li> </ul>
<p>❑ Promote Gas Exploration and Development investment by enhancing upstream economic viability and securing clarity and certainty over key gas issues.</p> <ul style="list-style-type: none"> <li>• Ability to Export</li> <li>• Gas DMO volumes &amp; pricing</li>   <li>• LNG infrastructure ownership</li> <li>• Sellers appointment and liability issues</li> <li>• Fiscal Terms</li> </ul>	<ul style="list-style-type: none"> <li>➤ We likely went backwards here with decreased clarity on Gas DMO and many projects struggling with economic viability in the face of a fierce margin squeeze.</li> <li>➤ Domestic prices lag international prices and competing fuels but encouraging recent developments.</li> <li>➤ Still uncertain?</li> <li>➤ A compromise?</li>   <li>➤ No incentives for marginal gas fields</li> </ul>



<p>❑ Improve Indonesia's investment competitiveness with respect to taxation by taking opportunities presented in the new tax law to harmonize conflicting laws and regulations. Follow three principles:</p> <ul style="list-style-type: none"> <li>• Clarity, Certainty and Consistency of taxation regime</li>   <li>• Maintaining the Uniformity Principle</li>   <li>• Encouraging Exploration Investment</li> </ul> <p>Quickly complete Fiscal Position Paper to ensure clear &amp; consistent message</p>	<ul style="list-style-type: none"> <li>➤ Excellent engagement with Menko Economy, Dirgen Tax and BPMigas and all parties working to take the "once in a decade" opportunity presented in drafting the new tax law and accompanying regulations for upstream oil and gas sector.</li> <li>➤ All parties have the same objective of clarity, consistency, certainty and equity.</li> <li>➤ Still a lot of misunderstanding about "uniformity" and misconceptions about the oil and gas business wanting special treatment and incentives.</li> <li>➤ High oil prices have decelerated initiatives although actions ongoing to eliminate taxes on exploration.</li> <li>➤ PwC engagement resulted in a very comprehensive Tax White Paper, Summary Position and Industry Roadmap.</li> </ul>
<p>❑ Enhance investment efficiency by streamlining the VAT and Duties regime where different procedures apply to different vintages of PSC's.</p> <ul style="list-style-type: none"> <li>• Advocate for reinstatement of VAT deferral while working with authorities to reduce backlog and stream line reimbursement procedures.</li> <li>• Secure extension of PMK 6/21 past June 2006 and expansion to include VAT and tax on imports</li> </ul>	<ul style="list-style-type: none"> <li>➤ Clear recognition of the issues and progressing in the right direction but resolution elusive. Masterlist arrangements complex and inefficient.</li> <li>▪ Good support from BPMigas</li> <li>▪ Reimbursement backlog substantially reduced although procedures cumbersome.</li> <li>▪ Extension to July 07 as PMK 97 /06 on same terms. Covers import duties only with VAT and Tax on imports still excluded.</li> </ul>

The opportunity to have input into the new tax law and the accompanying oil and gas regulations is very encouraging as many of our critical industry issues are tax related. The IPA has a once-in-a generation opportunity presented to resolve many of the problems if it can clearly communicate its requirements and be heard. Through Menko Economy, Dirgen Tax, BPMigas and KADIN and supported by PwC and a very active Tax Committee we are taking this opportunity. It is important to reiterate that the industry only wants the clear, consistent, efficient and predictable implementation of its



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PSC rights through removal of inconsistencies and uncertainties between the PSC, Oil and Gas Law and Tax Law.

An extensive white paper has been produced along with a road map to resolve three high graded problem areas. These are:

- Areas that are regulated however conflicts between PSC, Oil and Gas Law and Tax Law exist.
- Areas that are poorly regulated with inherent ambiguities, inconsistencies and conflicts
- Areas that are unregulated with all the inherent uncertainties.

This is a resource intensive area for the IPA that is ongoing at year end. The IPA is fully committed to taking the opportunities presented and we are very encouraged by the common ground we find. We will however have to wait until next year to see if this energy and alignment delivers on the desired clarity, consistency, certainty and fairness that the investment dollar so badly needs.

### **DOMESTIC GAS**

The government through the National Energy Blueprint is rightly seeking to diversify the current national energy mix and in doing so promote the utilization of indigenously produced energy such as gas and coal plus alternatives and move away from expensive imported petroleum products.

Indonesia still has abundant gas reserves and resources. However, much of it is distant from the Java demand centre and this has historically underpinned the development of gas export schemes such as LNG and pipeline gas. These schemes have also contributed handsomely to government revenues given that the LNG and pipeline gas prices are linked to crude or fuel oil prices. This linkage combined with the credit quality of the customers and the PSC fundamentals facilitated the mobilization of capital for the development of gas supply. The success also drove gas exploration investment.

Figure 26 shows that Indonesian domestic gas prices have lagged far behind global oil and gas prices and in conjunction with cost hyperinflation has lead to a dramatic margin squeeze on domestic gas projects. While gas fiscal terms are better than oil, IPA analysis shows that US\$3.5 MMBtu wellhead gas prices are equivalent to only US\$34 / bbl oil prices on a post government take basis. Gas project are therefore struggling to attract capital investment.

This domestic gas project margin squeeze is accompanied by an unprecedented improvement in the gas customer value proposition as rising oil prices and a reduction in subsidies has made gas so much more attractive for consumers {Figure 23}. For the State the value proposition is further enhanced as tax and non tax income is generated from the gas projects along with the upstream economic multipliers, the environmental benefits and the reduction of petroleum product imports.



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While domestic gas pricing is supposed to be on a B2B basis, the reality is that key customers are state owned with downstream prices controls in key electricity and fertilizer markets limiting the ability of these customers to pay for gas. These issues and the gas DMO terms of the draft 2006 PSC will need to be clarified if they are to achieve their objectives of stimulating investment for increased supply to the domestic market.

Domestic gas prices have started to move upward over the last 12 months. However they have a long way to go to provide the necessary market signals to mobilize capital for upstream and midstream investments. With such a strong gas customer and State value proposition, there is an opportunity to 're cut the value pie" and ensure domestic gas developments can compete for capital with oil and export gas projects.

### **EXPLORING FOR THE FUTURE**

Without exploration investment the production decline will continue as exploration is an investment in the future. Figure 27 dramatically illustrates this link with wildcat exploration drilling being a good leading indicator of production. While exploration drilling has recovered from its 2003 & 2004 lows, the activity levels and reserves replacement / well (exploration efficiency) are significantly below what is required to maintain or expand the reserves base. This is partly a global problem but is more pronounced in Indonesia, with aging asset maturity and investment environment issues lingering. The pick up in seismic acquisition activity in 2006 is cause for some optimism and should the 41 blocks offered in 2006 translate into substantial new commitments then there is further cause for optimism. If however take up of the 2006 work areas falls below expectations in terms of blocks signed, commitments made or quality of inventors then a radical strategic rethink on incentivising exploration investment will be required early in 2007.

### **IPA CHARTER AND OUTLOOK**

The IPA is largely a volunteer based organization relying on the time donated by member companies and the individuals concerned. They all work towards the common objective of promoting the exploration, producing, refining, and marketing aspects of the petroleum industry in Indonesia, through, key objectives that include:

- (a) **Studying problems** relating to such aspects of the petroleum industry at the national level **and possible solutions of these problems.**
- (b) **Fostering a mutual respect between the Members of the Association, both private and Government.**
- (c) **Advancing new ideas** relative to such aspects of the petroleum industry.
- (d) **Disseminating objective information and analysis** concerning such aspects of the petroleum industry.
- (e) **Promotion of the development of the infrastructure** necessary to support the petroleum industry in Indonesia.
- (f) Giving assistance to and **encouraging potential university graduates** in preparing for a career in the petroleum industry.

We are not perfect, however we achieve a lot compared to our better funded and full time staffed sister organizations overseas.



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The Committee Chairman's reports are included in this annual report and some will also present the results of their work at the AGM. It has been my privilege to work with such a dedicated and motivated team and their support has been essential to all we have achieved. My sincere thanks go to my fellow officers of the Board, fellow Board members and Committee Members for supporting myself and the board over the last 12 months. Special thanks also to Pak W Yudianta Ardiwinata who stepped into the role of "Special Advisor to the IPA Board" enabling the Board to once again enjoy the benefits of his wisdom and experience.

I have special thanks this year for the Professional Division and Conference Committee who organized 'The Jakarta 2006 International Geosciences Conference and Exhibition', a very successful collaborative effort between IPA and SEG, HAGI, IATMI, IAGI.

I also have special thanks to the IPA Tax Committee and the Fiscal Terms Sub Committee who have worked tirelessly in support of the 2006 objectives.

The Professional Division who do such excellent work in organizing training courses etc have also made another solid contribution to IPA finances which has helped the IPA deliver on its objectives.

For logistical reasons we did not have an Annual Convention in 2006. However, commencing May 2007 we will move to a May annual scheduled at the Jakarta Convention Centre. The theme of the 2007 convention is "Promoting Investment through Partnership". There is a big team working to make this Annual Conference and Exhibition a success and the Board is sure it will, like the 2006 Technical Conference, exceed all expectations as "**The** Regional Oil and Gas Conference and Exhibition"

In the past there has been a perception in some quarters that the IPA represented only foreign investors in the petroleum industry and that the interests of foreign investors may not always have been aligned with national interests. A glance at the IPA Board of Directors indicates that Board changes are in line with structural changes in the industry with strong representation from Indonesian nationals. It also should go without saying that the IPA would never push or champion an issue that it did not firmly believe was in the best interest of all industry stakeholders.

## **IN CONCLUSION**

To sustain production in a depletion business not investing is not an option. If Indonesia is to address its oil and gas production decline, further steps to improve the investment environment and recapture the lost share of the global upstream investment dollar will be required. Recognition of the issues, followed by dialogue is the first step in solving any problem and in this regards significant progress was made in 2006. This recognition needs to be followed up with more investment positive actions in 2007.

With the exception of capacity constraints for people, equipment and services leading to cost inflation, project implementation delays and declining investment economics, many oil industry fundamentals are attractive and support capital mobilization for upstream oil investment.



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Mobilizing capital for upstream gas investment is however more problematic and a number of issues need to be addressed if the substantial benefits of Indonesia vast natural gas resource endowment are to be realized.

International oil and gas companies are on average cash long and opportunity short and Indonesia is fortunate to have a plethora of upstream and downstream investment opportunities. Mobile international capital can be captured from competing nations and stakeholders if investment opportunity quality is supported by competitive fiscal terms and a conducive investment environment.

The IPA's goal remains to work cooperatively and constructively with the government of Indonesia and all stakeholders to continuously adapt to the changing environment and create a sustainable industry for the long term. With trust, the fostering of mutual understanding & respect plus alignment of stakeholder objectives, the contribution of the petroleum industry to the Indonesian economy and welfare of the Indonesian people can be advanced. The dedication of resources by IPA member companies to IPA committee activities demonstrates investor commitment to ensuring this advance.

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# ATTACHMENT 1

## Figures Referenced in Report

Figure 1

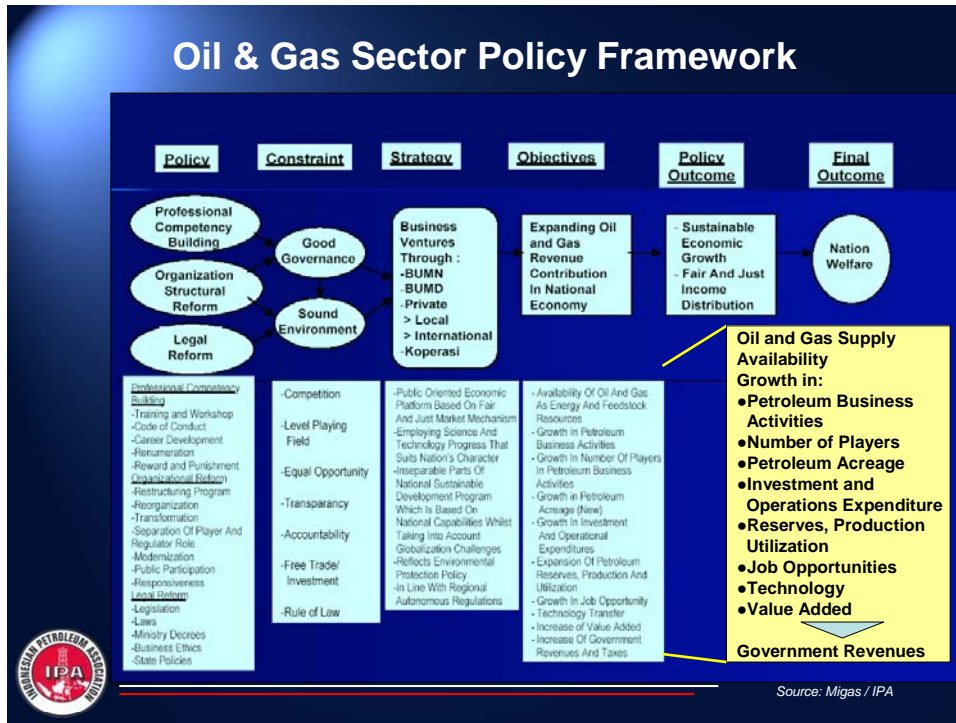


Figure 2

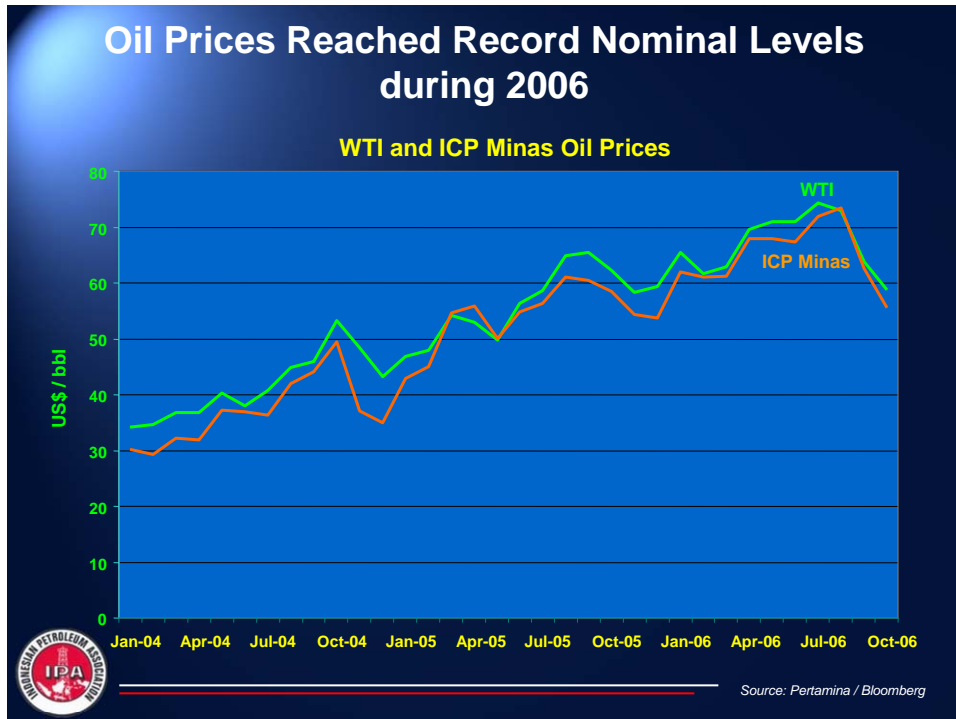


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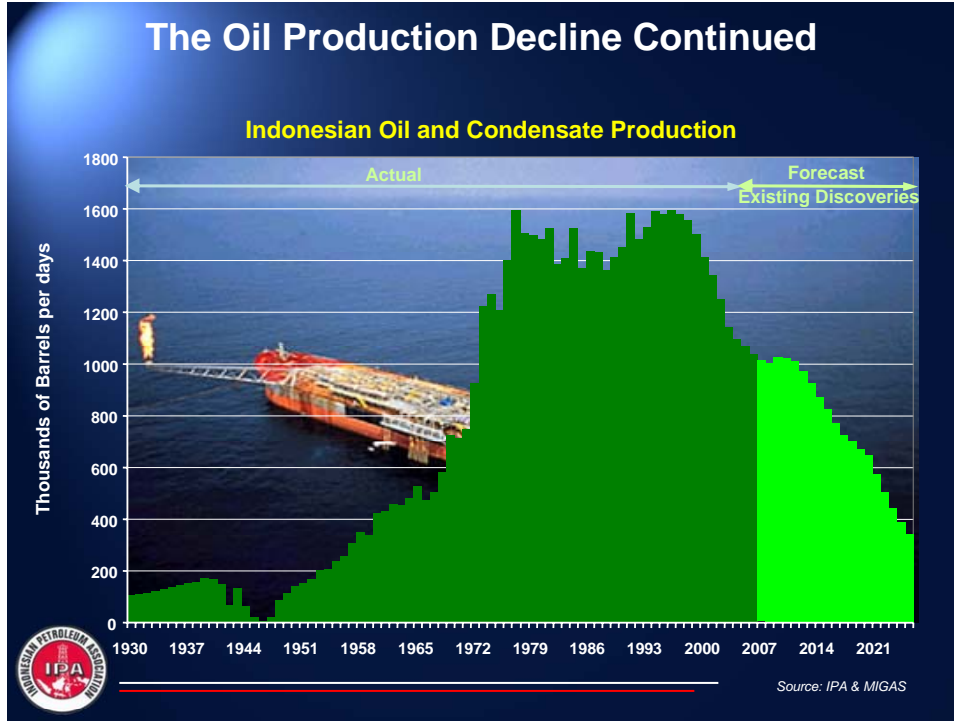


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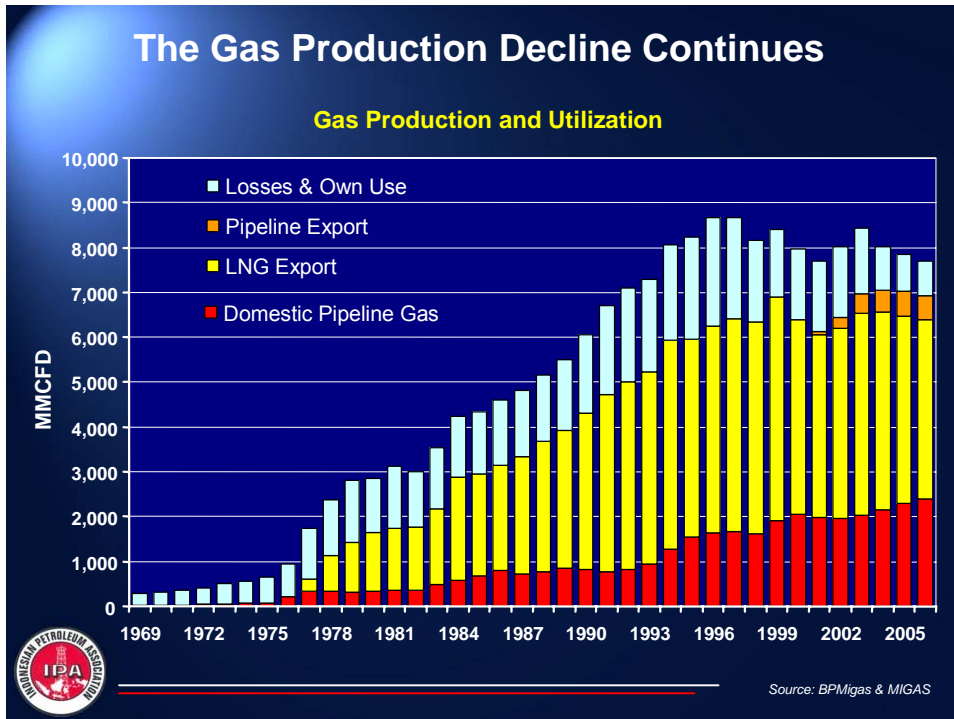




Figure 5

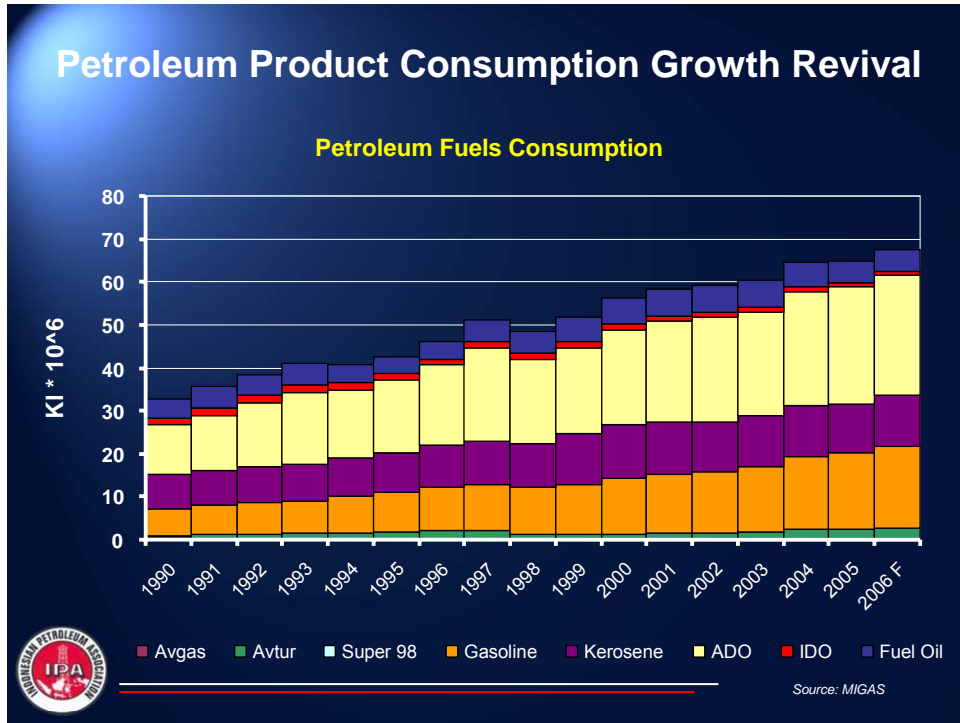


Figure 6

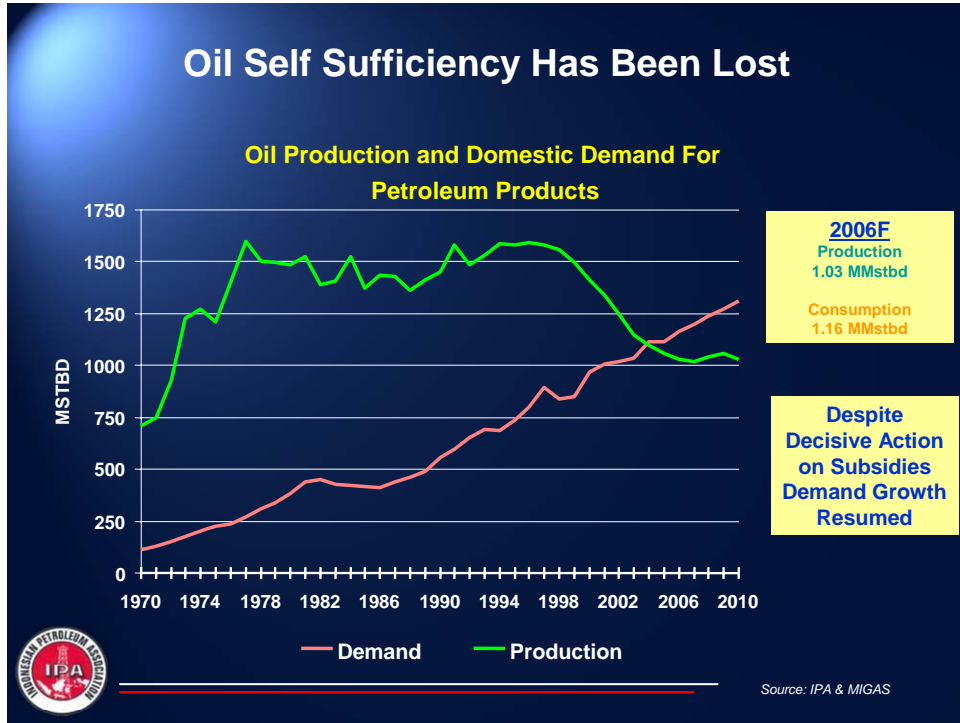


Figure 7

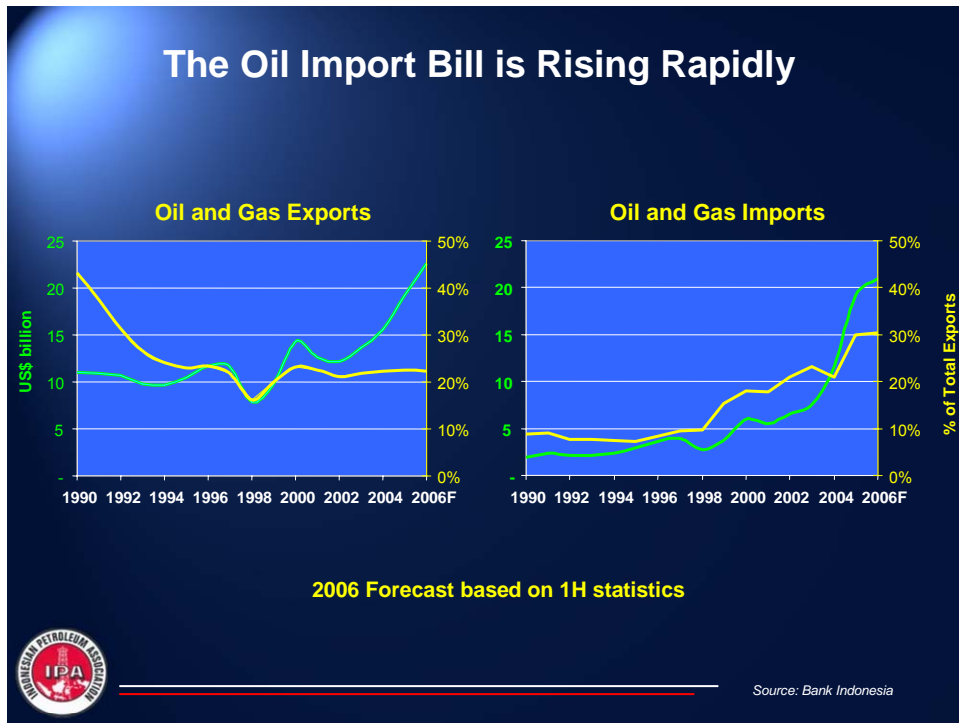


Figure 8

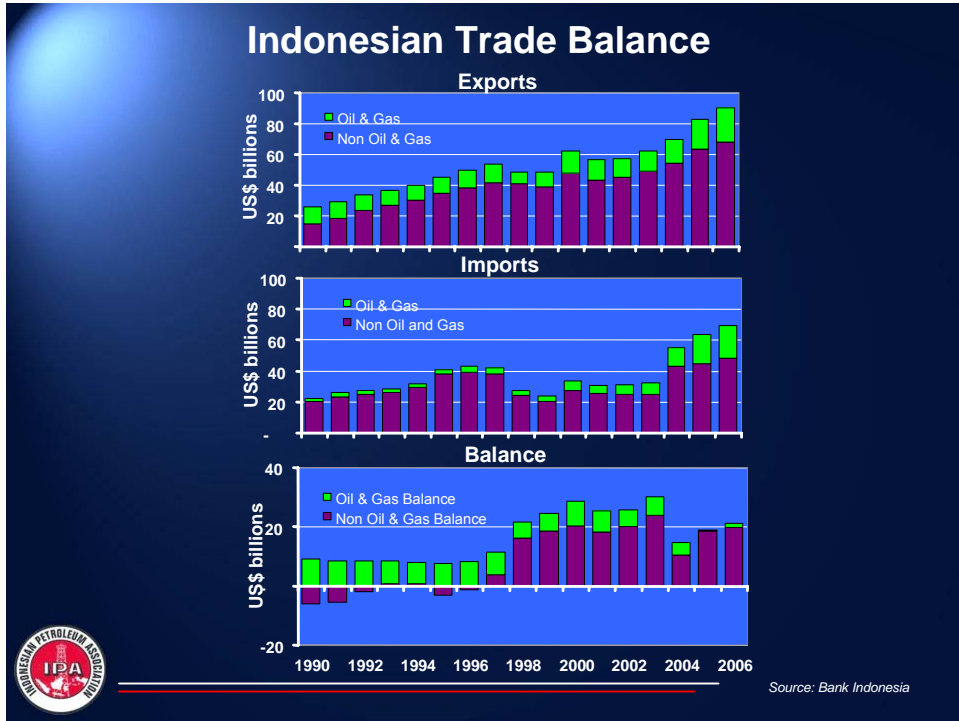


Figure 9

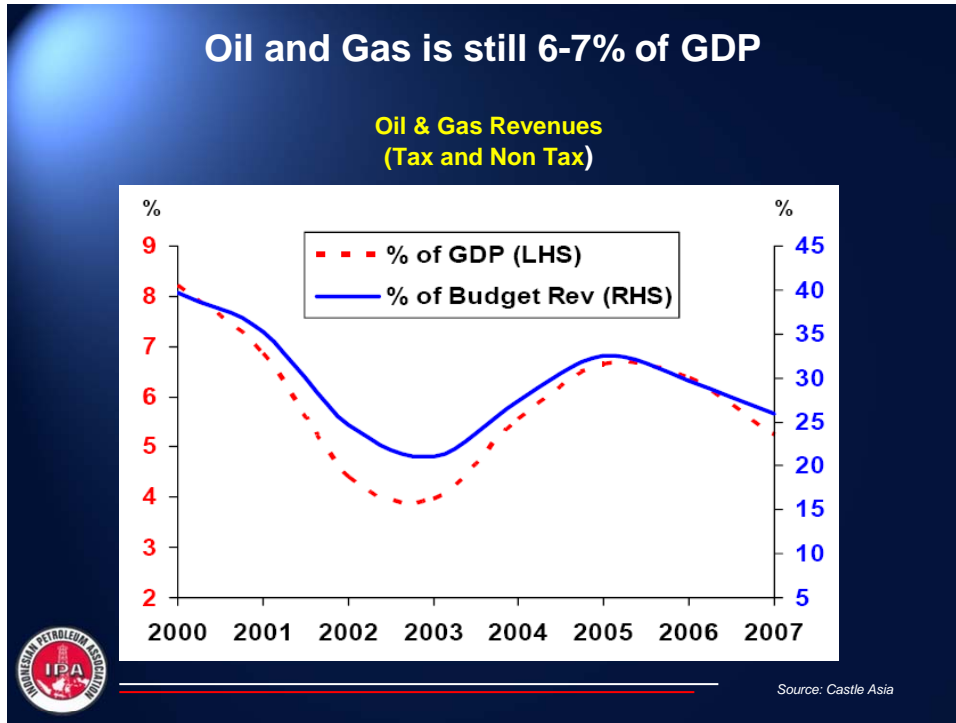


Figure 10

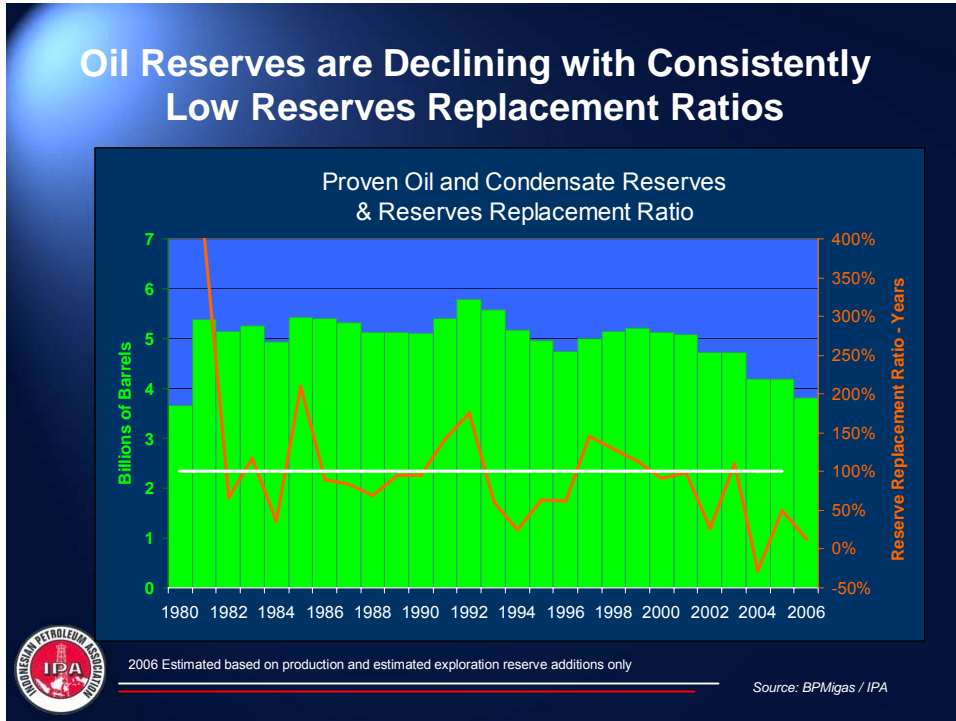


Figure 11

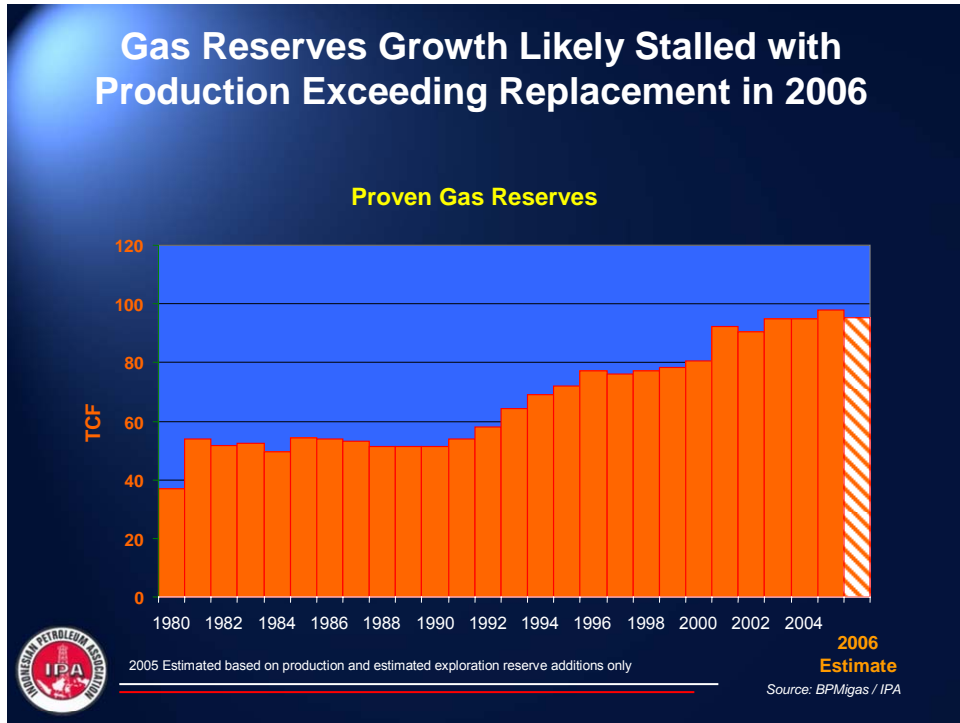


Figure 12

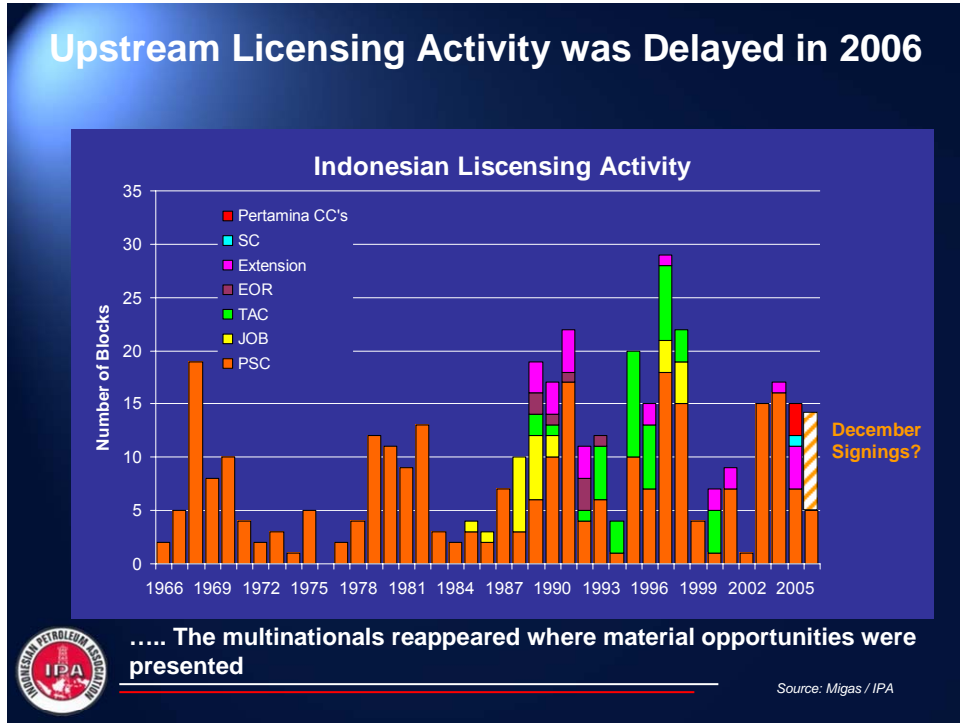


Figure 13

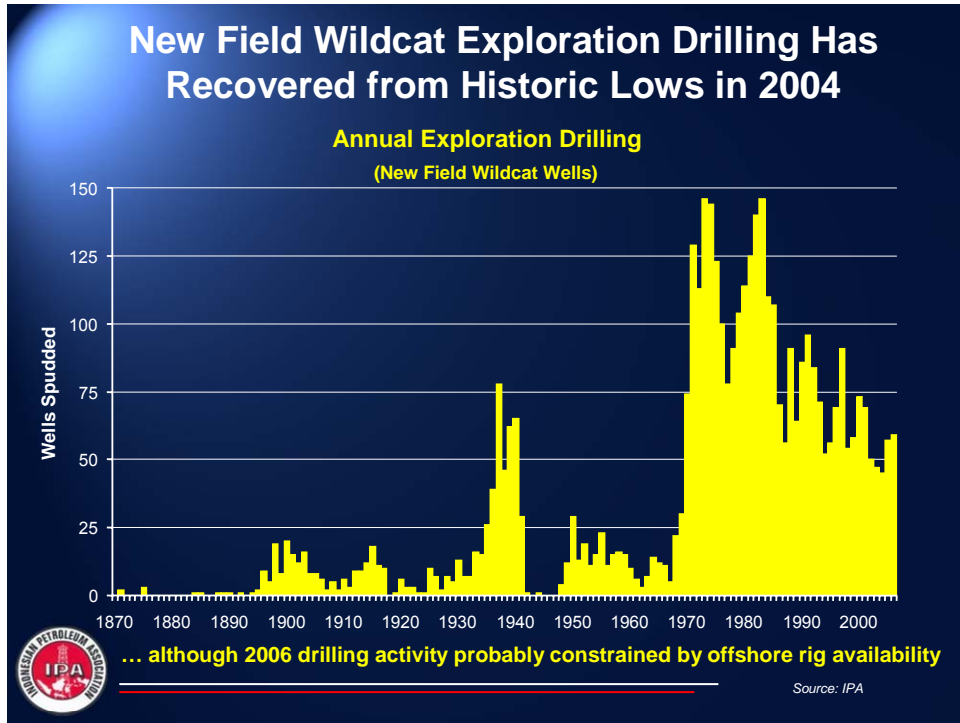


Figure 14

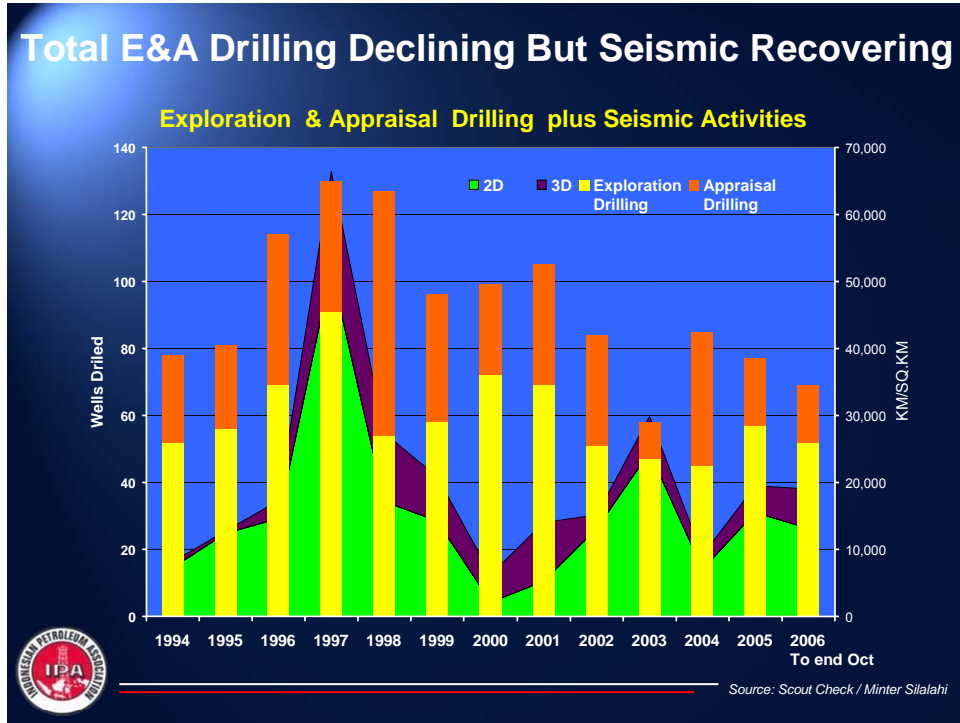


Figure 15

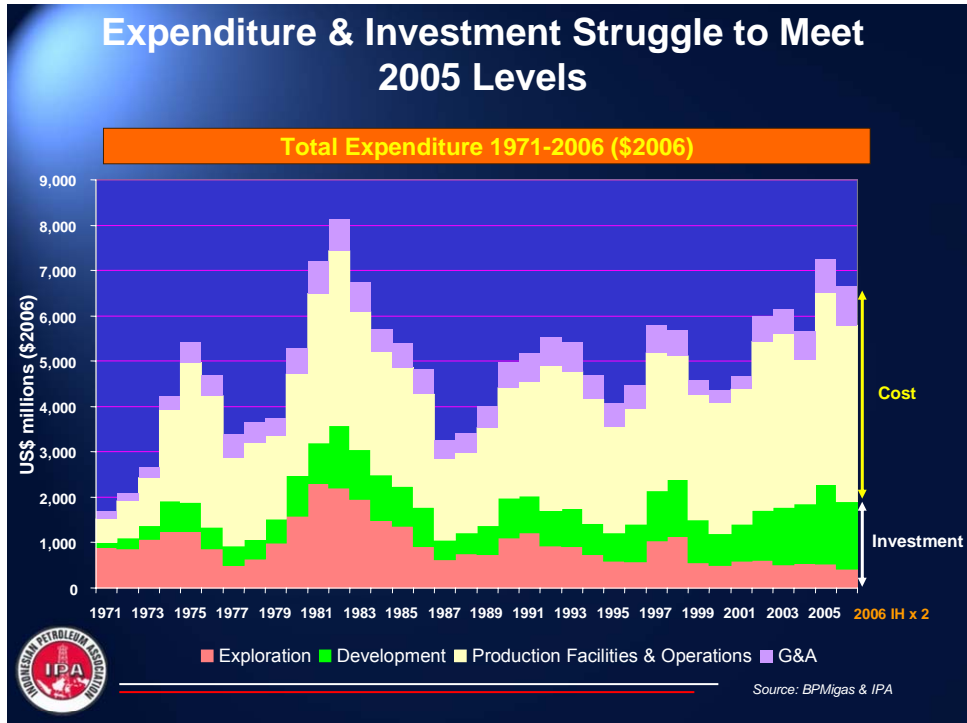


Figure 16

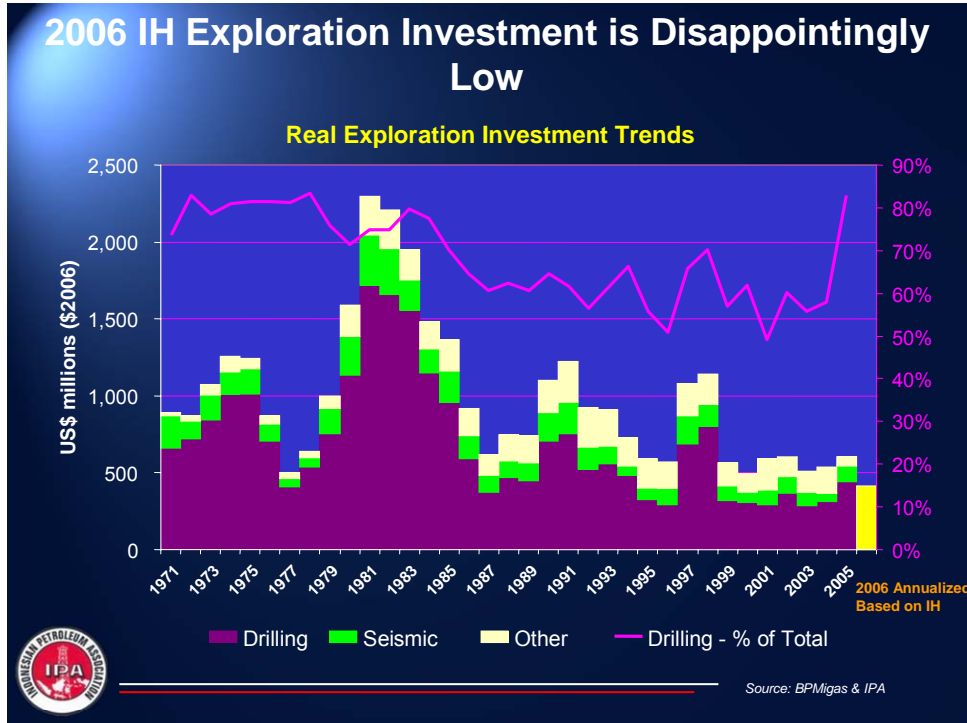


Figure 17

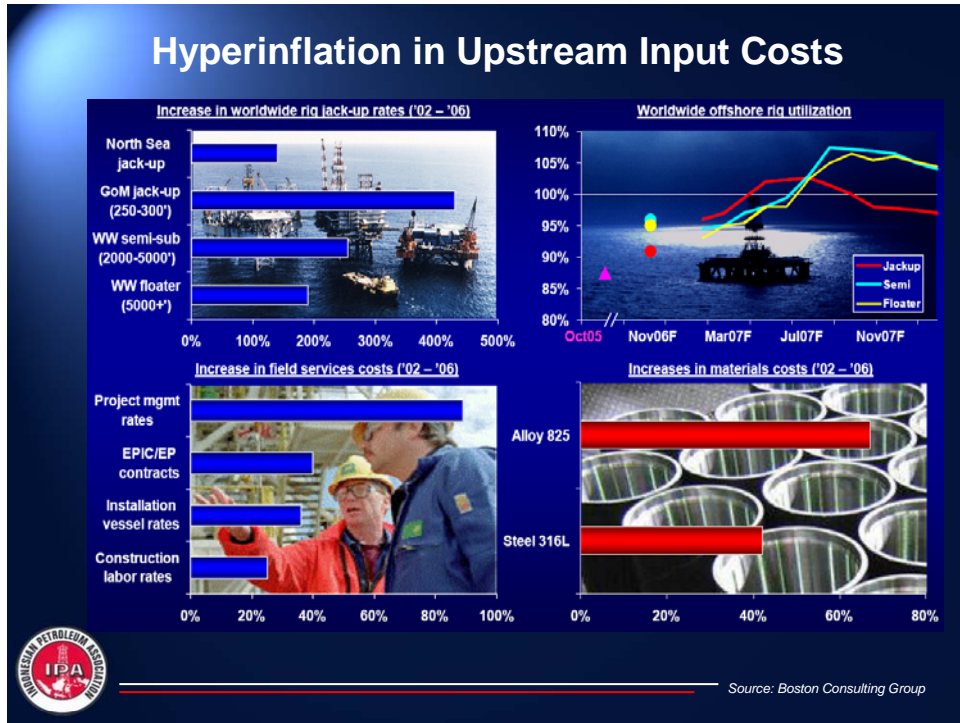


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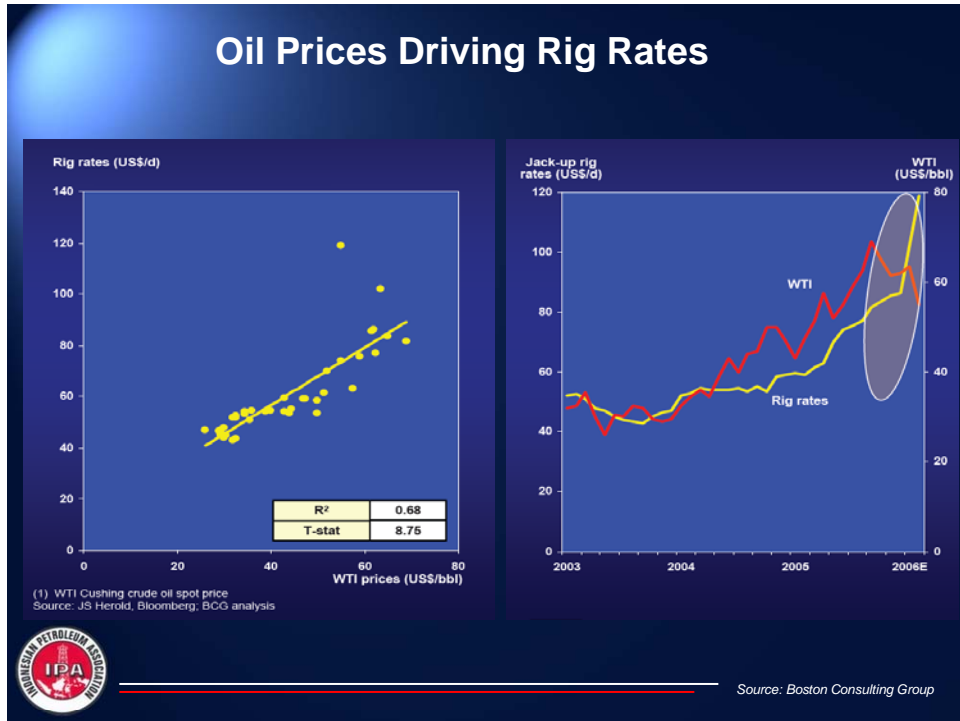


Figure 19

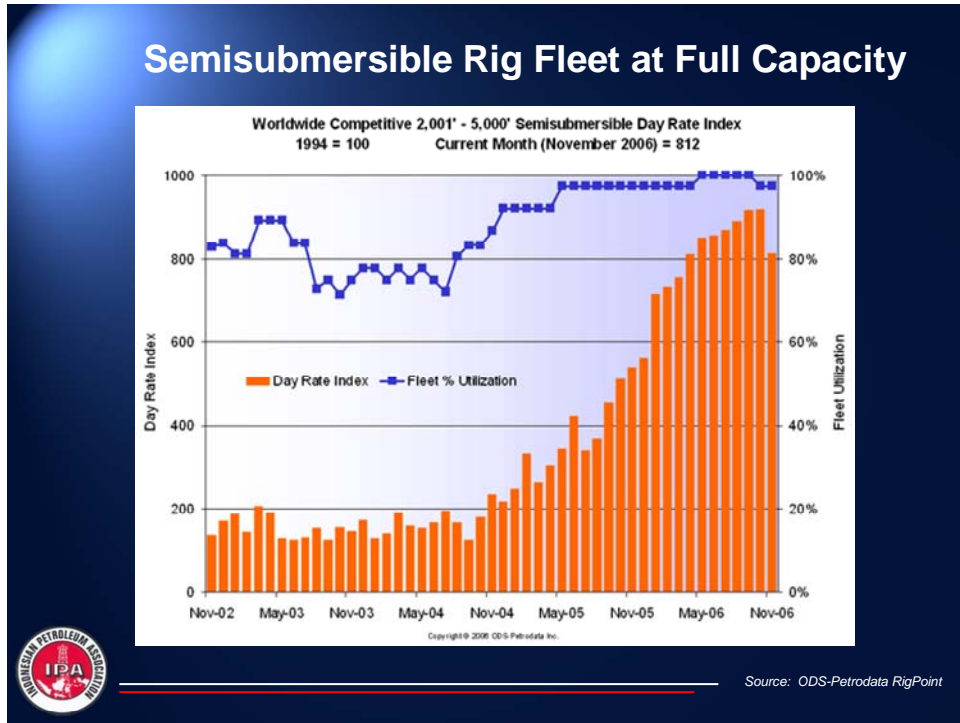


Figure 20

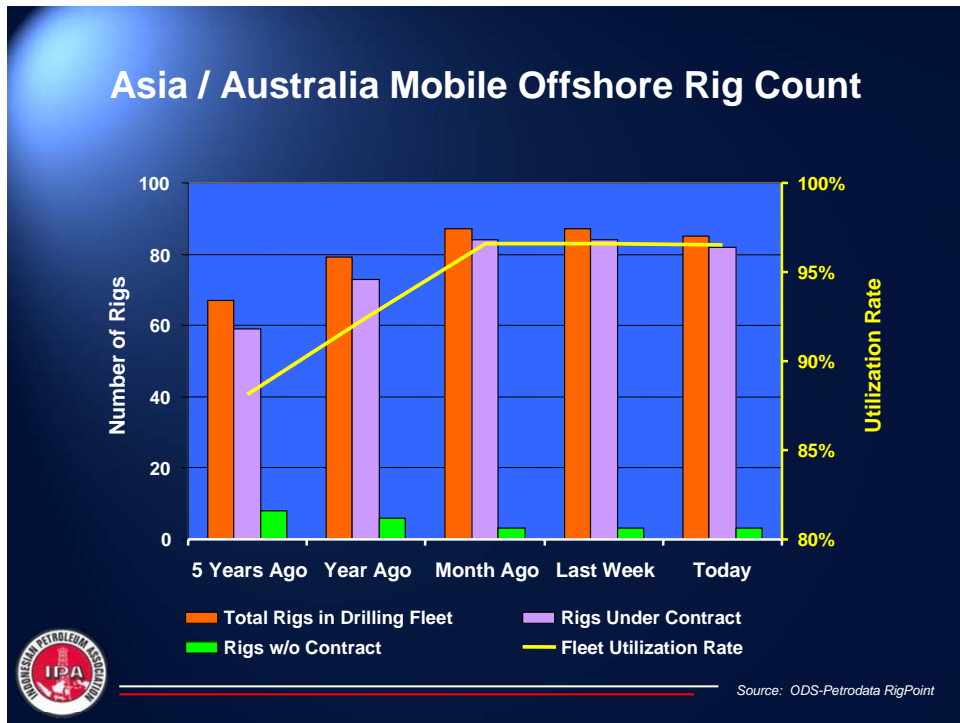




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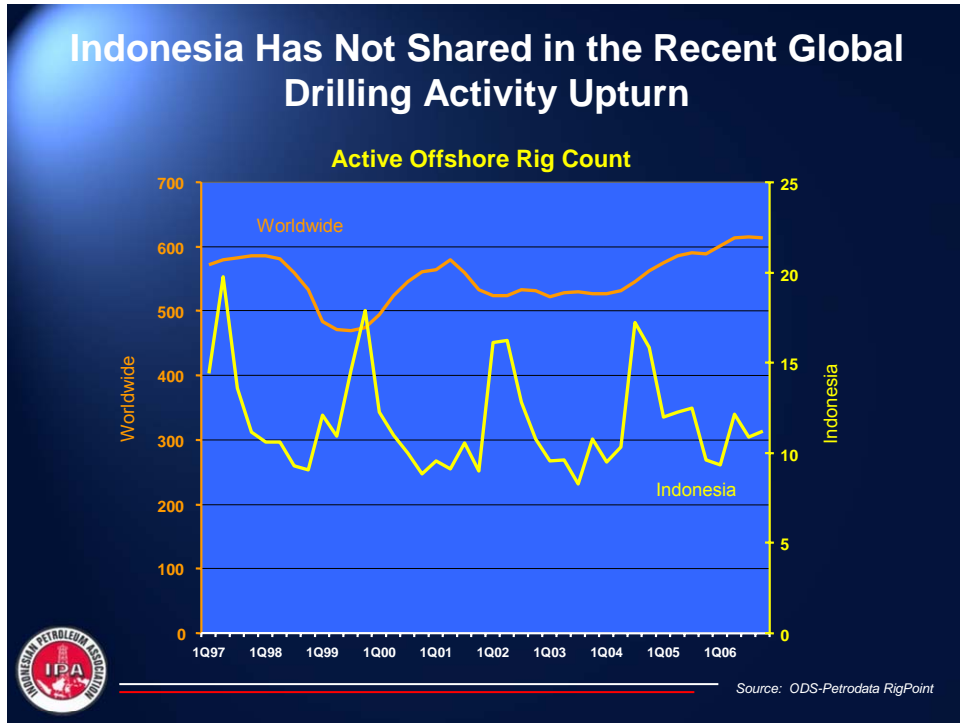


Figure 22

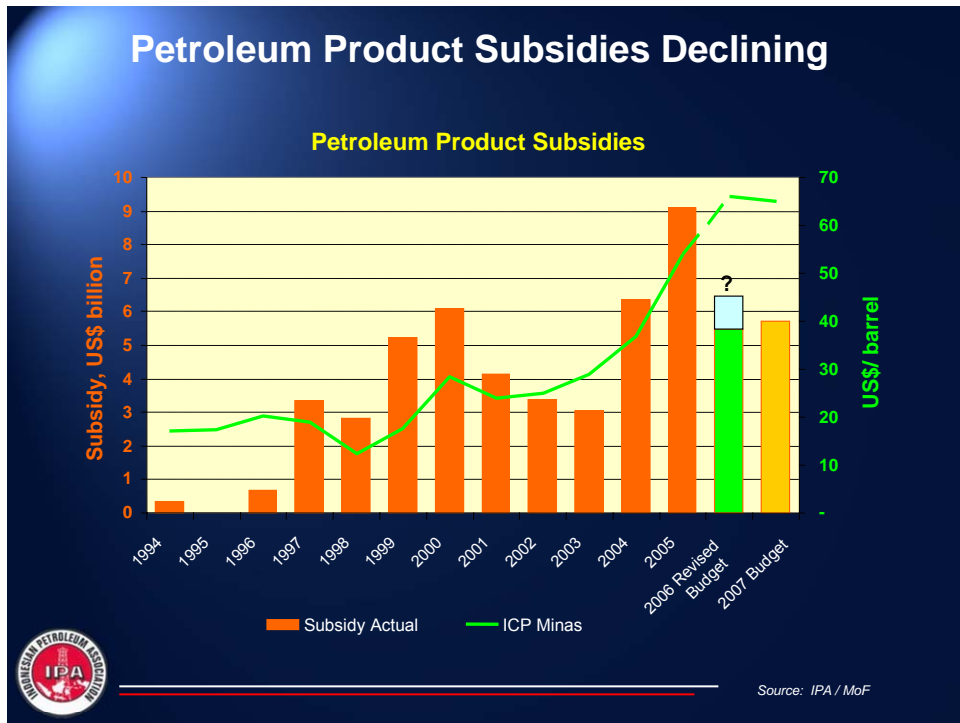


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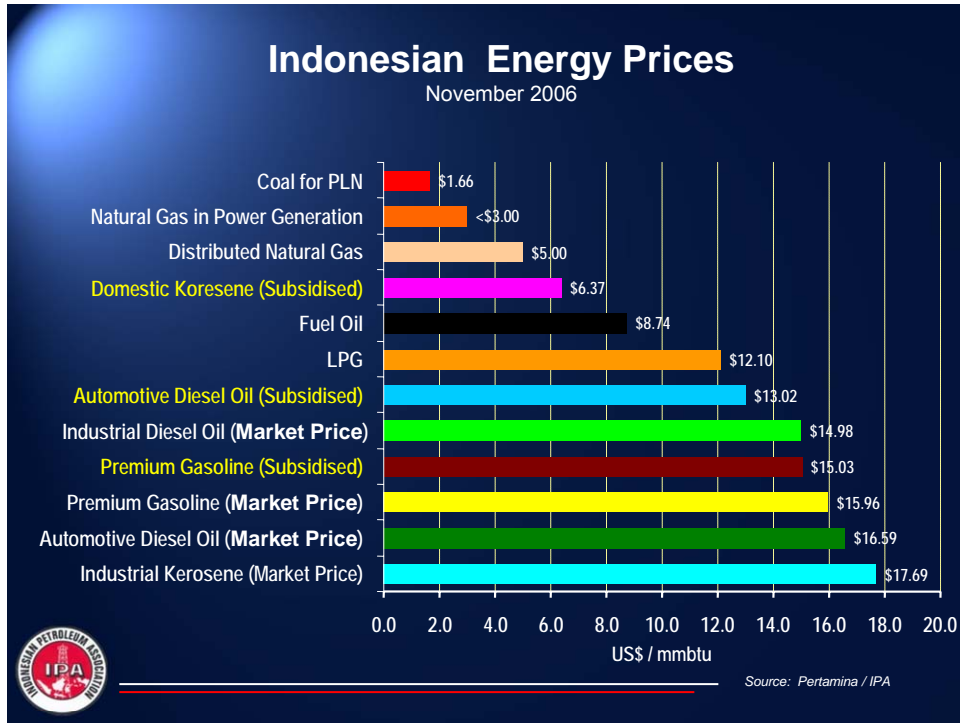


Figure 24

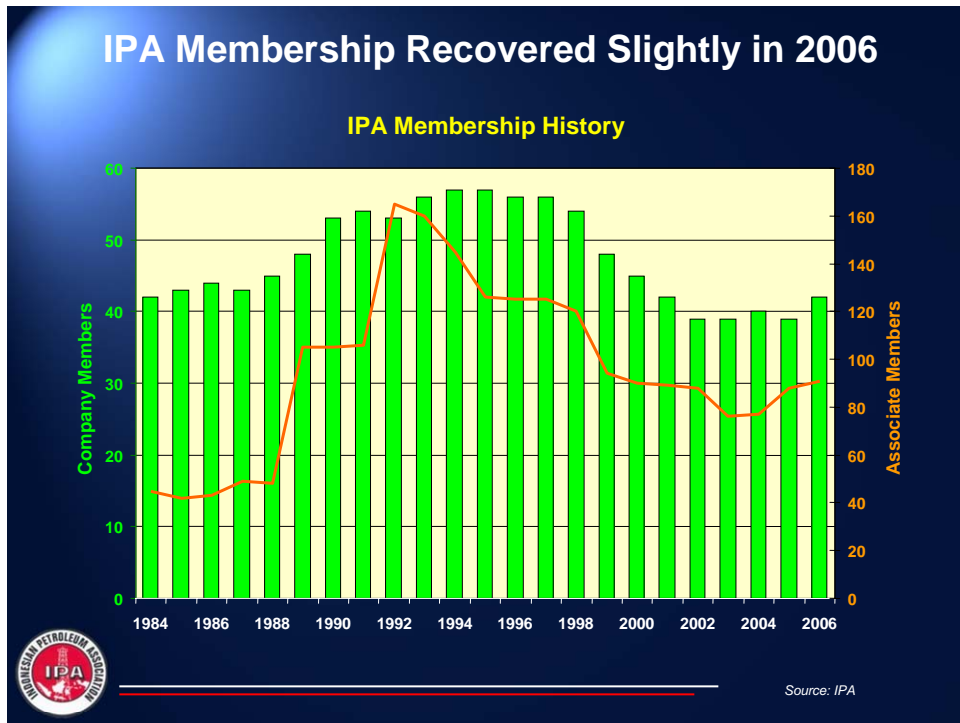


Figure 25



Figure 26

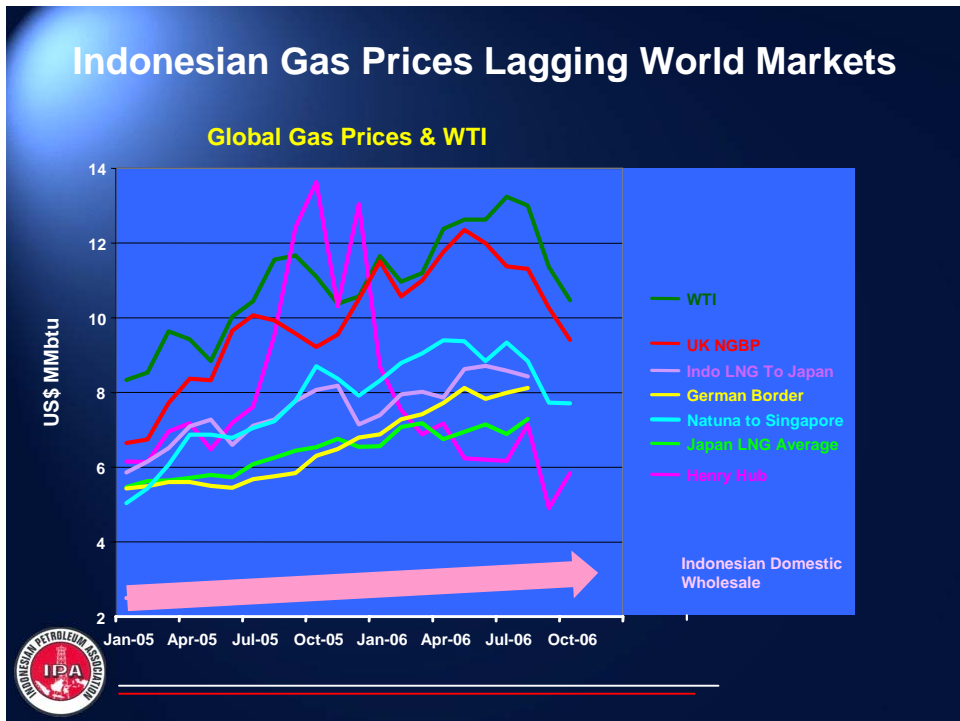
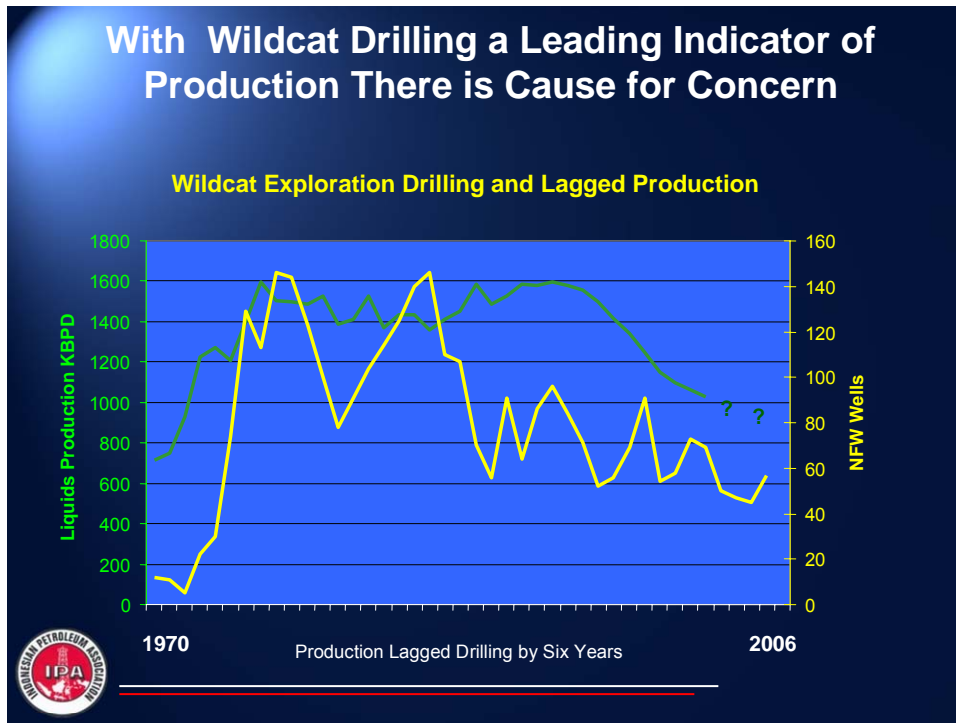


Figure 27



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SECTION 2

**TREASURER'S REPORT**  
**FINANCIAL YEAR 2005**

**Rashid I. Mangunkusumo \***  
(Medco Energi Internasional Tbk.)

**\* Treasurer IPA Board of Directors**



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## TREASURER'S REPORT

### Financial Year 2005

The IPA Audited Statement of Revenue & Expenses for the year ending December 31, 2005 shows an excess of revenues over expenditures resulting in a surplus of Rp. 15.4 million versus a forecast deficit of Rp. 884 million. A large budget deficit had been anticipated based on increased expenses for special studies.

The 2005 surplus of Rp.15.4 million can be largely attributed to another stellar year for the Professional Division which contributed Rp. 935 million (versus Rp. 300 million forecast), the IPA Annual Convention which had a surplus of Rp. 735 million (versus Rp. 600 million forecast) and additional membership dues.

The surplus of Rp.15,4 million, when adjusted for depreciation and other changes in assets and liabilities totaling Rp. 265,9 million results in a net increase in cash of Rp. 250,5 million and a year-end cash balance of Rp. 2.804 billion as indicated by the IPA Audited Cash Flow Statement.

The IPA funds are managed through the use of Rupiah and US Dollar bank accounts with the surplus funds invested in US Dollar denominated time deposit certificates earning on average from 5,75 % to 9.5 % in 2005 for Rupiah, and range from 0,64 % to 3,25 % for USDollar per annum in 2005.

The IPA's Audited Financial Statements are issued by the public accounting firm of Prasetio, Sarwoko & Sandjaja Ernst and Young.

\* \* \* \* \*



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## Indonesian Petroleum Association 2005 Net Income

( in Thousand Rupiah )

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenues	3,703,241	2,580,000	1,123,241
Expenses	3,687,798	3,464,000	223,798
Operating Surplus / ( Defisit )	15,443	(884,000)	899,443
<b>Net Income</b>	<b>15,443</b>	<b>(884,000)</b>	<b>899,443</b>

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## Indonesian Petroleum Association

### 2005 Cash Flow

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	<u>( in Thousand Rupiah )</u>
Opening Balance	2,554,345
Operating Surplus/ ( Defisit )	15,443
Depreciation	56,614
Net (Decrease) / Increase in cash and cash equivalents	1 ) 178,492
	<hr/>
<b>Balance @ December 31 , 2005</b>	<b>2,804,894</b>
	<hr/> <hr/>

Notes : 1 )	- Account Receivable and Prepayment	(21,102)
	- Employee loans receivable	289
	- Inventory	(123,364)
	- Defered Tax asset	0
	- Account Payable and accrued liabilities	237,006
	- Taxes payable	(62,265)
	- Employee severence	222,244
	- Unearned revenue	0
	- Purchase of Fixed assets	(70,600)
	- Bad Debt exp.	(3,716)
		<hr/>
		178,492
		<hr/> <hr/>



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## Indonesian Petroleum Association 2005 Revenues

( in Thousand Rupiah )

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Company & Associate Dues	1,949,443	1,600,000	349,443
Professional Division Surplus	936,657	300,000	636,657
Sale of Publications	61,949	50,000	11,949
Sale of Seismic Atlas	0	0	0
Bank Interest, Other	20,183	30,000	(9,817)
Convention Surplus	735,009	600,000	135,009
	<hr/> <b>3,703,241</b>	<hr/> <b>2,580,000</b>	<hr/> <b>1,123,241</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Indonesian Petroleum Association 2005 Expenses

( in Thousand Rupiah )

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
University Assistance Committee	319,767	330,000	(10,233)
Regulatory Affair Comm.	1,150	25,000	(23,850)
LNG & Gas Sales Com.	0	20,000	(20,000)
KRIS Committee	0	0	0
Finance Committee	25,914	30,000	(4,086)
Environmental Affairs Committee	0	7,000	(7,000)
Communication Committee	0	40,000	(40,000)
Special Project	1,114,668	1,080,000	34,668
Salaries & Employee Costs	1,419,774	1,215,000	204,774
Office Rental (Incl. Electricity)	312,897	270,000	42,897
Transportations	45,203	42,000	3,203
General & Administrative 1 )	521,252	405,000	116,252
Foreign Exchange ( Gain )	(98,325)	0	(98,325)
Others expenses	0	0	0
Corporate income tax : Current	25,498	0	25,498
	<b>3,687,798</b>	<b>3,464,000</b>	<b>223,798</b>

Notes :

1 ) Explained on the 2005 G & A



## Indonesian Petroleum Association 2005 General & Administrative Expenses

( in Thousand Rupiah )

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Printing & Reproductions	31,222	25,000	6,222
Postage & Mails	13,659	20,000	(6,341)
Bank Charges	6,773	8,000	(1,227)
Travel & Employee training	11,084	25,000	(13,916)
Telephone & Facsimile	38,540	39,000	(460)
AGM Meeting	48,631	55,000	(6,369)
Office Supplies	41,304	45,000	(3,696)
Office Maintenance & Renovation	8,300	3,000	5,300
Photocopy Equipment Rental	35,564	40,000	(4,436)
Public Accountant/Tax Consultant	156,715	75,000	81,715 (**)
Write off A / Receivable	0	0	0
Miscellaneous	129,460	70,000	59,460
<b>Total</b>	<b>521,252</b>	<b>405,000</b>	<b>116,252</b>

Notes ;

(\*\*) Tax consultants fees being 2001 Tax Audit by KARIPKA / Tax government  
Unbudgeted



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**Indonesian Petroleum Association**  
**CASH FLOW**

YEAR TO DATE OCTOBER 31 , 2006

(Rp.000s)

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	<u>YTD</u> <u>2005</u> <u>ACTUAL</u>
Opening Balance January 1, 2006	2,804,894
Net Operating Surplus / ( Defisit )	2,391,617
Surplus adjustment year to date depreciation	39,749
<b>General Fund</b>	
<b>Changes in Working Capital</b>	
Collection of Prof.Div.Account Receivable	1,105,773
Increase of 2006 Prof.Div. Acc.Receivable	(679,107)
Collection of 2005, IPA Convention Acc.Receivable	319,652
Increase of 2005 IPA Convention . Acc.Receivable	0
Collection of Employees Personal Loans Acc.Rec.	27,740
Additional of Employees Personal Loans Acc.Rec.	(51,214)
Prepayment of 2006 Office Rent & other prepayment	159,327
Payment of 2005,06 Account Payable	(1,394,645)
Increase of 2006 Account Receivable Jak.2006 Conv.	(1,111,275)
Increase of 2006 Account Payable Jak.2006 Conv.	2,623,313
Other : Inventory	(35,971)
	<hr/>
	6,199,853
	<hr/>



**Indonesian Petroleum Association**  
**STATEMENT OF REVENUE & EXPENSE**

OCTOBER 31, 2006

(Rp.000s)

	YTD ACTUAL	AVG.YTD. 2006 BUDGET	FULL YEAR 2006 BUDGET
<b><u>REVENUES</u></b>			
Company & Associate Membership Dues	2,393,021	1,769,083	2,122,900
Professional Division Surplus / (Deficit)	2,097,821	916,667	1,100,000
Sale of Publications	57,805	41,667	50,000
Bank Interest, Other	49,036	25,000	30,000
2006* IPA Convention ( No convention )	0	0	0
	<b>4,597,683</b>	<b>2,752,417</b>	<b>3,302,900</b>
<b><u>EXPENDITURES</u></b>			
University Assistance Committee	228,201	325,833	391,000
Regulatory Affair	10,286	16,667	20,000
LNG & Gas Sale Comm.	-	16,667	20,000
KRIS Committee	-	-	-
Finance Committee	24,960	458,333	550,000
Environmental Affairs Committee	-	5,833	7,000
Special Project ( PwC & WMc) **	31,491	-	-
Communication Committee	-	25,000	30,000
Salaries & Employee Costs	1,221,886	1,260,833	1,513,000
Office Rental ( Inclusive Electricity )	260,235	262,500	315,000
Transportation	51,253	37,500	45,000
General & Administrative	357,989	334,917	401,900
Capital Investment / Office machine etc.	-	-	-
Foreign exchange (gain) or loss	19,765	-	-
	<b>2,206,066</b>	<b>2,744,083</b>	<b>3,292,900</b>
<b>NET OPERATING SURPLUS (DEFICIT)</b>	<b>2,391,617</b>	<b>8,334</b>	<b>10,000</b>
Income Tax / Corporate Tax Est.2006	0		
<b>NET SURPLUS AFTER TAX</b>	<b>2,391,617</b>		

Note ;

\*\* In November we pay for Special Project about Rp.257,000,



**INDONESIAN PETROLEUM ASSOCIATION**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2005 AND DECEMBER 31, 2004**  
**(Rp'000)**

	<u>AUDITED</u> <u>DEC.31.05</u>	<u>AUDITED</u> <u>DEC.31.04</u>
<b><u>ASSETS</u></b>		
Current Assets :		
Cash On Hand and in Banks	2,047,894	916,945
Time Deposits	757,000	1,637,400
2003 , 05 Convention Receivable	453,830	362
Account Receivable	467,297	820,573
Account Receivable - 1987/88 Tax Refunds	21,042	21,042
Current Portion of Employee Loans Receivable	12,786	13,075
Inventory	166,823	43,459
Prepaid	95,333	140,141
Bad Debt	(3,716)	(11,148)
	<hr/>	<hr/>
Total Current Assets	4,018,289	3,581,849
Fixed Assets at cost :		
Office Furniture & Fixtures	20,300	6,000
Office Machines	390,268	386,768
Accumulated Depreciation	(319,592)	(264,738)
Deferred Tax Assets		
	<hr/>	<hr/>
	90,976	128,030
Employee Loans Receivable	0	0
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>4,109,265</b>	<b>3,709,879</b>
<b><u>LIABILITIES AND ACCUMULATED SURPLUS</u></b>		
Current Liabilities :		
Account Payable and Accrued Liabilities	985,225	591,651
Corporate Income Tax Payable	35,316	134,751
	<hr/>	<hr/>
Total Current Liabilities	1,020,541	726,402
Non Current Liabilities :		
Liability for Severance Payments	888,510	820,964
Other Payable	22,258	0
<b>TOTAL LIABILITIES</b>	<b>1,931,309</b>	<b>1,547,366</b>
Accumulated Surplus	2,177,956	2,162,513
	<hr/>	<hr/>
<b>TOTAL</b>	<b>4,109,265</b>	<b>3,709,879</b>



**INDONESIAN PETROLEUM ASSOCIATION**  
**BALANCE SHEET**  
**AS AT OCTOBER 31, 2006 AND DECEMBER 31, 2005**  
**(Rp'000)**

	<u>OCT.31.06</u>	<u>SEP.30.06</u>	<u>AUDITED DEC.31.05</u>
<b>ASSETS</b>			
<b>Current Assets :</b>			
Cash On Hand and in Banks	5,001,103	4,079,472	2,047,894
Time Deposits	1,198,750	1,208,125	757,000
2003 , 05 Convention Receivable	134,178	134,178	453,830
Account Receivable	40,632	53,379	467,297
Account Receivable Others, Jak.2006 Conv.	1,111,275	0	0
Account Receivable - 1987/88 Tax Claim	21,042	21,042	21,042
Current Portion of Employee Loans Receivable	0	0	12,786
Inventory	48,295	48,971	166,823
Prepaid	191,796	208,558	95,333
Allowance for Bad Debt	(16,722)	(16,722)	(3,716)
<b>Total Current Assets</b>	<b>7,730,349</b>	<b>5,737,003</b>	<b>4,018,289</b>
<b>Fixed Assets at cost :</b>			
Office Furniture & Fixtures	20,300	20,300	20,300
Office Machines	390,268	390,268	390,268
Accumulated Depreciation	(359,342)	(355,426)	(319,592)
Deferred Tax Assets			
	51,226	55,142	90,976
Employee Loans Receivable	36,261	26,466	0
<b>TOTAL ASSETS</b>	<b>7,817,836</b>	<b>5,818,611</b>	<b>4,109,265</b>
<b>LIABILITIES AND ACCUMULATED SURPLUS</b>			
<b>Current Liabilities :</b>			
Account Payable and Accrued Liabilities	2,230,698	593,029	985,225
Corporate Income Tax Payable	37,474	37,474	35,316
<b>Total Current Liabilities</b>	<b>2,268,172</b>	<b>630,503</b>	<b>1,020,541</b>
<b>Non Current Liabilities :</b>			
Liability for Severance Payments	1,044,642	1,029,028	888,510
Others Payable	0	0	22,258
<b>TOTAL LIABILITIES</b>	<b>3,312,814</b>	<b>1,659,531</b>	<b>1,931,309</b>
Accumulated Surplus	4,505,022	4,159,080	2,177,956
<b>TOTAL</b>	<b>7,817,836</b>	<b>5,818,611</b>	<b>4,109,265</b>



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SECTION 3

**COMMUNICATIONS COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Sonny Kosasih \***  
(PREMIER OIL)

**\* Chairman Communications Committee**





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## **COMMUNICATION COMMITTEE**

### **Report on 2006 Activities**

There has been no major communication events initiated directly by the committee during the period of February to December 2006, communication or events with the outside whether with Government, association, etc have been done through the Executive Directors and various committees and sub Committees within the IPA on a very wide range of issues. However, the Communication Committee have been directly involved in arranging 4 important meetings during this period which substantially would enhance perception and understanding of IPA's positive role in the Oil and Gas business in Indonesia.

#### ***Hearing with Commission VII regarding The "Draft" Energy law***

On February 21 2006, DPR Commission VII invited IPA together with PII, IGA and MEI to give input regarding the draft of the Energy Law (RUU tentang Energy). IPA through Peter Dumanauw, as Regulatory Committee, led the IPA representative and presented our view to Agusman Effendi as Head of Commission VII.

#### ***Dialogue with BPMIGAS***

In early May 2006, IPA BoD led by President of IPA made a courtesy call to Chairman of BPMIGAS. This was then continued with a one-day meeting in Bandung in June 5 2006 between IPA BoD and Chairman and Deputies of BPMIGAS. The topic of the discussion focused on:

- Joint IPA - BPMIGAS fiscal study
- Opportunities presented with adoption of a new income tax law.
- Streaming business process BPMIGAS AFE procedure.
- What BPMIGAS requires from IPA to support Government objectives.

#### ***IPA press conference***

In March 28 2006, IPA held a press conference at Mulia hotel and issued IPA statement and fact sheet. 20 Oil and Gas journalist attended.



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### ***Meeting with MIGAS on tendering acreage through tender & direct appointment***

In March 17 2006, the IPA BoD met the Director General of MIGAS and his Directors to give input and feed back to the Government regarding the tendering of new acreage through tender and direct appointment.

### ***The committee also attended other meetings representing IPA such as***

- Best Practice in Community Development in the Oil and Gas sector held by ESDM on Oct 16 2006
- Kaukus MIGAS - ASPRMIGAS on September 6
- Development of quality Management in compiling and organizing data's in the energy & mineral sector –ESDM Sept 5 2006
- Meeting regarding Launching of Indonesia incorporated (June 29)
- Socialization of Ministerial Decree no 40 Dirjen MIGAS (June 29)
- INDONESIA - AUSTRALIA JOINT WORKING GROUP on June 26-28 2006
- Draft on Environmental and Territory law (UU penataan ruang) 21 June DESDM
- Management and Utilization of data deriving from General Survey, Exploration of Oil and gas

### ***The IPA Communication Committee***

Santosa Kosasih (Sonny) from Premier Oil as Chairman of Communication Committee  
Razief Fitri (Ipun) from ConocoPhillips as Vice Chairman of Communication Committee

### ***2007 objectives***

The goal is maintain or enhance active and positive communication with BPMIGAS, MIGAS, other association and IPA members.

### ***As the first step in 2007:***

New committee members will be recruited to achieve goal

- Hold at least one (1) high-level BPMIGAS - IPA BoD 1 day outing while discussing Indonesian Oil and Gas business issues
- Participate in events / meeting held by related association



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SECTION 4

**31<sup>st</sup> ANNUAL IPA CONVENTION & EXHIBITION COMMITTEE  
REPORT OF ACTIVITIES**

**Sugiarto Moechammad \***  
(CNOOC)

**\* Chairman 31<sup>st</sup> Annual IPA Convention & Exhibition Committee**



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# THIRTY FIRST ANNUAL IPA CONVENTION COMMITTEE

## 14-16 May 2007

The Thirty First Annual IPA Convention & Exhibition will be conducted on 14 through 16 May 2007 at the Jakarta Convention Center.

The Convention's theme approved by the Board is "**Promoting Investment Through Partnership**". It is planned to invite the President of the Republic of Indonesia to open the convention, to be followed by reports from the President of the IPA Board of Directors and by the H.E. Minister of Energy and Mineral Resources of the Republic of Indonesia. The Committee is approaching some major companies CEO's to determine their availability to deliver key notes.

Members of the Thirty first Annual IPA Convention & Exhibition Committee are listed below.

<b>General Chairman</b>	:	Sugiarto Moechammad	(CNOOC SES, Ltd)
<b>General Vice Chairman</b>	:	Sergio Laura	(Eni Indonesia)
		Maman Budiman	(ExxonMobil, proposed)
<b>Advisors</b>	:	Amir Hamzah	(BPMIGAS)
		T.M. Razief Fitri	(ConocoPhillips)
IPA Secretariat	:	Wursitaningari	(IPA)
		Audrey Sahertian	(IPA)

<b><u>Committee</u></b>	<b><u>Chairperson</u></b>	<b><u>Vice-Chairperson</u></b>
Exhibition	Ratna S. Novanti (Chevron)	M. Berli (Total Indonesia)
Field Trips	Toby Read (Premier Oil)	
Finance	Freddy (PetroChina)	Dini Mardiani (ENI Indonesia)/ Edy Jusuf Siswoyo (IPA)
Golf	Benny Permana (ConocoPhillips)	Jacob Kastanja (BP)
Plenary	Suhadi D. (Schlumberger)	Maria R. Nellia (Medco E&P)
Publicity	Aditya Mandala (Medco E&P)	Deva Rachman (ExxonMobil)
Reception	Maya Damajanti (Total Indonesia)	Joang Laksanto (ConocoPhillips)
Registration	Audrey Sahertian (IPA)	
Security	Gunarsito (PetroChina)	Poedjiwo (ENI Indonesia)/ John F. Batubara (ConocoPhillips)
Short Course	Sigit Sukmono	Leonard Lisapaly
Social	Husainah R.B. (Medco E&P)	Ratih Indra (Premier Oil)/ Savitri Trikusuma (Elnusa Bangkanai)
Sponsorship	Handoyo Eko Wahono (BPMIGAS)	Suprijonggo Santoso (Saripari)
Student Volunteer	Maria Meirita (ConocoPhillips)	Fitrix Putro (CNOOC)
Technical Program	Heri Suryanto (ConocoPhillips)	Toby Read (Premier Oil)



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## CONVENTION STATISTIC

Target registrant	:	1500
Short Courses	:	5
Field Trips	:	3

## TECHNICAL PROGRAM

To date, 60 abstracts have already been received from producers, service companies, government agencies, universities and students. The due date is postponed to 30 November with a target of 150 abstracts of which 85 will be selected for oral presentation, and 20 for poster presentations.

## SHORT COURSES

Five short courses will be conducted, i.e. Understanding the Indonesian Upstream Oil & Gas Industry; Characterizing & Modeling of Naturally Fractured Reservoirs; The Assessment, Classification and Reporting of Reserves; The Seismic Velocity Model as an Interpretation Asset; and Reservoir Geology.

## FIELD TRIPS

Three field trips are scheduled. Areas to be visited are SE Asia Miocene carbonate plays, Mahakam Delta and South Sulawesi.

## BUDGET

The committee has set a budget to earn Rp. 9.6 billion in revenue against expenditures of Rp. 7.7 billion. The target surplus is Rp.1.9 billion.





## Budget Conference & Exhibition 2007 (vs Actual 2005)

	ACTUAL 2005	Budget 2007	Increase / (Decrease)
in Rp mm			
<b>REVENUES</b>			
Advance from IPA Board	-	-	-
Registered Booth Assistant: 200 persons @ \$65 (last conv. @ \$32)	48,015,405	117,000,000	68,984,595
Convention Fees: 1500 persons @ Rp2,250,000 (last conv. @ Rp1,600,000)	1,720,317,200	3,375,000,000	1,654,682,800
Golf Fees: Men + Ladies 135 persons @ Rp1,500,000 (last conv. @ Rp1,200,000)	127,276,560	202,500,000	75,223,440
Field Trip	-	-	-
Tech. Program Comm/Ind'l Booths: 2029 sqm x \$292 (last conv. \$250)	3,757,918,096	4,909,086,000	1,151,167,904
Deduction for Withholding Tax 10% on Booth Revenue	(490,908,600)	(490,908,600)	(490,908,600)
Sponsor	1,162,877,000	1,200,000,000	37,123,000
Short Course	-	-	-
One Night Time Deposit Infr. Income	(574,455)	-	574,455
Proceeding Books Income (Sold 200 bks)	328,900,000	300,000,000	(28,900,000)
Gain / (Loss) on exchange, internal transfer	-	-	-
Other Income / Over Payment	7,580,903	-	(7,580,903)
<b>TOTAL CASH RECEIVED (A)</b>	<b>7,152,310,709</b>	<b>9,612,677,400</b>	<b>2,460,366,691</b>
<b>EXPENDITURES</b>			
Secretariat and System (Wursitaningari / IPA)	126,368,765	147,319,000	20,950,235
Technical Program Committee (Heri Suryanto)	691,642,983	832,917,600	141,274,617
Social Committee (Husainah R.B.)	1,711,088,400	2,515,650,000	804,561,600
Reception Committee (Maja Damayanti)	713,785,800	897,579,360	183,793,560
Registration Committee (Audrey S. / IPA)	339,783,186	422,000,000	82,216,814
Exhibition Committee (Ratna S. Novanti)	1,404,707,990	1,452,696,000	47,988,010
Golf Committee (Benny Permana)	225,218,625	371,900,000	146,681,375
Finance Committee (Freddy)	18,344,875	24,652,130	6,307,255
Plenary Session (TBA)	63,323,430	85,000,000	21,676,570
(Gain) / Loss in Finance Comm.	(47,543,823)	-	47,543,823
Media Week / Publicity (Aditya Mandala)	483,353,647	555,856,694	72,503,047
Student Volunteer (Maria Meirita)	49,205,825	80,700,000	31,494,175
Security (Gunarsito)	266,000,000	345,800,000	79,800,000
<b>TOTAL EXPENDITURES (B)</b>	<b>6,045,279,703</b>	<b>7,732,070,784</b>	<b>1,686,791,081</b>
<b>SURPLUS / (DEFISIT) (C = A - B)</b>	<b>1,107,031,006</b>	<b>1,880,606,616</b>	<b>773,575,610</b>
Prepaid Withholding Tax PPh Art. 23	359,000,000	-	(359,000,000)
<b>NET SURPLUS / (DEFISIT)</b>	<b>748,031,006</b>	<b>1,880,606,616</b>	<b>1,132,575,610</b>

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SECTION 5

**DATA MANAGEMENT COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Prajuto \***

(Medco Energi Internasional Tbk.)

**\* Chairman Data Management Committee**



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# DATA MANAGEMENT COMMITTEE

## Report of 2006 Activities

### **Purpose (as in IPA DMC Charter):**

The Data Management Committee serves as a standing committee to the IPA Board of Directors on:

- Matters involving management and regulation of petroleum industry technical data. The committee confers on such matters at the request of the Board of Directors
- Makes recommendations to the Board on matters of interest to the IPA membership.
- Provides a forum for joint cooperation between industry and government organizations in the development of:
  - Technical data standards
  - Formulation of regulatory requirements
  - Design and implementation of government-sponsored technical data management initiatives
  - Operation of technical data management systems.

### **Active Membership (at year end):**

Prajuto (Chairman)	Medco E&P Indonesia
Leonardus Tjahjadi (Secretary)	BP

Member:

Louis Rothenberg	Santos
Abi Suyoso	BP
Ellinda Roza	Chevron
Amireno Soenoro	ConocoPhillips
Abdi Mulia	ExxonMobil
Forrest Wilson	Independent Consultant
Nyoman Swatika	Total
Kukuh Tjatur	Medco E&P Indonesia

### **2006 Highlights:**

- (1) Implementing Regulation of Oil and Gas Law No. 22
- (2) Implementation of Ministry Regulation on the Management and Utilization of Data deriving from General Survey, Exploration and Exploitation of Oil and Natural Gas





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- (3) Establishment of PUSDATIN, The centre of Data and Information under Ministry of ESDM.
  - (4) SOP development of the Ministry Regulation on the Management and Utilization of Data deriving from General Survey, Exploration and Exploitation of Oil and Natural Gas

The Committee has decided to endorse the SOP development. The development should be done by all PSC's, PUSDATIN, BP MIGAS, DitJen MIGAS, and professional association as it was proposed previously. Input has been drafted to the IPA President

- (5). Committee Chairman and Secretary

Due to the new assignment outside of Indonesia (moved to Santos), Louis Rothenberg had resigned from the position of the Secretary of the Committee but he is willing to be a member. The committee new secretary is Leonardus Tjahjadi, from BP.

### **2007 Objectives:**

To establish a communication with DitJen MIGAS and PUSDATIN

- Providing inputs on the subsequent data management regulation
- Understand and work together to explore opportunities for mutual collaboration on issues of management of oil and gas data.
- Work together on Knowledge management (sharing and learning)

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SECTION 6

**DOWNSTREAM COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Debut Kamajaya \***  
(TOTAL OIL INDONESIA)

**\* Chairman Downstream Committee**



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# DOWNSTREAM COMMITTEE

## Report of 2006 Activities

### 2006 Highlights:

#### **IPA Downstream Committee Activities:**

- Committee members represent AKR, British Petroleum, Chevron, ConocoPhillips, Elnusa Petrofin, ExxonMobil, Pertamina, Petrolima, Petronas, Shell & Total
- Rotation of the chairmanship in May 2006, Debut Kamajaya from Total and Imansyah from Shell were elected as Chairman and Vice Chairman.
- Some of members (Shell, Petronas, Total, Chevron and AKR) assigned consultant (David Braithwaite) to develop PSO fuels report. This report is basically looking to the existing PSO system from stake holders' views to come out with the best proposed system. The report was already presented to BPH Migas by end of October.
- Meetings and public hearing with BPH Migas (in Bali and Jakarta) mostly on PSO issues.
- Meetings with Migas (in Batam and Jakarta) on the spec, PSO and other issues.
- Meeting with KPPU on the investment obstacles to Indonesia.

#### **Industry and Environment:**

- Pertamina is almost certain to be directly appointed to supply and distribute whole PSO fuels for 2007.
- Govt decides for PSO fuels reimbursement figure (avg: MOPS + 14.1 %) for 2006, however Pertamina is negotiating to get it bigger.
- For the new private players, there is still big stumbling block from parliament on the possibility of participation on PSO fuels distribution.
- There are at least 3 new players already exist in the market for industrial fuels (AKR, Petronas and Shell) and more players is wanting to go in. Although the volume is growing, it is still considerably very small compared to Pertamina (<5% industrial fuel market share).
- There are already 6 new players' petrol stations in operation (Shell and Petronas) and more stations are coming next year (from more new players). However, the



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sales volume is really depend on the price gap vs subsidized regular fuels (fixed price, set up by government), the wider gap, the lesser the volume.

- Pertamina always be in the different side of boat with almost all the active committee members especially particular for the PSO issues.

### **Regulation Issues:**

- BPH Migas regulation: PSO Fuels Distribution Zones (No.9) - issued, PSO Fuels Tender Guideline (under discussion).
- Requirement to Government to review the BPH Migas regulation No.9 (PSO Fuels and Distribution Zones), in particular to the article of being presence in at least two (2) distribution zones as the condition to be qualified into PSO fuels distribution tender.

### **Special Issue (Organization – Internal):**

- To name the group of some members of IPA downstream committee (new investors minus Pertamina) as The New Downstream Investor group, instead of IPA Downstream Committee, for conveying the concerns related to the particular PSO issues only.
- This is suggested by many new players (IPA DC members) as a solution on the issue of the difference concern between Pertamina and New Investors for particular PSO issues within IPA downstream committee.

### **Concerns Left in 2006**

- Fair and equal access to PSO grades. PSO fuels access is critical to support economics
- Condition to be qualified to be qualified into the participation to the PSO tender
- Fuels specification.
- Distribution in remote area
- BPH Migas fees. It should be funded through income tax.
- Streamlining of local permits
- Clarity on regulations to potential new entrants
- Lack details of following regulations. Some still outstanding, numbers and time.



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SECTION 7

**ENVIRONMENT AND SAFETY COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Agustanzil Syahroezah \***  
(Energi Mega Persada Tbk.)

**\* Chairman Environment and Safety Committee**



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# 2006 IPA Environment and Safety Committee (IPA ESC) ANNUAL REPORT

## I. ENVIRONMENT SUB-COMMITTEE

Since end of May 2006, there has been Hot Mud Flow nearby drilling location in Porong, Sidoarjo - East Java, and this becomes an environmental disaster. Since then, environment issues have been a hot topic nationally and grown more complex and demanding for the oil & gas industry in Indonesia. The increase in Hot Mud Flow volume has been a big challenges for the government, environmental professionals, academic and research institution. IPA ESC has participated in some discussions with BPMIGAS, MIGAS and KLH. IPA ESC also participated in seminar conducted by University of Airlangga Surabaya and National Symposium conducted by ITS Surabaya besides proposing a solution to solve the problem by submitting a position paper.

The environmental disaster in East Java has made a local authorities demand an involvement in permitting issues and reviewing UKL/UPL which is authorized by MIGAS.

To response the growing challenges in environmental issues the IPA ESC has developed and promoted high standards of environmental performance in the industries. The committee also proactively assists the government cq. the Ministry of Environment to issue environmental regulations which is reasonable and achievable for industries without sacrificing the environment and human being. To achieve this mission, IPA ESC, therefore objectively interprets, clarifies, and communicates environmental issues and environmental regulations to complement the ongoing environmental activities of the Government of Indonesia.

IPA ESC is a working committee and serves as a bridge between oil and gas operations and regulatory body. The committee is to ensure that oil and gas operations comply with the applicable regulations. On the other hand, the committee actively participates in reviewing the draft of the regulations to ensure the regulations are reasonable for industries without sacrificing the environment and human being. To enable the committee to function properly and to accomplish the mission, the committee members consist of 22 professionals who work for the IPA Member Companies. IPA ESC consists of two sub committees, Environment sub committee and Safety sub committee.

Agustanzil Sjahroezah has been elected as the IPA ESC Chairman for the period 2006-2008 replacing Arudji Wahyono since August 2006

## 2006 ENVIRONMENT SUB COMMITTEE MEMBERS

Chairman : Agustanzil Sjahroezah                    -     EMP  
Secretary: Sapta Nugraha                            -     BPMIGAS



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Members :

1. Agustina Parwitosari - Chevron
2. Ali Dikri - Chevron
3. Arudji Wahyono - Chevron
4. Elvira T. Putri - EMOI
5. Huala Nadapdap - HESS
6. Muhammad Shobirin - Premier Oil
7. Rachmat Priatna - BPMIGAS
8. Rossi Yuliani - BP
9. Singgih Hidayat - Pertamina
10. Sugiarto - COPI
11. Suripno - Total
12. Tri Wisono - Chevron

Since its establishment in 1990, the Committee chairmanship has changed along the period, the honorary chairman of the committee as listed below:

### **HONORARY CHAIRMEN**

1. Michael Bradey - Lasmo Oil
2. Steve Massey - Mobil Oil Indonesia
3. I Made Surya Kusuma - Caltex Pacific Indonesia
4. Benky Bagoes Oka - ARCO Indonesia
5. Otong S. Adisapoetra - Repsol YPF
6. Jusuf R. Odang - Vico
7. Arudji Wahyono - Chevron

Members who resigned from the Committee in 2006:

- Rochana Hasan (VICO) – retirement
- Bob Djanegara (Chevron) – work change
- Komar Adiwijaya (Pertamina) – retirement

### **2006 WORK PROGRAM AND HIGHLIGHTS**

In 2006, three work programs have been agreed among the sub-committee members. The work programs and its coordinator are as follows:

1. Regulatory Issues - Agustanzil Sjahroezah
2. Implementation Issues - Suripno
3. B3 Waste Write Off Process - Muhammad Najib/Sapta Nugraha

#### **1. Regulatory Issues**

IPA ESC has been actively involved in preparing revisions to some ministerial of Environment (LH) decrees on environment and developing ministerial of Energy and Mineral Resources offices (DESDM) such as:



- **Permen ESDM No. 45/2006** on Drilling & Cutting Management for Oil & Gas Activities (*completed*)
- **Permen LH No. 12/2006** on Offshore Discharge Permit (*completed*)
- Kepmen LH No. 17/2001 → **Permen LH No. 11/2006** on Activities Requiring AMDAL Study (*completed*)
- Kepmen LH No. 42/1996 on Liquid Waste Standards for Oil & Gas Activities (*on-going*)
- Kepmen LH No. 129/2003 on Emission Standards for Oil & Gas Activities (*on-going*)
- Draft Permen LH on Produced Water Re-injection Technique for Oil & Gas Activities (*on-going*)

## 2. Implementation Issues

- Completed and submitted IPA ESC Position Paper on PROPER to the Ministry of Environment (KLH) – April 2006.
- Discussed CDM (Clean Development Mechanism) and Gas Flaring Reduction.
- Submitted position paper on National Symposium on “Hot Mud Flow – Discharge of Mud to the Sea”, held by ITS, Surabaya, September 2006.

## 3. Waste Write Off Process

- Submitted feedback for process improvement on B3 Waste Write Off Process through focal point of BPMIGAS (Asset Management Department) – March 2006.

## II. SAFETY SUB COMMITTEE

The objective of the Safety Sub Committee is to promotion of consistently high standards in Safety performance. The committee interprets, clarifies and communicates Safety requirements and concerns. Their work is intended to complement with the ongoing Safety activities of the Government and BPMIGAS.

### 2006 SAFETY SUB COMMITTEE MEMBERS

Chairman	:	Agustanzil Sjahroezah	-	EMP
Secretary	:	Harry Eddyarso	-	Saripari
Members	:			
		1. Ateng Surachmat	-	VICO Indonesia
		2. Arudji Wahyono	-	Chevron
		3. Bambang SP	-	Pertamina
		4. Doni Wibisono	-	Medco
		5. Elviera Putri	-	EMOI





- 
- |    |                |   |         |
|----|----------------|---|---------|
| 6. | Karel Piet     | - | CNOOC   |
| 7. | Muhamad Najib  | - | Total   |
| 8. | S. Penangsang  | - | BPMIGAS |
| 9. | Satrio Pratomo | - | EMP     |

## 2006 WORK PROGRAM AND HIGHLIGHTS

In 2006 five work programs has been agreed among the sub-committee members.

The work programs and its coordinator as follows:

1. PP K3PL (Government Decree on HSE) - Mohammad Nadjib
2. Equipment Certification - Elviera T. Putri

### 1. RPPK3PL Review

- Reviewed the Draft of the Government Regulation on Safety, Health & Environment (RPPK3PL).

### 2. Equipment Certification

- Reviewed position paper on MIGAS Equipment and Installation Worthiness Certification (SKPP/SKPI).

## FORWARD PLAN

- Continue the advocacy work on various government regulations development and/or changes through working team attached with the relevant government institutions.
- Propose regulation on Clean Development Mechanism.
- Propose specific PROPER audit protocol for oil and gas industry.
- Organize environmental and safety sharing lessons learned and best practices involving professional experts and include in website.
- Complete and submit IPA Position paper on Equipment and Installation Worthiness Certification (SKPI/SKPP).
- Actively involve in the next IPA Annual Convention Technical Committee to improve the quality of SHE related papers.
- Identification of SHE professions requiring Personnel Certification based on concerns existing in the Industry and contacted National Certification Body on the requirements
- Propose guidance on Avian Flu Preparedness Plan.
- Propose guidance on Behavioral Based Safety.
- Propose guidance on Major Accident Risk Assessment.



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SECTION 8

**FINANCE & TAX COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Putri Wirjawan \***  
(CHEVRON IndoAsia)

**\* Chairman Finance & Tax Committee**



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# TAX COMMITTEE

## Report of 2006 Activities

### General activities

- 3 Industry Meetings have been conducted
- Regular Tax Committee meetings and conference calls have been conducted.

### 2006 Objectives

1. Finalize and update IPA Position Paper on Key Tax Issues
2. Support PwC in finalizing White Paper for the Indonesian Oil and Gas Industry, including issues on:
  - a) Identify workable solutions to obtain alignment between Tax Laws, Oil and Gas Law, and PSCs
  - b) Tax mechanism of taxable transaction on transfer of foreign shares by SPV conduit company in a tax haven country
  - c) Tax treatment on PSC cross charges, TSA, Overhead and Head Office charge
  - d) Develop strategy to communicate to the stakeholder
3. Finalize IPA view on transfer of PSC interest
  - a) Identify preferred taxing mechanism
  - b) Develop strategy to communicate to the stakeholders
4. Work with the Regulatory Committee to finalize the legal argument on 2000 VAT Deferral case
5. Identify and communicate to the stakeholder's workable solutions for streamlining VAT and duties regime. Alternatives are:
  - a) Reinstatement of VAT deferral / VAT not collected
  - b) Secure extension of PMK 6 past June 2006 and expansion to include VAT and tax on imports
  - c) Secure reimbursements procedures that are clear, transparent and easy to follow, for VAT, import duties, regional tax, and other taxes before PSC is in production
6. Hire Tax Advisor

### 2006 Outcomes

The Tax Committee achieved objectives 1, 3, 5 (b), and 5 (c) through its regular Tax Working Group Meetings.

### **VAT Reimbursement Procedures**

The Tax Committee successfully engaged BPMIGAS and the Department of Finance in discussions leading to clarification and implementation of workable reimbursement procedures. The industry VAT reimbursement cycle has improved significantly.



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## **IPA view on Transfer of PSC interest**

The Tax Committee did an extensive study on alternative taxation method on transfer of PSC interest. IPA resolved on providing two alternative methods of taxation and will start communicating these alternatives with the Director General of Tax in early December.

## **2000 VAT Deferral Case**

The new appointed Director General of Tax, Pak Darmin Nasution sent a discouraging message by stating his intention to honor the final and binding court cases on deferred VAT. The Tax Committee continues following this up with the Badora Tax Office and Large Taxpayer Tax Office. However, it is yet to be seen whether the tax offices commitment to refund major portion of the case by the end of 2006 will be materialized.

Objectives 2 and 5 (a) were achieved primarily through the preparation and socialisation of the IPA White Paper in relation to the taxation of the upstream oil and gas industry. This paper may be summarised as follows:

### **1. IPA White Paper on the taxation of upstream oil and gas industry**

#### *Key objective of the White Paper*

1. To set out a Roadmap and detailed solution to promote certainty and clarity in the upstream tax rules through a harmonised regulatory framework.

#### *Current industry issues*

2. Uncertainty and inconsistency of PSC Fiscal Regime discourages investment. Short term responses to needs of the sector have meant that many aspects of tax are:
  - a. Poorly regulated either with some ambiguous aspects, inconsistency and / or conflicts;
  - b. Not regulated; or
  - c. Regulated but with no policy rationale or one which conflicts with GOI objectives.

#### *Proposal*

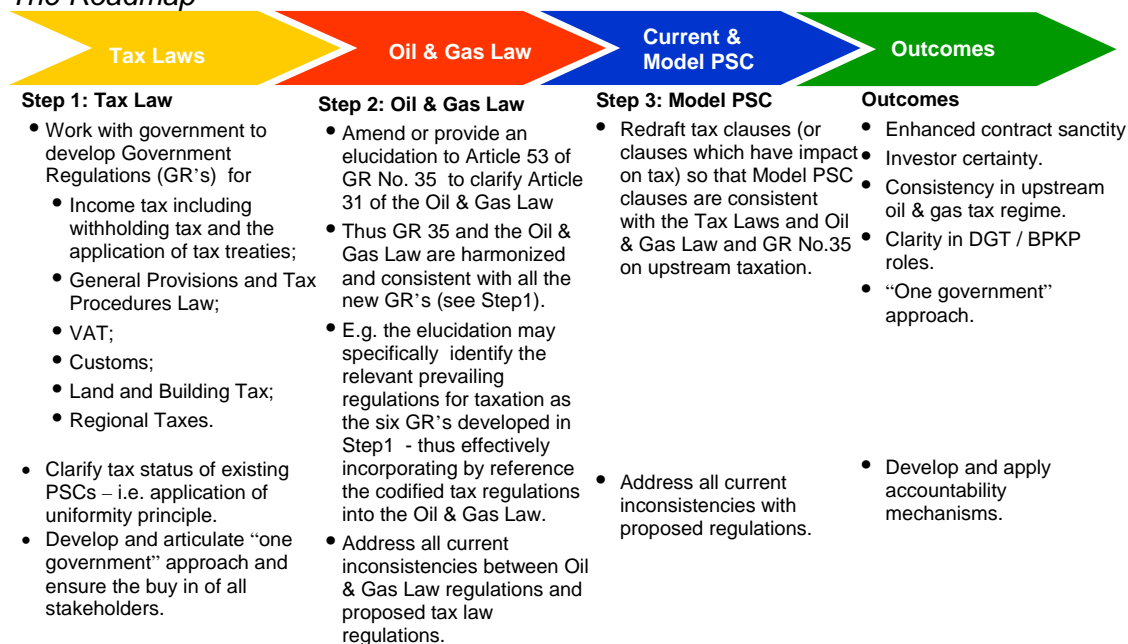
3. To develop one set of Government Regulations for all PSCs to return to the very successful tax position prior to 1995 so that PSCs:
  - a. Pay income tax according to the income tax rate set at the date of signing the PSC and that the income tax calculation is made using the uniformity principle;
  - b. Are specifically protected from all other taxes (i.e. other than income tax);
  - c. Have VAT deferral<sup>1</sup> available in the exploration phase;
  - d. Are exempt from all import duties and taxes (i.e. import duty, VAT and Article 22 income tax);
  - e. Are exempt from the operation of regional taxes (except as stipulated by the GOI.)

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<sup>1</sup> Prior to 1995, VAT payments arising from oil, gas and geothermal exploration and drilling services were deferred until the time of Government Share.

4. The IPA is not seeking any tax concessions or other changes in the current tax law, other than a return to a tax framework that worked successfully for 30 years to provide certainty and stability for investors.
5. As part of the current (draft) income tax law reform process –Article 31D proposes that the income tax rules for the oil and gas industry should be set out in a separate Government Regulation. The Roadmap set out below proposes to follow this lead. In any case, note that most of the current tax laws in force already contain an Article permitting the use of a Government Regulation to regulate matters which are not dealt with in the respective law ( e.g. Income Tax Law – Article 35, VAT Law - Article 19, General Tax Provisions and Procedures Law –Article 48, Land & Buildings Tax Law - Article 23).

### *The Roadmap*



### *Outcomes of White Paper for Industry*

6. If executed, this proposal will achieve the outcomes referred to in the diagram above and therefore provide an environment for taxation of the upstream oil & gas sector that:
  - a. is stable but adaptable for an evolving industry;
  - b. is equitable to all stakeholders;
  - c. is simple, clear and understandable;
  - d. is easy to administer and comply with;
  - e. implements tax on a profits basis and preserves the uniformity principle;
  - f. encourages new investment by existing and new investors.

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### *Outcomes of White Paper for Government*

7. On implementation of the detailed solution in the White Paper the outcomes for government will include:
  - a. to promote sustainable economic growth;
  - b. an increase in Government revenues and taxes;
  - c. promoting an alignment of all GOI Ministries and Agencies to GOI policy objectives for the oil & gas industry (through one set of tax rules for participants and administrators);
  - d. a reduction in administrative inefficiency;
  - e. sending a positive signal to foreign investors about investment in Indonesia;
  - f. a direct and an indirect economic impact arising from industry growth;
  - g. addressing in part oil & gas reserve replacement and field development issues;
  - h. assisting in stimulating the development of a domestic gas market.

### *Socialisation process*

8. The process to progress this proposal are:
  - a. Socialisation of the above proposal to all industry stakeholders. These stakeholders have included the Directorate General of Tax (“DGT”), the Ministry of Finance, BPMigas, Migas, Kadin participants in the Industry
  - b. Provide input into proposed Government Regulations for the taxation of the upstream oil & gas sector by way of a Roadmap document.
  - c. Provide input (if possible) into the proposed amendments to Government Regulation No.35 under the Oil & Gas Law.
  - d. Provide input into the drafting of the revised wording to the tax sections of the Model PSC.

## **2. Industry and Stakeholder Dialogue**

The IPA Tax Committee has also been involved in significant dialogue efforts with industry regulators and the DGT. These efforts have included:

- meeting with BPMigas and the DGT in relation to the potential taxation of the transfer of PSC interests;
- meeting with BPMigas in relation to the issue of Masterlist style protection on import duties and import taxes for PSC contractors; and
- commencing participation in a Working Group with the DGT in relation to the proposed regulations for the upstream oil and gas industry.

### **Tax Advisors**

The Tax Committee conducted several interviews but has not been successful in hiring qualified part time Tax Advisor for the IPA. Considering the urgency of industry tax issues, the IPA has secured PricewaterhouseCoopers’ services to support IPA Tax Committee initiatives. PricewaterhouseCoopers is the main contributor to the preparation and socialisation of the IPA White Paper.

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## **2007 Objectives**

1. To engage in a constructive dialogue with the DGT on the proposed tax regulations for the upstream oil and gas industry.
2. To engage in a constructive dialogue with the DGT on the taxation on transfer of PSC interest.
3. To continue to socialise the IPA White Paper and Roadmap on the taxation of the upstream oil and gas industry to ensure that the Tax Laws, Oil & Gas Law and the model PSC provide a harmonised approach to the taxation of PSC contractors.
4. To continue engagement with BPMigas and Directorate General of Budget and Revenue to ensure that VAT reimbursement process is undertaken in a timely and efficient manner.
5. To continue engaging the industry tax practitioners and tax advisors in the development of oil and gas industry taxation.
6. Conduct regular meeting of Tax Committee Meetings and conference calls at least every 2 months.

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SECTION 8-A

**FISCAL TERMS SUBCOMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Bashir Zagalai \***  
(CHEVRON IndoAsia)

**\* Chairman Fiscal Terms SubCommittee**





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## FISCAL TERMS SUBCOMMITTEE

### Report of 2006 Study

The IPA Fiscal Subcommittee concluded its study on the competitiveness of Indonesia's oil & gas fiscal terms in June 2006. Indonesia was rated based on global trends (65 countries) of comprehensive performance data over a 10 year period. The study concludes a competitiveness rating of Mixed. That there are as many positive trends as there are negatives trends. While this was also the outcome of the 2005 Pwc survey, the study provides a more objective platform for addressing the issues with policy makers. It also provided further insights that have led to specific recommendations on improving fiscal terms. The conclusions & recommendations were discussed in the IPA BoD – BPMIGAS leadership dialogue workshop held on June 6, 2006.

At the macro level, the investment and activity trends paint a different picture than the climate of discontent surrounding the pressing issues of our industry. Nonetheless, what's evident is the decline in oil production over the study period. This was despite the high level of E&A activity in the last 10-12 years when compared to global trends. But, there has been some big success, with new plays in mature areas and new provinces opened. Such success underpins Indonesia's high ranking at the macro level. However, given the high level of activity, on average, the success rate is unimpressive. Consequently, the increasing cost of managing declining legacy assets, lack of new oil developments and challenges in commercializing stranded gas, all feed the "noise of discontent" from investors.

While it was intended for the study only to provide a platform for IPA to engage the policy makers and not to provide specific recommendations. The chairman of BPMIGAS in March 2006 challenged the IPA BoD to provide recommendations on fiscal terms that can even be earth shattering. The recommendations that followed centered around promoting frontier exploration through revolutionary fiscal terms to prove up new basins, including specific recommendations around relaxation of ring fencing in producing PSCs and Improving profit sharing, but with a progressive fiscal regime where Government Take increases with profitability.

While oil exploration in producing areas already benefits from cost recovery from base production, recommendations were provided around Increasing liquidity. While it is possible within the current PSC structure to invite new investors through certain commercial arrangements to fund higher risk plays, it is not possible to assign equity only in the discoveries made, as only "undivided interest" in the PSC can be assigned. Also, reference is made to improving the Oil Marginal Field incentives enacted in April 2005.

The recommendations further touched on the need Government policy that supports market driven gas development. The subcommittee has further engaged the "IPA LNG & Gas Sales Committee" to carry the story further. Gas investment had suffered due to constraints in both of domestic gas market as well increased competition in global LNG market. When compared to the Peer Group, Indonesia has Mid to favorable fiscal gas terms and domestic gas price is not that far off from its peers, but



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historically the infrastructure challenges and oil subsidies, resulted in stranded gas even within proximity Java. The current high commodity cycle with high costs but controlled domestic price presents a whole set of new challenges.

While the study was based on the "Wood Mackenzie, Global Oil Risks and Rewards Study 2004" database, acquired by the IPA and restricted for use only by the IPA Fiscal Subcommittee", the work by the subcommittee has been approved for publication by WoodMac as a significant derivative product. While there has been lots of changes with the high oil price environment over the last 2-3 years, and the database would require updating, the story that emerged from the study remains of interest to ongoing dialogue with BPMIGAS and MIGAS as outcome of 2005/2006 bid rounds is evaluated.

Publication of the study is awaiting BPMIGAS formal approval.

**Team Advisors (\*)**

1. Chris Newton, Team Sponsor & IPA Board Liaison
2. Taslim Yunus, BPMIGAS Liaison, BPMIGAS
3. Michael Borrell, Team Advisor, TOTAL.

**Working Team:**

4. Bashir Zagalai, Team Leader, Chevron
5. Richard weightman, Team Member, ExxonMobil
6. Minter, Silalahi, Team Member, Santos
7. Haposan Napitupulu, Team Member, Pertamina
8. Dale Ryan, Team Member, Chevron

(\*) Walt Maguire, Chevron, contributed as Team Advisor at the start-up of this effort till his transfer back to the US in May 2005. His guidance is highly appreciated.



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SECTION 9

**HUMAN RESOURCES COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Taufik Ahmad \***

(ConocoPhillips Indonesia Ltd.)

**\* Chairman Human Resources Committee**



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# HUMAN RESOURCES COMMITTEE

## Report of 2006 Activities and 2007 Plans

### A. ORGANIZATION

Listed below are the current members of the Human Resources Committee:

Chairman	:	Taufik Ahmad	-	ConocoPhillips
Vice Chairman	:	M. Suharmoko	-	Total
Secretary	:	Dwianugerah Hariadi	-	Chevron
		Anna Suherman	-	Schlumberger
Members	:	Amyra Sindikusumo	-	CNOOC
		Budi Setiadi	-	PetroChina
		Gerhard Rumeser	-	BP
		Indrarko Susatijo	-	ExxonMobil
		Iwan H. Djalinus	-	Chevron
		P.M. Susbandono	-	Medco
		Parluhutan Sibuea	-	VICO
		Sugembong CF	-	Star Energy
		Etty Purwanto	-	Anadarko

### B. PURPOSE & SCOPE

#### PURPOSE:

- To provide a forum for IPA Company members to discuss, interpret, clarify and communicate all human resources and industrial relations issues in conjunction with the local laws and regulations, especially the ones related to oil and gas sector.
- To represent the oil and gas sector in the advocacy effort directly to various government institutions or via other associations such as APINDO (Employers Association) to ensure that the concerns of the IPA Company members are properly addressed.

#### SCOPE:

- To continuously advocate to the Government to streamline the formalities requirements and processes for the expatriate and national employees.
- To continuously advocate to the Government to properly address the industrial relations issues for the national employees.



- 
- To benchmark good practices in the employee compensation and benefits issues as allowed by the laws and regulations of the host and home countries of Company members.
  - To share knowledge, experience and practices in the employees development and to synergize on the employees development programs where possible.
  - To share knowledge, experience and practices in the medical services and to provide input to BPMIGAS on medical cases that require further treatment outside Indonesia.

Based on the above purpose and scope, the HR Committee has 4 sub-committees and work closely with BPMIGAS to address the issues within the above scope:

- Sub-Committee I covers the formalities issues (RPTK, Work Permits, KITAS, Visas, etc)
- Sub-Committee II covers the industrial relations and compensation and benefits issues.
- Sub-Committee III covers the training and development issues.
- Sub-Committee IV covers the medical issues

### **C. 2006 ACTIVITIES**

1. Reviewed and provided inputs to BPMIGAS on the additional BPMIGAS HR Guidebook on the following subject:
  - a. Remuneration package for nationals and expats related to Work Program & Budget and AFE submission.
  - b. Organization design related to RPTK submission

Our position on these two issues is that we will support BPMIGAS initiative and need for these but suggest that there needs to be flexibility on the guidelines on these two issues due to differences in the condition and philosophy of each company

2. Conducted coordination meeting in August 2006 with BPMIGAS, MIGAS, Manpower, Immigration, DKI Province, Police with the following objective:
  - a. Streamline the formalities process and requirements by various Government offices
  - b. Coordination among Government offices in conducting control or inspections

Our position on the above issues is that we respect the jurisdiction of each of the Government offices in the formalities approvals and controls/inspections. However, we suggested a need for good coordination among various offices for efficiency.



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3. Continued the advocacy on various laws and regulations related to HR especially on:
    - a. Severance pay for direct contract employees (to replace Minister Decree no. 27/2000)
    - b. Outsourcing of works to the 3<sup>rd</sup> party (Manpower Law No. 13 article 64-66 and Minister Decree no. 220/2004).

Our position on these issues is that we will ensure that contract employees get their rights in accordance to the law taking into account the nature of their contract. On outsourcing, our position is that detailed implementation procedures be left to the companies without reducing the rights and welfare of the labors.

4. Shared information and experience in dealing with the attracting and retaining talents in the current competitive market within the country and with outside region like Middle East. Also discussed with BPMIGAS on what can be done. It was generally agreed that special retention tool is needed to minimize the attrition to overseas and BPMIGAS support for special retention tool is needed.
5. Participated in the annual compensation survey administered by third party followed by discussion forum in December which includes discussion on retaining talent in the current situation.
6. Provided input to BPMIGAS and MIGAS on the requirements for mentoring programs for expats. We suggested that these programs be coordinated in the implementation.
7. Shared information on training program especially on accelerated development program for fresh graduates hires in light of the high attrition of experienced staff.
8. Conducted regular meeting on medical referral issues to provide input to BPMIGAS on medical cases for national employee requiring treatment overseas.
9. Conducted annual forum with BPMIGAS and other Government offices on November 30 – December 1 on all aspects of HR issues in the oil and gas sector.

#### **D. 2007 PLANS**

1. Continue to provide input to BPMIGAS on the HR Guidebook for possible revision for continuous improvement.
2. Continue advocacy efforts on:
  - a. Streamlining the requirements and process for expatriates' formalities.
  - b. Better coordination in the inspections by Government



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- c. Outsourcing of works to third party (Minister Decree no. 220/2004) in the oil and gas sector to ensure flexibility in the implementation without reducing the labors rights and welfare
  - d. Any new laws and regulations affecting our sector
3. Continue information sharing on attrition and retention issues.
  4. Support the annual IICS compensation and benefits survey and forum.
  5. Continue information sharing on training programs or conduct joint training programs if feasible.
  6. Continue information sharing on medical programs including Avian Flu response plan.
  7. Continue annual forum with BPMIGAS and other Government offices to improve communication and relations.

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SECTION 10

**INDONESIAN CRUDE PRICE (ICP) COMMITTEE**  
**REPORT OF 2006 ACTIVITIES**

**Steve Braswell \***

(ConocoPhillips Indonesia Ltd.)

**\* Chairman Indonesian Crude Price (ICP) Committee**

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## INDONESIAN CRUDE PRICE (ICP) COMMITTEE

### SUMMARY

After several years of quiet on the ICP front, with the ICP Formula having remained unchanged for nearly seven years and the last effort at change in 2003 abandoned due to poor market conditions, the higher price environment was a strong motivator for BPMIGAS to effect long sought after changes to the ICP Formula.

BPMIGAS has long believed that the inclusion of APPI indicator in the ICP Formula operated to inexplicably lower the ICP price to the detriment of the Government. The IPA has maintained that the lower indications of APPI were a valuable addition to the ICP Formula as the APPI indicators are the only ones which include actual sales prices paid and received for actual transactions between buyers and sellers of Indonesian crude. The other two indicators in the ICP Formula, Platt's and RIM, both use market based indicators which reflect transaction prices for market traders.

The recent high price environment, in which APPI's indicators appeared to move further away from the Platt's and RIM indicators and appeared to create an ever larger discount (on an absolute basis, but not on a percentage basis), coupled with aggressive findings by the state auditor BPK that APPI's inclusion was materially reducing GOI revenues led BPMIGAS to move on the issue.

The Indonesia Crude Price (ICP) Committee was advised on 12 June 2006 during a meeting at the offices of MIGAS with the Technical Team of Pricing of BPMIGAS that they proposed to change the ICP formula from its long-standing formula:

(40% RIM / 40% Platt's / 20 % APPI)

To a new formula with effect 1 July 2006:

(47.5% RIM / 47.5% Platt's / 5 % APPI).

The ICP Committee quickly pulled together and expanded to include new participants and a more representative spectrum of participants that worked very well together to determine the key issues and message that needed to be conveyed to the BPMIGAS pricing team regarding the proposal.

The result of these meetings and discussions was the response presented to the IPA Board of Directors on 26 June, subsequently amended per Board perspectives and forwarded to BPMIGAS Pricing Team with the following key messages:



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- ▶ Maintain the current ICP Formula
  - ▶ Cooperate on further review of ICP Formula effectiveness
  - ▶ Provide significant advance notice of changes to ICP Formula

As Chairman of the ICP Committee, I also met privately with Pak Wayan of the BPMIGAS Pricing Team in a further effort to convey the IPA message and enhance understanding of the IPA position regarding the principles by which we believe the ICP Formula should operate and on changes to the ICP Formula.

In the end, a three month delay in the implementation of the new ICP Formula was achieved. However, on 28 July BPMIGAS moved forward with implementation of the new ICP Formula effective 1 October 2006 through 30 June 2007.

**Chairman:** Stephen Braswell (ConocoPhillips Indonesia)

**Board Liaison:** Hirohisa Ota (Inpex)

**Committee Members:**

Hidayat Rachman (ExxonMobil)  
Idham Saleh (Chevron)  
Chairil Amri (Chevron)  
Hideyuki Katayama (Inpex)  
Tsutomu Muraoka (Inpex)  
Tresnaning Diah (Inpex)  
Chen Wenqiang (CNOOC)  
Budi Setiawan (CNOOC)  
Dwita Nurhayati (Kondur Petroleum SA)  
Michael Amrin (Total)  
Indra Setiawan (Total)  
M. Bayu Murti (Total)



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SECTION 11

**KRIS COMMITTEE**  
**REPORT OF 2006 ACTIVITIES**

**Dharma Irawan Jenie \***  
(Energi Mega Persada Tbk.)

**\* Chairman KRIS Committee**





## KRIS

### 2006 Annual Report

After almost one year of silent, KRIS committee was revived in May 2006. The committee consists of people from several PSCs who join involuntary bases. A set of objectives and work program short term and long term had been set up. Most of the short terms work programs have been achieved. However, the long term program can not be carried out due to various reasons.

The major reasons:

- Lack of KRIS committee participation due to members activities in their own PSCs
- It is very difficult to narrow down the KRIS scope of work. Cost reduction is a big inter related web among various functions not only procurement matters
- KRIS committee has only limited persuasive power to influence the government body in the developing and implementation rule and regulation

One worth to mention progress or achievement is that KRIS has some influence in the issuance of Minister Decree "Peraturan Menteri Keuangan no97/PMK 010/2006" valid from 16/10/2006 until 15/07/2007. KRIS committee has several meetings with BPMIGAS and MIGAS officials in bringing the previous PMK 21 issue that was expired July 15, 2006. We recommended amend PMK 21 to accommodate the free of tax using Master list for all imported Oil and Gas for all PSCs before and after UU22 MIGAS. However, PMK 97 is only free up the import duties while all other tax remains the same.

In 2007, to increase the effectiveness of the KRIS Committee members, approval and endorsement from the PSCs Presidents are required. So, KRIS committee active participation will be improved and it is not voluntary anymore.

Besides improving the Committee participation, KRIS will focus is scoping the work program that gives more immediate and measurable deliverables. KRIS will also increase participation in the IPA board; so, KRIS will not only be in the persuasive mode but also become a big factors in setting up the future Indonesian Oil and Gas industry

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SECTION 12

**LNG & GAS SALES COMMITTEE**  
**REPORT OF 2006 ACTIVITIES**

**Martin Tiffen \***  
(TOTAL E&P INDONESIA)

**\* Chairman LNG & Gas Sales Committee**



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## **LNG & GAS SALES COMMITTEE**

### **Report of 2006 Activities**

The Committee acts in support of the IPA's objectives with respect to gas

*Promote Gas Exploration and Development investment by enhancing upstream economic viability and securing clarity and certainty over key gas issues.*

- *Ability to Export*
- *Gas DMO volumes & pricing*
- *LNG infrastructure ownership*
- *Sellers appointment and liability issues*
- *Fiscal Terms*

#### **Concerns and issues**

In December 2005, the Government<sup>1</sup> issued a ban on gas exports. Following this, in January 2006 Presidential Regulation No 5/2006 was issued regarding National Energy Policy. Amongst other measures this called for an increase in the share of gas and coal in the national energy mix, for the Government to gradually increase energy prices to their “economic value”, and to provide incentives for conservation of energy and development of alternative energies, including gas. The Presidential Regulation was followed by ESDM issuing a supporting strategy document which contained a minimum 25% domestic market obligation.

During the balance of 2006 there have been various reports on the requirement for supply of natural to domestic users. These have not been consistent and the situation with regard to current and future PSC's is still to be clarified.

#### **Committee Status**

During 2006 the Committee met on an as needs basis. The primary work product was to develop an IPA position with regard to the emerging understanding of how the energy policy would be implemented. The Committee agreed the following messages with the IPA Board

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<sup>1</sup> Letter from the coordinating Minister for the Economy



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## Key messages

- A key priority for the IPA is to promote sustainable gas exploration and development investment.
- Indonesia has abundant gas resources which could be developed for the overall benefit of Indonesia.
- Investors need clarity and certainty
- Competitive gas pricing and accessing the export market will boost Indonesian gas investment

The committee also considered how to provide proof points for the messages, envisaging four separate strands of work on gas resources, the value of domestic vs. export gas, the case for clarity and certainty and the case for competitive pricing.

Progress was constrained somewhat as the Committee Chair has to step down due to work pressure. In October, a new Chair was appointed and the Committee will reconvene in the near future.

It is suggested that future work will focus on supporting the key messages by building on the work already in existence in IPA member companies and in liaison with other IPA Committees.

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SECTION 13

**PROFESSIONAL DIVISION COMMITTEE  
REPORT OF 2006 ACTIVITIES**

**Ron A. Noble \***

(ANADARKO INDONESIA COMPANY)

**\* Chairman Professional Division Committee**





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## PROFESSIONAL DIVISION COMMITTEE

### January 2006 – December 2006

#### CHAIRMAN'S REPORT

Ron Noble (ANADARKO)

The mission of the IPA Professional Division is to promote and facilitate the transfer of technical information and advancing new technologies to individuals and companies working in the upstream oil and gas industry of Indonesia, and foster individual professional development amongst its members. The primary method of accomplishing this task is through an active program of luncheon talks, short courses, field trips, workshops and technical symposiums. In addition, the Professional Division issues a quarterly newsletter, publishes and sells technical proceedings, and maintains an interactive web-based homepage.

As stated in Article X of the IPA Constitution, membership of the Professional Division is open to all individuals, whether salaried or self-employed, participating in petroleum activities in Indonesia. Individual membership in the Professional Division is, for the most part, drawn from industry professionals of all disciplines throughout Indonesia and from overseas. The Professional Division membership at year-end 2006 stands at 1805 individuals, up 4.7% from 1724 members in 2005. Membership stands at its highest level since 1996 which reflects the current buoyant state of the petroleum industry in Indonesia and worldwide.

The Professional Division Committee is composed of a dedicated, multi-discipline group of volunteers who assume particular responsibility for various functions of the Division's programs. The program is executed with the very able assistance of staff from the IPA Secretariat, with whom the Committee works closely throughout the year. The composition of the Professional Division Committee had several changes during 2006. Antonio Argenton (ENI) took over as Vice Chairman with responsibility for all activities related to Education. We also welcomed Hans Schwing (MURPHY) back to the Professional Division. Hans, a former Chairman of the division, will serve as Vice Chairman responsible for Communications. Joel Guttormsen (CONOCOPHILLIPS) and Bryan Soh (LAMD MARK) are the new editors of the IPA Newsletter. Mariwu Dengah (CHEVRON) replaces Andy Bachtiar as the Riau Chapter representative, and Lucas Nasution (CHEVRON) has taken over responsibility from Redy Utama Zahar for the Balikpapan Chapter. We welcome these individuals to the Committee and are greatly indebted to them and to our continuing committee members for their dedication to the IPA.

The Professional Division Committee at the end of 2006 was as follows:

Chairman	<b>Ron Noble</b>	(ANADARKO)
Vice Chairman Education	<b>Antonio Argento</b>	(ENI)
Vice Chairman Communication	<b>Hans Schwing</b>	(MURPHY)
Secretary	<b>Taufik Manan</b>	(PUTINDO BINTECH)
Treasurer	<b>Roland Panjaitan</b>	(CHEVRON)



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Continuing Education	<b>H.L. Ong</b>	(GEOSERVICES)
	<b>Sigit Sukmono</b>	(ITB)
Field Trips	<b>Toby Read</b>	(PREMIER)
Newsletter	<b>Bryan Soh</b>	(LANDMARK)
	<b>Joel Guttormsen</b>	(CONOCOPHILLIPS)
Luncheon Talks	<b>Dhamawan Samsu</b>	(BP)
Membership	<b>Sugembong C.F.</b>	(STAR ENERGY)
Publications	<b>Andy Livsey</b>	(HORIZON)
Homepage & Information Technology	<b>Roland Kirschner</b>	(CONOCOPHILLIPS)
	<b>Khristina Kirschner</b>	(CHEVRON)
Student Chapter	<b>Parvita Siregar</b>	(SALAMANDER)
IPA Secretariat	<b>Wursitaningari</b>	(IPA)
Riau Chapter	<b>Mariwu Dengah</b>	(CHEVRON)
Balikpapan Chapter	<b>Lucas Nasution</b>	(CHEVRON)

The Professional Division has continued to successfully carry out its mission during 2006. 5 luncheon talks were held during the year, with attendance exceeding 660 professionals in Jakarta and several more in Balikpapan and Riau. In addition, 11 short courses were held on diverse technical topics throughout the year and all were well received and attended. The short courses presented in 2006 drew a total of 235 attendees, with per course figures ranging between 12 and 30. This continues the strong demand seen in the previous year for educational services, and has resulted in a adequate surplus for the IPA.

2 educational fieldtrips were successfully completed during the course of the 2006. The *field Seminar at Cepu, Central Java* was run in June, with a total of 30 attendees. Due to the popularity of this trip, it was re-run in August, again with a full compliment of 30 attendees (and a further 13 waitlisted).

The 2006 IPA Membership Directory was published and distributed to members. A highlight of the year was the publication and distribution of three excellent newsletters each focusing on a theme of technical interest to our members.

The Publications group has completed their goal of offering all IPA Proceedings volumes in digital format, both via an online website and on CD. This service can be accessed via the AAPG data pages, which is a highly efficient and cost effective method of disseminating technical information.

Progress to upgrade the IPA website has been made using the services of PetroData Systems. We will see a very active and informative homepage for the IPA, with continual development and improvements planned in the year to come.

The student program offered a course of Seismic Interpretation in Unpad, Bandung. This was a very popular event amongst the students and we hope to offer more programs like this in the future.

Many thanks are offered to the dedicated officers and sub-committee chairmen for making 2006 such a successful year. In addition, special thanks are extended to all



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members of the IPA Secretariat for their outstanding work and continued assistance throughout the year.

### **TREASURER'S REPORT**

Chairman : Roland Panjaitan (CHEVRON)

Full year 2005 surplus was Rp.936.6 million, which was from Revenue of Rp.3,753 billion and expenditure of Rp.2,816.4 billion. Year 2006 is forecasting a budget the same as Full Year 2005.

As of October 2006 the cash surplus was Rp.2,090 billion. The surplus derived from Revenue of Rp.6,365 billion over the expenditures of Rp.4,275 billion.

The main contribution to the cash surplus was the Jakarta 2006 Joint Convention Rp.1,616 billion, Courses Rp.530 million and Fieldtrip Rp.58 million and Loss exchange forex is ( Rp.147 million ), others surplus Rp.33 million.

As of December 2006, we estimate a cash surplus of Rp. 2,150 billion. This surplus derived from Revenue of Rp. 6,565 billion over the expenditures of Rp.4,415 billion.

### **CONTINUING EDUCATION SUB-COMMITTEE**

Chairman : Dr. H.L. Ong (P.T. Geoservices)

Vice-Chairman : Dr. Sigit Sukmono (ITB)

There were 11 professional courses offered in 2006, including 5 courses in conjunction with the Jakarta 2006 International Geosciences Conference & Exhibition. A full list showing the course titles and the instructors is provided in the Appendix-A. A total of approximately 223 participants attended the courses, of which 31 coming from overseas. The bigger number of 2006 overseas participants compared to previous year is more or less related to the courses offered in conjunction with the Jakarta 2006 International Geosciences Conference & Exhibition. In general all courses were well attended and give significant surpluses.

### **FIELDTRIP SUB-COMMITTEE**

Chairman: Toby Read (PREMIER OIL)

The Fieldtrip Professional Sub Committee arranges educational fieldtrips for IPA members across the Indonesian archipelago. These fieldtrips are designed to provide educational training for individuals and petroleum companies working within Indonesia. The sub-committee has usually had two co-chairman, however since Mark Catanzano was reassigned out of Indonesia in late 2004, the 2<sup>nd</sup> position has remained vacant.

Three fieldtrips were initially scheduled during the course of the 2006.

The first trip of the year was the *Oil Exploration, Drilling and Production Operations; A field Seminar at Cepu, Central Java*, which was run in June, with a total of 30 attendees.



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Due to the popularity of this trip, it was re-run in August, again with a full compliment of 30 attendees (and a further 13 waitlisted).

The final trip of the year, *Carbonate Models and Petroleum System of South Sulawesi* was scheduled to be run in November, but unfortunately as the minimum number of people registered was not met, the trip was postponed. It is now planned to be run in conjunction with the IPA convention in 2007.

Looking forward to 2007, the field trip budget proposal for next year includes 2 planned trips as part of the convention, one to South Sulawesi, mentioned above and the other to West Java. In addition the Cepu trip, together with A Central\South Sumatra "introduction to oilfield operations" trip is currently being considered.

### **NEWSLETTER SUB-COMMITTEE**

Chairman: Joel Guttormsen (ConocoPhillips) and Bryan Soh (Landmark)

Two issues of the Newsletter were published in 2006 (May and August). The format has been slightly changed to be more pictures and colorful in order to make it more interesting to read. Each Newsletter edition has generally included one to two technical articles along with standard informational sections including the calendar of upcoming events, Field Trip, Ganti Wajah and messages from the Professional Division Chairman, Luncheon Chairman, and summaries of industry exploration activity.

Distribution of the Newsletter continues to be free to all IPA members, and special distribution is made to attendees of main events. For the Annual Convention in 2006, additional copies of the August edition were distributed to the participants on the IPA booth. The Newsletter continues not to accept advertisement revenue and is commercial free.

### **LUNCHEON TALKS SUB-COMMITTEE**

Chairman: Dharmawan Samsu (BP)

Luncheon Talks continue to be a successful part of the Professional Division's activities. This year has been an active time for the luncheon talks, with 5 talks covering a diverse set of topics.

The 2006 Luncheon Talks began in February with the annual Government of Indonesia invitational presentation by Pak Achmad Luthfi of BPMIGAS, attended by over 200 members.

The variety of topics presented continues to attract support and participation by IPA members, with a total attendance of greater than 660 members from the Jakarta Chapter alone. A full listing of all talks and attendances is attached as Appendix C.



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## **MEMBERSHIP SUB-COMMITTEE**

Chairman: Sugembong C.F. (STAR ENERGY)

Membership of the Professional Division increased in 2006 to 1805 individuals. This represents an increase of 4.7% over last year's figure of 1724. The current membership is at its highest level since 1996, which can be attributed to the surge in oil industry activity flowing from strong oil prices. The major increase came from Riau membership to 387 individuals, compared to 206 last year.

## **PUBLICATIONS SUB-COMMITTEE**

Chairman: Andy Livsey (HORIZON)

The Publications Committee oversees the production and sale of all IPA publications. These provide a valuable source of information on hydrocarbon exploration, development and production in the SE Asian region. Sales are achieved via the IPA website, through adverts in the IPA newsletter and through a joint arrangement with the Geological Society of London.

After numerous delays the project with AAPG Datapages has now been completed. This project involves scanning all IPA Publications and relevant field trip guides and making the digital images available on CD-ROM and via the AAPG website. These publications can now be accessed via the website and we will shortly take delivery of the CD-ROMS. There has been considerable interest shown in this project and we expect to generate significant revenue both from sales of the CD-ROMs and the 50% share of internet based revenue.

## **HOMEPAGE AND INFORMATION TECHNOLOGY**

Chairman: Khristina Kirschner (CHEVRON) and Roland Kirschner (ConocoPhillips)

The Homepage and Information Technology Committee worked directly with PetroData to reformat and redesign the IPA's homepage. Further development of the webpage will continue in 2007.

In June, the IPA received a proposal from PetroData for continued, but paid, services. For the IPA's consideration, this proposal was made pursuant to the expiration of one year of free services that PetroData had been providing. Under this proposal, the IPA received PetroData's services through year's end (December 2006). Due to the high cost proposal and lesser quality customer service provided to the IPA, it is expected that a new provider will be found for 2007.

Finally, two new members were welcomed to the committee. These two members, Sujud Sunawan and Jonathan Gilbey, will be taking over the committee's leadership roles for 2007.



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## **STUDENT ACTIVITIES**

Chairman: Parvita H. Siregar (SALAMANDER)

As to the student program, a course of Seismic Interpretation in Unpad, Bandung was held in April. This is a very popular event amongst the students and we hope to offer more programs like this in the future.

## **RIAU CHAPTER**

Chairman: Mariwu Dengah (CHEVRON)

Membership of the Riau chapter increased slightly, from 211 last year to 378 at present. Local technical activities have been held along with other professional organizations, as most of our members are also members of SPE, IATMI, IAGI/HAGI. The Chairman of Riau Chapter was handed over from Andi Bachtiar to Mariwu Dengah in Mar 2006, and further reorganization of Riau chapter is needed to replace empty position due to personnel movement.

## **BALIKPAPAN CHAPTER**

Chairman: Lucas Nasution (CHEVRON)

Following many members departure from Balikpapan, the IPA membership of Balikpapan Chapter dropped to 33 members. During 2006, the IPA Balikpapan Chapter has conducted/coordinated 1 luncheon talk. The only luncheon talk was: "SURFACE Pressure Transient WELL TESTING" conducted on February 28, 2006 and presented by Mr. Rod Kelly (Data Retrieval Corporation - USA). The attendances of this luncheon talk were 10 persons. Throughout 2006 IPA Balikpapan Chapter also participated in various technical presentations held by SPE Balikpapan section.

In November 2006 Redy Zahar, the Chairman, handed over his position to Lucas Nasution as he retired from CHEVRON. The Balikpapan Chapter will need to revitalized the organization



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**APPENDIX A**  
**SHORT COURSES - 2006**

1. Title : The Geological Interpretation of Well Logs  
Instructor : Malcolm Rider - Petroleum Exploration Consultant, UK  
Dates : March 6 - 10, 2006  
Venue : Hotel Melia Purosani - Yogyakarta  
Cost : US\$ 1,850 (Members) - US\$ 1,950 (Others)  
No. of participants : 25
  
2. Title : Practical Investment Appraisal and Business Decision  
Analysis in Petroleum Exploration & Production - with special  
reference to the Indonesian PSC system  
Instructor : Dr. H.L. Ong - Lecturer, Lecturer of ITB & Advisor to PT  
Geoservices  
Dates : April 17 - 21, 2006  
Cost : US\$ 1,500 (IPA Members) - US\$ 1,600 (Others)  
Venue : Sheraton Bandung Hotel & Towers  
No. of participants : 26
  
3. Title : Corrosion Control in Oil and Gas Production  
Instructor : Dr. Yves Gunaltun - Total E&P, France  
Dates : May 22 - 25, 2006  
Cost : US\$ 1,450 (IPA Members) - US\$ 1,550 (Others)  
Venue : Hotel Padma Bali  
No. of participants : 17
  
4. Title : Seismic Reservoir Analysis  
Instructor : Dr. Sigit Sukmono - Lecturer, Institute Technology Bandung  
(ITB)  
Dates : July 10 - 14, 2006  
Cost : US\$ 1,600 (IPA Members) - US\$ 1,700 (Others)  
Venue : Sheraton Senggigi Beach Resort Lombok  
No. of participants : 20
  
5. Title : Advance Seismic Methods for Field Exploration &  
Development  
Instructor : Dr. Sigit Sukmono - Lecturer, Institute Technology Bandung  
(ITB)  
Dates : August 7-11, 2006  
(in conjunction with Jakarta 2006 Int'l Geoscience  
Conference & Exhibition)  
Cost : US\$ 1,500 (Members and Non-Members)  
Venue : Sheraton Bandung Hotel & Towers  
No. of participants : 12



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6. Title : Characterizing and Modeling of Naturally Fractured Reservoirs  
 Instructor : Doddy Abdassah - Lecturer, Institute Technology Bandung  
 Dates : August 14, 2006  
 (in conjunction with Jakarta 2006 Int'l Geoscience Conference & Exhibition)  
 Cost : US\$ 350 (Members and Non-Members)  
 Venue : Jakarta Hilton International Hotel  
 No. of participants : 16
7. Title : Understanding the Indonesian Upstream Oil & Gas Industry  
 Instructor : Dr. H.L. Ong - Lecturer, Lecturer if ITB & Advisor to PT Geoservices  
 Dates : August 14, 2006  
 (in conjunction with Jakarta 2006 Int'l Geoscience Conference & Exhibition)  
 Cost : US\$ 350 (Members and Non-Members)  
 Venue : Jakarta Hilton International Hotel  
 No. of participants : 30
8. Title : Time-toDepth Conversion of Sesimic data  
 Instructor : Dr. David W. Bell - ConocoPhillips, Houston, USA  
 Dates : August 14, 2006  
 (in conjunction with Jakarta 2006 Int'l Geoscience Conference & Exhibition)  
 Cost : US\$ 395 (Members and Non-Members)  
 Venue : Jakarta Hilton International Hotel  
 No. of participants : 16
9. Title : Sesimic P-Wave Anisotropy (special half-day course)  
 Instructor : Dr. Leon Thomsen (SEG President Elect 2005/2006)  
 Dates : August 16, 2006  
 (in conjunction with Jakarta 2006 Int'l Geoscience Conference & Exhibition)  
 Cost : US\$ 230 (Members and Non-Members)  
 Venue : Jakarta Convention Center  
 No. of participants : 17
10. Title : Petroleum Economics, Risk Analysis and Prospect Evaluation  
 Instructors : Jim Gouviea & Steve McIntyre (Rose & Associates)  
 Dates : September 11-15, 2006  
 Cost : US\$ 2,500 (Members and Non-Members)  
 Venue : Hotel Mulia Senayan – Jakarta  
 No. of participants : 30
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11. Title : Understanding Overpressure and Its Prediction  
Instructor : Dr. Richard Swarbrick - Consultant, UK  
Dates : December 5 - 8, 2006  
Cost : US\$ 1,800 (IPA Members) - US\$ 1,900 (Others)  
Venue : Sheraton Senggigi Beach Resort - Lombok, Indonesia  
No. of participants : 26



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**APPENDIX B  
FIELD TRIPS 2006**

Trip # 1 : Geological Trip to Cepu Area for Non-Geoscientist  
Personnel  
Dates : June 1-4, 2006  
Trip Leaders : H.M. Yohannes P. Koesoemo (Pusdiklat "Migas", Cepu)  
H. Sabardi Musliki (Pusdiklat "Migas", Cepu)  
Cost : US\$ 600  
No. of Participants : 30

Trip # 2 : Geological Trip to Cepu Area for Non-Geoscientist  
Personnel  
Dates : August 31-September 3, 2006  
Trip Leaders : H.M. Yohannes P. Koesoemo (Pusdiklat "Migas", Cepu)  
H. Sabardi Musliki (Pusdiklat "Migas", Cepu)  
Cost : US\$ 600  
No. of Participants : 28



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## APPENDIX C LUNCHEON TALK 2006

1. Date : January 18, 2006  
Venue : Mulia Hotel Jakarta  
Speaker : Chuck Caughey / CONOCOPHILLIPS  
Title : New Trends in Upstream Career Opportunities and Professional Development, at Home and Abroad  
No. of Guest : 72
  
2. Date : March 16, 2006  
Venue : The Ritz-Carlton Jakarta  
Speaker : Achmad Luthfi / BPMIGAS  
Title : Summary of 2005 E&P Activities in Indonesia and Outlook for 2006  
No. of Guest : 267
  
3. Date : April 13, 2006  
Venue : The Ritz-Carlton Jakarta  
Speaker : Jere Jay / INNEX ENERGY LLC, PLANO  
Title : The Hidden Opportunities of Heavy Oil  
No. of Guest : 53
  
4. Date : August 22, 2006 (Half Day Seminar)  
Venue : The Ritz-Carlton Jakarta  
Speaker : Dr. Michael Bruno / TERRALOG TECHNOLOGIES INC.  
Title : Reservoir and Wellbore Geomechanical Analysis for Injection and Production Operations Practical Simulation and Field Examples  
No. of Guest : 20
  
5. Date : September 19, 2006  
Venue : Shangri-La Jakarta  
Speaker : R. Craig Shipp / SHELL INT'L EP INC., HOUSTON  
Title : Where Offshore Drilling Meets Shallow Geology: Impact of Near-surface Depositional Systems on Deepwater Operations  
No. of Guest : 59



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SECTION 14

**REGULATORY AFFAIRS COMMITTEE**  
**REPORT OF 2006 ACTIVITIES**

by

**Peter Dumanauw\***

(CHEVRON IndoAsia)

**Debbie Chastity\*\***

(ConocoPhillips Indonesia Ltd.)

**\* Chairman Regulatory Affairs Committee**

**\*\* Deputy Chairman Regulatory Affairs Committee**



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## REGULATORY AFFAIRS COMMITTEE

### Report of 2006 Activities

Chairman	:	Peter Dumanauw	(CHEVRON)
Deputy Chairman	:	Debbie M. Chastity	(CONOCOPHILLIPS)
Members	:	Vini Siregar	(BP)
		Deny Rijadi	(BP)
		Gunawan Sjamsuddin	(CHEVRON)
		Heike Butar Butar	(CONOCOPHILLIPS)
		Iqbal Assaat	(ENI)
		Nurman Djumiril	(EXXONMOBIL)
		Anna Rosita	(EXXONMOBIL)
		Rustiny	(MEDCO)
		Trisakti A.Y.	(MEDCO)
		Andrew Gibb	(PREMIER)
		Lona Tarigan	(PREMIER)
		Yandri Hendarta	(PREMIER)
		Joseph Tobing	(SANTOS)
		Vincent Hanappier	(TOTAL)
		Timmy Trihartama	(TOTAL)
		Zikrullah	(VICO)
		Hasbi Lubis	(SCHLUMBERGER)

#### PRIMARY EFFORTS IN 2006

1. 2006 PSC Model Review. In their effort to improve the Indonesian PSC model, BPMIGAS and MIGAS invited the IPA-RAC to provide comments and feedback to the 2006 PSC Model which comments and feedback will be used for their consideration during the deliberation and review of the PSC model between the relevant government bodies. The RAC lead the effort of compiling comments from the industry member on the PSC model and invited the Tax Committee to provide their comments as well. The comments were mostly revolved around tax and financial aspect of the PSC as well as gas DMO. The RAC has submitted its comments on November 17, 2006 to BPMIGAS with a copy to MIGAS and we are hoping that BPMIGAS will invite us to a discussion where we can discuss each of our comments in details directly with BPMIGAS.
2. The Minister of Energy Regulation No.40 of 2006 regarding Procedure and Award on Offer of Oil and Gas Working Area ("MR 40"). The IPA has been asked unofficially by MIGAS to submit feedback on current issues surrounding tender offer on oil and gas working area. Due to the time constraint, the IPA has only managed to compile responses from several PSCs and submit it to MIGAS



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with a caveat that those responses did not represent IPA views but merely each of PSC's views. As a follow up, MIGAS issued MR 40 which has accommodated some of the suggestions that were submitted by the IPA but also contained new provisions that were rather ambiguous. MIGAS invited the IPA to a couple of meetings to discuss any comments or questions that we had. We had good discussions and we seek several clarifications on several issues through those discussions as well as through correspondence. The implementation of MR 40 remains to be seen since the new bid round is still ongoing and it is too early to predict for any significant issues that will arise due to the implementation of new provisions under MR 40.

3. Draft Energy Law. Last year, the RAC submitted its comments to the draft Energy Law to MIGAS and BPMIGAS. Early 2006, we were requested by the Indonesian Chamber of Commerce (*Kamar Dagang Indonesia*, "KADIN") to be part of a task force which will provide comments to the draft Energy Law directly to the Parliament. Based on our work in 2005, we have submitted IPA's comments to KADIN to be included in the matrix of comments that will be submitted to the Parliament. After we have submitted our comments to KADIN and up until today, we have not heard anything from KADIN on the progress of this task force.
4. Coordination with the Tax Committee. Throughout the year, the RAC coordinated and provide input to the Tax Committee on various tax issues surrounding the oil and gas industry.
5. The 2006 Natural Gas and LNG Marketing Contract Workshop. Early in 2006, the IPA together with AIPN, BPMIGAS, Chevron and ConocoPhillips sponsored a training course named the 2006 Natural Gas and LNG Marketing Contract Workshop at the Ritz Carlton. This was a 2 days course attended by government officials from BPMIGAS, MIGAS and a number of PSCs in Indonesia and we invited 2 lecturers (Harry Sullivan & Phillip Wheem) from Houston to conduct the training. We had a successful turn out since this course was attended by more than 100 participants. This event is in line with the RAC goal which is to play an active advocacy role in educating our stakeholders in Indonesia particularly the government officials.

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SECTION 15

**SECURITY & LOCAL RELATIONS COMMITTEE**  
**REPORT OF 2006 ACTIVITIES**

**Satria Djaja \***  
(CHEVRON IndoAsia)

**\* Chairman Security & Local Relations Committee**



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## **SECURITY & LOCAL RELATIONS COMMITTEE**

### **SUMMARY**

In February 2006, Mr. Satria Djaya of Chevron Indonesia Company was assigned to assume the position of Chairman of 2006 IPA Security Committee.

The followings are the highlight activities from February – Dec 2006:

1. Established Charter of 2006 IPA Security Committee (attached).  
Note: the Charter included “Local Relations” role as part of IPA Security Committees’ scope and objectives. The IPA Security Committee suggests that the board review how Local Relations / Community Relations be taken out of the IPA Security Committee. Security Committee will continue maintain its links, advocacy and the usual role with the government security apparatus / entities.
2. Participate in Monthly meeting with BPMIGAS Security and the other Security Managers from Production Sharing Companies.
3. Participate in various discussions, formal and informal meeting with BPMIGAS, members of Security Committees and other Security managers on:
  - Procurement Process in Security (professionalism in Security Contracts)
  - Security Standards and Procedures
  - Roles and Responsibilities and Job Descriptions of Security employees in Oil and Gas industries in Indonesia and in relations KEPPRES #63 on the roles of Police in protecting Indonesian vital assets.
4. Established Security Sub-Committee to develop and implement Security Plan for supporting the Jakarta 2006 Convention (SEG – HAGI – IPA – IATMI – IAGI) on 14 Aug – 16 Aug 2006 in Jakarta. The convention was done safely and securely.
5. Participated in the activities of the cross-functional teams (BPMIGAS Security, POLRI and IPA Security):
  - Joint Security Supervision Team
  - Security Drills in Chevron Pacific Indonesia in Sumatra

Activity of the above teams was conducting field visits to selected PSCs for standardization and benchmarking purposes.





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SECTION 16

**SERVICE COMPANIES COMMITTEE**  
**REPORT OF 2006 ACTIVITIES**

**Bambang Purwohadi \***  
(ASOSIASI PEMBORAN MINYAK INDONESIA)

**\* Chairman Service Companies Committee**



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# SERVICE COMPANIES COMMITTEE

## Report of 2006 Activities

### **2006 OBJECTIVES:**

- To have a MODEL OF STANDARD CONTRACT
- Clarification in Importation of goods and services
- Drilling Personnel Competency Standard
- Cooperation with the existing business/professional association related to petroleum industry

### **ACTIVITIES:**

- Meeting on STANDARD CONTRACT
  - Found the main differences interest of two parties ( service companies and operators) on Liabilities & Indemnities Clause.
  - With reference to CRINE Standard Contract the Team had drafted proposed wording on the L & I clause.
  - Proposed items to be discussed on L& I clause are: contractor's property, company's property, contractor's personnel, third party, pollution during contract period, loss of reservoir/well, blow out/ loss of control, consequential damages, radio activities, data interpretation.
  - Standard Contract Team:
    - BJ Services: Donny Tomaso, Yenny Handayani
    - SantaFe Supraco: H.A. Sjafei, Dean Turner
    - Schlumberger: Samantha Sanchez, I Wayan Musnarendra, Made Warasuki
    - Apexindo Pratama Duta: Rusdi Irwanto, Kusuma
    - Halliburton: Andika Kamal
    - Welltekindo Nusantara: Ragil Marzuki
    - M-I Drilling Fluids: Dudy Gustiza
    - Elnusa Geosains: Kusminarsih
- Participate in Energy Services Forum initiated by Ministry of Energy and Mineral Resources on establishing classification of services in energy related ( oil and gas, geothermal, coal, electricity and renewable energy) for WTO negotiation.
- Drilling Personnel Competency Standard
  - Discussed together with APMI ( Association of Indonesian Drilling Contractors) in HRD Forum to refer to the proposed standard competency.
- Participate on formulation of TKDN (Local Content Calculation) initiated by Ditjen Migas and BP-Migas.
- Participate on Harmonizing Team from the office of Coordinator Minister of Economics on: tax, importation tariff, mining land utilization versus plantation and forestry.



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SECTION 17

**UNIVERSITY ASSISTANCE COMMITTEE**  
**REPORT ON 2006 ACTIVITIES**  
**&**  
**2007 WORK PROGRAM AND BUDGET**

*An industry initiative toward developing a better education system  
through assistance and cooperation  
&  
promoting the oil & gas industry to university students*

**Edwin Tandean\***

(Medco Energi Internasional Tbk.)

**\* Chairman University Assistance Committee**



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# UNIVERSITY ASSISTANCE COMMITTEE

2006

## SUMMARY

*The University Assistance Committee has successfully organized and carried out the 2006 activities and programs. Total 2006 budget expenditure was IDR 266.5 millions, which is within the approved budget.*

*The committee continued to invite the student representatives from the various relevant student associations of the IPA-UAC members to the IPA-UAC 2006 annual meeting in Padjadjaran University Bandung. Their participation proved very useful in supporting and making recommendations for the execution of the IPA-UAC programs. For the first time, promoting oil & gas was presented directly to the University students thru the One Day Course Program.*

*UAC sponsored the attendance of a lecturer from IPA-UAC membership at 2006 IAGI Annual Convention in Pekanbaru, Riau and 2006 HAGI Annual Convention in Semarang, Central Java .*

*The proposed 2007 budget is IDR 350 million, or approx. 10 % decrease compared to the 2006 budget. Less number of the budget was caused by over handle of One Day Course from UAC to Student Chapter.*

## GENERAL

The University Assistance Committee co-ordinates with government/industry groups to provide assistance to universities that provide petroleum-related faculties and facilities, as well as promoting the oil & gas industry to university students. The committee processes requests to the IPA for educational help, funding for special projects/equipments/research and for technical literature.

In 2006, the committee will consist of the following members:

Chairman	: Edwin Tandean	MEDCO E&P IND.	Liaison with IPA Board
Member	: Hadiyati	TATELY	Financial Assistance
Member	: Harry Alam	VICO	Commercial Courses
Member	: Caroline Malla	TOTAL INDONESIA	Book/Journal Distribution
Member	: Sumar Mahadi / Dedi S	TATELY/MEDCO	One-Day Industrial Courses
Member	: Iranta B. Sinaga	VICO	Research Award
Secretary	: Rosinta Wibowo	VICO	Administrative



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## **PARTICIPATING UNIVERSITIES AND INSTITUTIONS**

Educational and financial assistance is provided to the following university departments offering petroleum-related courses:

1. Geology Department Trisakti University – Jakarta
2. Petroleum Engineering Department Trisakti University - Jakarta
3. Gas Technology Department University of Indonesia – Jakarta
4. Geology Department Pakuan University – Bogor
5. Geology Department Institute Technology Bandung
6. Applied Geophysics Department Institute Technology Bandung
7. Petroleum Engineering Department Institute Technology Bandung
8. Geology Department Padjadjaran University – Bandung
9. Geology Department Gadjah Mada University – Yogyakarta
10. Geophysics Department Gadjah Mada University – Yogyakarta
11. Geology Department Pembangunan Nasional University – Yogyakarta
12. Petroleum Engineering Department Pembangunan Nasional University – Yogyakarta
13. Geology Department Sekolah Tinggi Teknologi Nasional – STTNAS – Yogyakarta
14. PPT Migas – Cepu
15. Mining Geology Department Sriwijaya University – Palembang
16. Geology Department Hasanudin University – Ujung Pandang
17. Geology Department Institute Technology Medan – Medan
18. Geophysics Department Institute Technology Surabaya – Surabaya
19. Geophysics Department Hasanudin University – Ujung Pandang
20. Geophysics Department University of Indonesia – Jakarta
21. Petroleum Engineering Department Proklamasi University – Yogyakarta
22. Petroleum Engineering Department University Islam Riau – Pekanbaru
23. Physics Department FMIPA Lampung University – Lampung
24. Geophysics Department Brawijaya University – Malang
25. Geophysics and Meteorology Department Institute Technology Bandung

These universities are associate members of the IPA. They are therefore on the direct mailing list and receive notices of all IPA courses and luncheon talks.

## **FINANCIAL ASSISTANCE**

Limited financial assistance is offered to participating universities to cover the purchase or repair of laboratory equipment and computers and for field excursions. Priorities are given to projects that directly benefit as many students as possible.

A total of 17 university departments submitted requests for financial assistance during 2006. Funding per department was IDR 8 million. Total spending by Financial Assistance was approximately IDR 136 million or 34% under budget. Some members did not submit proposal.



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## **COMMERCIAL COURSES**

This program sponsors a limited number of lecturers to attend commercial courses in earth sciences or engineering. These are normally one- to five-day courses held in Jakarta and organized by IPA and others. The lecturers are asked to pass on to students the concepts/technology learned during the courses via course updates.

The committee always approaches and persuades course institutions to provide a special discounted course fee for efficiency. Some lectures are sponsored to present their technical paper in the scientific convention like IAGI and HAGI.

A total of 15 lecturers attended the courses with an estimate total expenditure until end of this year would be of IDR 46 million or 2% over the budget.

## **DISTRIBUTION OF TECHNICAL JOURNALS AND PUBLICATIONS**

The committee collects surplus periodicals and technical journals from oil and service companies in Jakarta and distributes them to university department libraries. The journals are sorted, catalogued and redistributed according to need. The committee also assists university departments in purchasing textbooks and CD-ROMs and paying for subscriptions to world-class journals, such as IPA, IAGI, AAPG, SEG and others.

During the year of 2006, sub-committee spending was approximately IDR 25.15 million which slightly over the budget

## **INDUSTRY-SPONSORED COURSES**

The Committee selects a One Day Course courses organized by students and taught by professionals from the petroleum industry. The locations are spread around the participating university campuses. Attendance is normally 30 - 50 students. Expenses for lecturers are covered by their company, which helps to keeps IPA costs down. This gesture is much appreciated.

During 2006, the sub-committee sponsored and coordinated 17 sessions (2005: 14 sessions) in various universities. Total expenditure was IDR 36.3 million or 27.45 % under budget. Difficulties in obtaining lecturers and some cancellations resulted in the spending target not being reached.

## **IPA RESEARCH GRANT**

The aim of the grant is to boost scientific research activities among students and lecturers. In early 2006, the sub-committee awarded remaining grants totaling IDR 6,000,000 to the 2005 winners.

During 2006, this competitive-based assistance attracted 15 participants. Two winners will be selected and received a partial grant award of IDR 10,000,000. The remaining grand IDR 5 million will be awarded after their research final report is submitted in early



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2007. The results are expected to be presented during the 2006 HAGI-IPA-SEG joint convention. Total expenditure in 2006 was IDR 15,000,000.

### **ANNUAL UAC MEETING**

UAC held one meeting of UAC/University representatives on March 24<sup>th</sup>, 2006 in the Geology Department of the Padjadjaran University in Bandung, West Java. The student representatives from the various relevant student associations were invited to the meeting. The meeting provides a forum for discussing the committee's programs and to solicit university input, in addition to promoting the IPA program and the oil & gas industry to student representatives. Brochures were distributed to the representatives for the promoting purposes. The representatives are also required to assist IPA contact persons in executing the programs. IPA covers transportation, meals and overnight expenses for the university and student representatives. The UAC committee members' expenses were paid by individual company employers, which relieved the IPA of the burden of cost. During 2006, the UAC committee held also some coordination meeting among the committees to monitor and optimized the programs. Total expenses for this 2006 annual UAC meeting were IDR 25.12 million or 19.62 % over the budget.

### **IPA CONVENTION ATTENDANCE**

UAC sponsored the attendance of a lecturer from IPA-UAC members at IPA Conventions. In 2006, IPA held a join convention meeting with SEG, HAGI, IAGI and IATMI and we do not have any sponsorship from Join Steering Committee for this program.

By attending IPA Conventions, the lecturer is expected to explore and gain experience from the technical papers/posters presented by various domestic and international oil & gas industries as well as services companies. No expenditure for the program this year, but the UAC committee still put this program in 2007 budgeting to cover the 2007 IPA Convention and propose the same number as 2006 (IDR 30 million)

### **THE 2007 BUDGET**

The proposed 2007 budget is IDR 350 million, or a 10 % decrease compared to the 2006 budget. The committee is trying to keep the budget as low as possible by reshuffling the budget allocation from one sub-committee to another in order to improve efficiency and effectiveness. In 2007, One Day Seminar/Course will be handled over to Student Chapter and we remove the budget from the proposal.

The list of the proposed is as the table below.



CODE	Budget Category	2006 Approved Budget	2006 Out Look	Est Total as % of Budget	2007 Proposed Budget	% Difference	Explanation
01	Industry One-Day Course	50,000,000	35,000,000	70.00%		-100.00%	will be handled by Student Chapter
02	University Financial Assistance	200,000,000	136,000,000	68.00%	200,000,000	0.00%	To cover 25 members of UAC
03	Commercial Courses	45,000,000	46,000,000	102.22%	45,000,000	0.00%	
04	Journal / Book Distribution	25,000,000	25,156,618	100.63%	25,000,000	0.00%	
05	IPA Convention Attendance	30,000,000	0	0.00%	30,000,000	0.00%	
06	UAC Annual Meeting	21,000,000	25,119,500	119.62%	30,000,000	42.86%	
07	IPA Research Competition	20,000,000	15,000,000	75.00%	20,000,000	0.00%	Scholarship program has been considered to replace it
	<b>TOTAL</b>	<b>391,000,000</b>	<b>282,276,118</b>	<b>72.19%</b>	<b>350,000,000</b>	<b>-10.49%</b>	
<b>Note:</b>							





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SECTION 18

**LIST OF  
COMPANY AND ASSOCIATE MEMBERS**



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## INDONESIAN PETROLEUM ASSOCIATION

### COMPANY MEMBERS

1. ANADARKO INDONESIA COMPANY
2. BP INDONESIA
3. BUMI PARAHYANGAN RANHILL ENERGIA CITARUM PTE. LTD.
4. CHEVRON INDONESIA COMPANY
5. CITIC SERAM ENERGY LTD.
6. CNOOC SES, B.V.
7. CONOCOPHILLIPS INDONESIA
8. EMP KANGEAN LIMITED
9. ENERGY EQUITY EPIC (SENGKANG) PTY. LTD.
10. ENI INDONESIA LTD.
11. EXXONMOBIL OIL INDONESIA, INC.
12. FREEPORT INDONESIA, PT.
13. GENTING OIL NATUNA PTE. LTD.
14. HESS (INDONESIA PANGKAH)
15. HUSKY OIL(MADURA) LTD.
16. INDELBERG INDONESIA, PT.
17. INPEX CORPORATION
18. IRIAN PETROLEUM LTD.
19. JAPAN PETROLEUM EXPLORATION CO. LTD.
20. KALREZ PETROLEUM (SERAM) LTD.
21. KODECO ENERGY CO. LTD.
22. KONDUR PETROLEUM S.A.
23. LAPINDO BRANTAS, INC.
24. LEKOM MARAS PENGABUAN, INC.
25. LUNDIN OIL & GAS B.V.
26. MARATHON INTERNATIONAL PETROLEUM IND. LTD.
27. MEDCO ENERGI INTERNASIONAL TBK.
28. OVERSEAS PETROLEUM & INVESTMENT
29. PACIFIC OIL & GAS INDONESIA, PT.
30. PEARLOIL (Tungkal) LIMITED
31. PERTAMINA DIRECTORATE OF UPSTREAM
32. PETROCHINA
33. PETROLIAM NASIONAL BERHAD/PETRONAS
34. PETROSELAT LTD. PT.
35. PPPTMGB "LEMIGAS"
36. PREMIER OIL NATUNA LTD.
37. SANTOS (SAMPANG) PTY. LTD.
38. SHELL COMPANIES IN INDONESIA
39. STAR ENERGY (KAKAP) LTD.
40. TALISMAN ENERGY INC.
41. TOTAL E&P INDONESIE
42. VICO INDONESIA



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## INDONESIAN PETROLEUM ASSOCIATION

### ASSOCIATE MEMBERS

1. ABHITECH MATRA INDAH, PT.
2. ALTON INTERNATIONAL INDONESIA, PT.
3. AMEC BERCA INDONESIA, PT.
4. APEXINDO PRATAMA DUTA, PT.
5. ARMINDO PRIMA, PT.
6. ARUN NGL CO.
7. BADAK LNG COMPANY
8. BAKER ATLAS INDONESIA, PT.
9. BAKER HUGHES INTEQ
10. BMT ASIA PACIFIC INDONESIA, PT.
11. BECHTEL INDONESIA, PT.
12. BGP INDONESIA, PT.
13. BJ SERVICES INDONESIA
14. BORMINDO NUSANTARA, PT.
15. CENTURY DINAMIK DRILLING
16. CITRA TUBINDO, PT.
17. CITRABUANA INDOLOKA, PT.
18. COMPACTO SOLUSINDO, PT.
19. COOPER CAMERON
20. CORELAB INDONESIA, PT.
21. DAYA TURANGGA, PT.
22. DELOITTE PETROLEUM SERVICES
23. DIMAS UTAMA, PT.
24. ERNST & YOUNG
25. EXLOG SARANA INDONESIA, PT.
26. FLUOR DANIEL INDONESIA, PT.
27. FMC SANTANA PETROLEUM EQUIPMENT INDONESIA
28. GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE. LTD.
29. GEOPROLOG INTIWIJAYA, PT.
30. GEOSERVICES, PT.
31. GRANT GEOPHYSICAL INDONESIA, PT.
32. HALLIBURTON INDONESIA, PT.
33. HANOVER INDONESIA, PT.
34. HITEK NUSANTARA OFFSHORE DRILLING
35. HORIZON GEOCONSULTING, PT
36. HORIZON OFFSHORE INDONESIA, PT.
37. IMECO INTERSARANA, PT.
38. INSTITUTE TECHNOLOGY BANDUNG
39. INSTITUTE TECHNOLOGY MEDAN
40. INSTITUTE TECHNOLOGY SEPULUH NOPEMBER
41. INTERTEK UTAMA SERVICES, PT.
42. ITOCHU CORPORATION
43. JGC CORPORATION
44. KALIRAYA SARI, PT
45. LANDMARK CONCURRENT SOLUSI INDONESIA



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46. LERINDRO INTERNATIONAL
  47. M-I INDONESIA, PT.
  48. McDERMOTT INDONESIA
  49. MITSUBISHI CORPORATION
  50. OSCO UTAMA, PT.
  51. PAMERINDO BUANA ABADI, PT.
  52. PELITA AIR SERVICE, PT.
  53. PETRATAMA NUSAPERTIWI (PETRANUSA)
  54. PETROSEA TBK. PT.
  55. PGS NUSANTARA, PT.
  56. PRICEWATERHOUSECOOPERS
  57. PURNA BINA INDONESIA, PT.
  58. PUSDIKLAT "MIGAS"
  59. RESOURCES JAYA TEKNIK MANAGEMENT INDONESIA, PT.
  60. RIAU ISLAMIC UNIVERSITY
  61. SAIPEM INDONESIA, PT.
  62. SANTA FE SUPRACO INDONESIA
  63. SCHLUMBERGER GEOPHYSICS NUSANTARA, PT.
  64. SEAMLESS PIPE INDONESIA JAYA, PT.
  65. SIDDHARTA & SIDDHARTA, DRS.
  66. STTNAS YOGYAKARTA
  67. SUCOFINDO
  68. SUDJACA PALEMBANG, PT.
  69. SUMBER DAYA KELOLA, PT.
  70. SYNERGY DOWNSTREAM SOLUTIONS PTE. LTD.
  71. SUPRACO INDONESIA, PT.
  72. TIDEWATER OPERATORS INDONESIA
  73. TRANS NUSANTARA MULTI CONSTRUCTION, PT.
  74. TRIPATRA ENGINEERING, PT.
  75. TUGU PRATAMA INDONESIA, PT.
  76. UNIVERSITY OF BRAWIJAYA
  77. UNIVERSITY OF GADJAH MADA
  78. UNIVERSITY OF HASANUDDIN
  79. UNIVERSITY OF INDONESIA
  80. UNIVERSITY OF LAMPUNG
  81. UNIVERSITY OF LONDON
  82. UNIVERSITY OF PADJADJARAN
  83. UNIVERSITY OF PAKUAN
  84. UNIVERSITY PROKLAMASI
  85. UNIVERSITY OF SRIWIJAYA
  86. UNIVERSITY OF TRISAKTI
  87. U.P.N. VETERAN
  88. VELISIA LARASATI LAW OFFICES
  89. VERITAS DGC MEGA PRATAMA, PT.
  90. WELLTEKINDO NUSANTARA, PT.
  91. WOOD MACKENZIE LTD.