



**Friends of
the Earth
International**

The financing of the three Brantas PSC companies

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Contents

Summary	i
Chapter 1 Short description of the Brantas PSC	1
1.1 Key data on the Brantas PSC	1
1.2 The mud flow incident.....	2
Chapter 2 Energi Mega Persada	5
2.1 Short profile of Energi Mega Persada	5
2.2 Financing structure of Energi Mega Persada	6
2.3 Financial institutions financing Energi Mega Persada	6
2.3.1 Shareholders	6
2.3.2 Bank loans	6
2.3.3 Investment bank services	7
2.3.4 Other financial services	7
Chapter 3 Medco Energi Internasional.....	9
3.1 Short profile of Medco Energi Internasional.....	9
3.2 Financing structure of Medco Energi Internasional.....	9
3.3 Financial institutions financing Medco Energi Internasional.....	10
3.3.1 Shareholders	10
3.3.2 Bank loans	10
3.3.3 Investment banks	12
3.3.4 Other financial services	12
Chapter 4 Santos	14
4.1 Short profile of Santos	14
4.2 Financing structure of Santos.....	14
4.3 Financial institutions financing Santos.....	15
4.3.1 Shareholders	15
4.3.2 Bank loans	15
4.3.3 Investment banks	15
4.3.4 Other financial services	16
Appendix 1 References	17

Summary

The Brantas natural gas *Production Sharing Contract (PSC)* in East Java (Indonesia) is owned by:

- | | | |
|-----------------------|-----------|-----|
| • Energi Mega Persada | Indonesia | 50% |
| • Medco Energi | Indonesia | 32% |
| • Santos | Australia | 18% |

The following table provides an overview of the financial institutions involved in the three companies participating in the Brantas PSC. The table also indicates the significance of each financial institution for the financing of the three companies.

Financial institution	Country	Involvement in financing of:		
		Energi Mega Persada	Medco Energi Internasional	Santos
Andalan Artha Advisindo Sekuritas	Indonesia		Low	
ANZ	Australia			Medium
Bank Central Asia	Indonesia		Medium	
Bank Danamon	Indonesia		Low	
Bank Internasional Indonesia	Indonesia		Low	
Bank Mandiri	Indonesia	Low	Medium	
Bank Negara Indonesia	Indonesia	Low		
Bank Niaga	Indonesia	Low	Medium	
Bank Rakyat Indonesia	Indonesia		Low	
Barclays	United Kingdom			High
Caliburn Partnership	Australia			Low
CIMB Group	Malaysia	Low		
Citigroup	United States		Low	Medium
Commonwealth Bank of Australia	Australia			Medium
Credit Suisse	Switzerland	High	High	
Danatama Makmur	Indonesia	Medium		
Deutsche Bank	Germany		Medium	
Deutsche Investitions- und Entwicklungsgesellschaft	Germany		Low	
Fortis Group	Netherlands	Medium	Medium	
Goldman Sachs & Co.	United States		Medium	
Indo Premier Securities	Indonesia		Low	
Investindo Nusantara Sekuritas	Indonesia		Low	
Maple-Brown Abbott	Australia			High
Merrill Lynch & Co.	United States	High	High	High
Morgan Stanley & Co.	United States		Low	

Financial institution	Country	Involvement in financing of:		
		Energi Mega Persada	Medco Energi Internasional	Santos
Natixis	France		High	
OCBC Bank	Singapore		Low	
PMA Investment Advisors	Hong Kong	Low	Medium	
Standard Chartered Bank	United Kingdom		Medium	
TMF Group	Netherlands		Low	
UBS	Switzerland		Medium	
United Overseas Bank	Singapore		High	
Vreewijk Management	Netherlands		Low	

The table lists quite a number of American and European financial institutions involved. Most noteworthy are Merrill Lynch & Co. (United States), which plays a significant role in financing all three companies, and Credit Suisse (Switzerland), which plays a significant role in financing both Indonesian companies.

1.2 The mud flow incident

On 29 May 2006 Lapindo Brantas was drilling an exploratory well nearly three kilometers deep near Sidoarjo. Instead of gas, the well poured out mud, gas and boiling water. Since then, mud has been gushing out, by a speed of 50,000 m³ a day. In November 2006, the flood grew to 150,000 m³ a day and has remained steady ever since.² The mudflow has buried 11 villages, displaced 3,500 families, damaged 350 hectares of farming land and 23 school buildings, and forced 20 companies to cease operations. It has devastated the lives of more than 15,000 people and material losses are estimated at Rp 27 trillion (about US\$ 3.0 billion).³ The mud flow could possibly continue for a century with "catastrophic consequences" according to European experts.⁴

Energi Mega Persada and the Bakrie Group have repeatedly tried to deny that the mud flow was caused by the drilling activities of Lapindo Brantas. Instead, they blamed the earthquake of May 27 in Yogyakarta. But president Yudhoyono and vice-president Kalla have declared repeatedly that Lapindo Brantas is responsible and should pay damage compensation. This was finally accepted in June 2006 by minister Aburizal Bakrie and the Bakrie Group.⁵

As denying its responsibility for the accident did not work, Energi Mega Persada tried twice to sell its subsidiary Lapindo Brantas in an apparent attempt to dodge its liability:

- In September 2006 Energi Mega Persada proposed to sell Lapindo Brantas to Lyte Limited. This company - domicile unknown - is also controlled by the Bakrie Group.⁶ The close relationship between buyer and seller was the reason for the Indonesian Capital Market Supervisory Agency (Bapepam) to block the sale in the beginning of November 2006.⁷
- In November 2006 Energi Mega Persada tried again and announced the sale of Lapindo Brantas to the Freehold Group, a mysterious company registered in the British Virgin Islands. Energi Mega Persada claimed that Freehold was not related to the Bakrie Group.⁸ The Bapepam also questioned this deal, which raised public controversy.⁹ When it was revealed that Freehold Group is owned by James Belcher, an American businessman and a friend of Aburizal Bakrie for 25 years, Freehold Group annulled the contract at the end of November 2006.¹⁰

Following the failure of the two sales efforts, Energi Mega Persada again mobilised its allies to deny it had caused the mud flow incident in the first place. In mid-December 2006, the Indonesian Association of National Oil & Gas Companies (Aspermigas) issued a statement saying that it had come to the conclusion there was a correlation between the Yogyakarta earthquake and the start of the mudflow.¹¹ A two day workshop organised by the Agency for the Assessment and Application of Technology (BPPT) came to the same conclusion in Mid-February 2007, calling the mudflow a "natural disaster".¹²

This conclusion is disputed by international experts such as Richard Davies, a mud volcano specialist at Durham University in the United Kingdom, stating: "The chance that the mud erupted because of the drilling activities is 90 percent. I feel quite strongly about this."¹³

The Indonesian government did not seem to be impressed by Lapindo Brantas' denials of its responsibility. At the end of December 2006 the Indonesian president Yudhoyono said Lapindo Brantas will have to pay around Rp 2.5 trillion (US\$ 277 million) in compensation to the victims of the mud flow and Rp 1.3 trillion (US\$ 144 million) to stop the mud flow. This last amount and the first 20% of the compensation should be paid by March 2007.¹⁴

Lapindo Brantas has responded to this claim in various ways. In December 2006 the company claimed that it is not guilty, and that the compensation costs are too high: "Lapindo's total current assets won't be enough to cover the costs incurred as a consequence of the disaster".¹⁵

In February 2007, Lapindo Brantas demanded that Medco Energi and Santos would also take responsibility for the damage caused. Even though Santos and Medco were not directly involved in the day-to-day operations in the field, Lapindo Brantas claims to have consulted them about all drilling procedures. "Both Medco and Santos always received day-to-day reports on progress in the field. Even though they are not the operators, both firms had at least one of their officers on the ground."¹⁶

And in early March 2007 Lapindo Brantas claimed it could not begin paying compensation to affected residents due to incomplete land ownership documents.¹⁷

In May 2007, one year after the start of the mud stream, Lapindo Brantas paid partial compensation to 75 rice-farmers and 8 of the 22 companies that were affected by the mud. Remaining compensations for these parties are planned in December, but cash compensations for the more than 13,000 families hit by the disaster are still not agreed upon.¹⁸

In the mean time the government's estimate of the total costs to repair damaged public infrastructure and compensate those affected by the mudflow disaster have increased to Rp 7.6 trillion (US\$ 844 million) at the beginning of March. While the cost of reconstructing damaged infrastructure will be covered by the state budget, a minister has said Lapindo Brantas would be required to repay the money.¹⁹

A new government body, the Sidoarjo Mudflow Mitigation Agency, was established in April, but instead of taking care of the people affected by the mudflow, it focuses primarily on rebuilding destroyed infrastructure and dealing with the spreading mud.²⁰

Medco Energi Internasional, - the other Indonesian oil company involved in the Brantas PSC - has always denied responsibility for the incident. According to Medco it had reminded Lapindo Brantas during a technical meeting on 18 May 2006 to install a casing of around 25 centimeters in diameter at a depth of 2,590 meters. This casing was needed to prevent any potential leakage of moving mud and mudflow from kicking to the surface, prior to drilling for limestone, as agreed to in the drilling program. It is uncertain whether Medco Energi indeed has made this recommendation, as the report of this technical meeting - which took place before the incident - was written only after the incident.²¹

In November 2006, Medco Energi Internasional started a procedure at an international arbitration court in New York, arguing that Lapindo Brantas violated their joint operation agreement for the Brantas PSC. Medco Energi demanded that it would be exempted from any obligation to compensate the victims of the disaster. The company refused to pay any of the costs.²²

At the end of March 2007 Medco Energi suddenly announced the sale of its subsidiary PT Medco E&P Brantas, which owns the 32% share in the Brantas PSC. The subsidiary is sold to the Prakarsa Group from Indonesia for only US\$ 100. Prakarsa also assumes all liabilities, but, according to its statement to the stock exchange, "the management of Medco Energi is still committed to support the victims of Sidoarjo".²³

It is not quite clear who is behind the Prakarsa Group, but Medco Energi's statement mentions Minarak Labuan Co. (Malaysia) as the financial guarantor of the Prakarsa Group. This company is owned by the Bakrie Group and it is therefore assumed that it is actually the Bakrie Group which has acquired Medco Energi's stake in the Brantas PSC to end the embarrassing arbitration court case with Medco Energi - which could reveal that Lapindo Brantas has indeed acted in "gross negligence" as Medco Energi claimed.²⁴

The third company involved, Santos from Australia, has given assurances that it will pay its share of the clean-up and compensation costs when a settlement is reached.²⁵

The most important financial stakeholders (shareholders, bondholders, banks, a.o.) of the three companies participating in the Brantas PSC will be identified and their role will be described in the next chapters.

Chapter 2 Energi Mega Persada

2.1 Short profile of Energi Mega Persada

PT Energi Mega Persada Tbk. is a small Indonesian oil and gas company established in 2001. In 2003 and 2004 the company acquired working interests in three Indonesian production sharing contracts (PSCs):²⁶

- Malacca Strait (Riau, 60.49%)
- Brantas (East Java, 50%)
- Kangean (East Java, 100%)

In January 2006 the company acquired PT Tunas Harapan Perkasa, which owns a number of production and exploration licenses spread over Indonesia (indicated red in Figure 2).



Figure 2. Production and exploration activities of Energi Mega Persada

In March 2007 the company announced it will sell a 50% stake in the Kangean PSC to the Japanese oil companies Mitsubishi Corporation and Japan Petroleum Exploration (Japex) for a total sum of US\$ 360 million.²⁷

During 2006 Energi Mega Persada produced 3.9 million barrels of oil 6.1 million barrels of oil equivalent of natural gas. Its oil and gas reserves amounted to 390 million barrels of oil equivalent.²⁸

In 2006 the company realised sales with a total value of Rp 1,647 billion (US\$ 181 million), resulting in a net profit of Rp 203 billion (US\$ 22 million).²⁹ Energi Mega Persada sells most of its oil to Itochu (Japan), and its gas to PGN (Indonesia).³⁰

Energi Mega Persada belongs to the Bakrie Group, one of the largest business groups in Indonesia. The Bakrie Group is mainly active in telecommunications, pipe manufacturing, building materials, agribusiness, coal mining and media. The ultimate holding company of the group is PT Bakrie & Brothers Tbk., which is controlled by the Indonesian Bakrie family. The head of the family, Aburizal Bakrie, at present is the Coordinating Minister for Social Welfare of Indonesia.³¹

The American business magazine Forbes in September 2006 listed Aburizal Bakrie as the sixth-richest man in Indonesia, with an estimated personal wealth of US\$ 1.2 billion.³²

2.2 Financing structure of Energi Mega Persada

At the end of 2006, Energi Mega Persada owned assets with a total value of Rp 9,883 billion (US\$ 1,087 million). These assets were being financed by the following financial stakeholders:³³

• Banks	Rp 4,941 billion	50%
• Shareholders	Rp 1,833 billion	19%
• Trading partners	Rp 1,096 billion	11%
• Tax agencies	Rp 746 billion	8%
• Other stakeholders	Rp 1,266 billion	13%

Clearly the banks were the most important financial stakeholders of Energi Mega Persada, financing 50% of its total assets at the end of 2006. Loans arranged by **Credit Suisse** (Switzerland) financed 39% of total assets, while the loan arranged by **Merrill Lynch & Co.** financed 11%.

The information found on financial institutions involved in the financing of Energi Mega Persada is presented in the following paragraphs.

2.3 Financial institutions financing Energi Mega Persada

2.3.1 Shareholders

The most important shareholders of Energi Mega Persada are two companies controlled by the Bakrie Group which together own 68.5% of its shares.³⁴

A fairly large outside shareholder is Fortis OBAM, an investment fund of **Fortis Group** (Netherlands), which owned about 0.5% of the shares at the end of 2006.³⁵

2.3.2 Bank loans

The following information was found on bank loans provided to Energi Mega Persada:

- In August 2004, Energi Mega Persada obtained a five-year US\$ 95 million credit facility arranged by Credit Suisse First Boston, part of **Credit Suisse** (Switzerland). The facility was used to finance the acquisition of the Kangean PSC from BP.³⁶ According to press reports, **Bank Negara Indonesia** (Indonesia) and **Fortis Bank** (Netherlands) were also involved in the facility.³⁷
- During 2005 Energi Mega Persada secured a Rp 1.8 billion (US\$ 0.2 million) loan from Bank Niaga (Indonesia), which is part of **CIMB Group** (Malaysia). At the end of 2006 US\$ 0.1 million was outstanding.³⁸
- In May 2005, Energi Mega Persada obtained a five-year US\$ 275 million credit facility arranged by Credit Suisse First Boston, part of **Credit Suisse** (Switzerland). US\$ 78.5 million was used to settle the outstanding balance of the August 2004 facility, and the remaining US\$ 196.5 million was used to finance the development of the Kangean PSC. The loan is due in 5 years with a 3-year grace period.³⁹

The credit facility is not a syndicated bank loan, Credit Suisse has sold most of the debt to hedge funds.⁴⁰

- In July 2005, Energi Mega Persada secured a US\$ 120 million three-year credit facility arranged by **Merrill Lynch & Co.** (United States). Just as the loan arranged by Credit Suisse this is not a normal syndicated bank loan, the credit facility is structured in the form of collateralized bonds which are sold mainly to hedge funds.⁴¹
The proceeds of the credit facility were used to repay loans with a total value of US\$ 49.8 million outstanding to **Bank Mandiri** (Indonesia) and **PMA Investment Advisors** (Hong Kong) as well as to fund the development and exploration of oil and gas fields in the Malacca Straits PSC and the Brantas PSC.
The credit facility is channelled via Malacca Brantas Finance B.V., a Dutch subsidiary of Energi Mega Persada (see paragraph 2.3.4).⁴²
The full amount of US\$ 120 million was outstanding at the end of 2006.⁴³
- In October 2005 PT Semberani Persada Oil, a subsidiary of Energi Mega Persada, secured a three-year US\$ 52.75 million credit facility from **Credit Suisse** (Switzerland). The proceeds of the credit facility were used to repay loans with a total value of US\$ 26.8 million outstanding to **Bank Mandiri** (Indonesia).⁴⁴
- In August 2006 PT Semberani Persada Oil, a subsidiary of Energi Mega Persada, secured a two-year US\$ 126.4 million credit facility from **Credit Suisse** (Switzerland).⁴⁵
- In February 2007 Energi Mega Persada announced it is seeking new loans to refinance four loans with a total value of US\$ 547.75 million, which are maturing in 2008-2010. These are the May 2005, October 2005 and August 2006 loans from Credit Suisse with a total value of US\$ 427.75 million and the July 2005 loan from Merrill Lynch & Co. with a total value of US\$ 120 million.⁴⁶

2.3.3 Investment bank services

The following information was found on investment banking services provides to Energi Mega Persada:

- In May 2004 Energi Mega Persada was listed on the Jakarta stock exchange and made an initial public offering which raised US\$ 53 million for the company. The IPO was underwritten by **Danatama Makmur** (Indonesia). The proceeds were used to develop the Malacca Straits PSC (40%) and the Brantas PSC (60%).⁴⁷
- In January 2006 Energi Mega Persada issued 4,909 million shares on the Indonesian capital market with a total value of Rp 3,780 billion (US\$ 376.1 million). The share issuance was managed by **Danatama Makmur** (Indonesia). The proceeds were used to finance the acquisition of the expansion of PT Tunas Harapan Perkasa.⁴⁸

2.3.4 Other financial services

The following information was found on other financial services provides to Energi Mega Persada:

- During 2005 Energi Mega Persada acquired two financing companies in the Netherlands - Energi Mega Persada Finance B.V. and Malacca Brantas Finance B.V., which are used to transfer loans and interest payments to minimize tax payments. These two financing companies are being managed by Fortis Intertrust Group, which is part of **Fortis Group** (Netherlands).⁴⁹

- **Credit Suisse** (Switzerland) advised Energi Mega Persada on the sale of a 50% share in the Kangean PSC to two Japanese oil companies for a total sum of US\$ 360 million in March 2007.⁵⁰

Chapter 3 Medco Energi Internasional

3.1 Short profile of Medco Energi Internasional

PT Medco Energi Internasional Tbk. is the largest privately-owned oil and gas company in Indonesia. It holds working interests in various exploration and production blocks in Indonesia and overseas, producing 56,367 barrels of oil and 22,896 barrels of oil equivalent of natural gas per day in 2006. The company's Indonesian operations span from Aceh to Papua, while Medco Energi is also active in the United States, Cambodia, Libya, Yemen and Oman. Apart from oil and gas production Medco Energi is also involved in renting oil platforms and the production of electricity and methanol. Its proven reserves amount to 99.0 million barrels of oil and 48.1 million barrels of oil equivalent of natural gas.⁵¹

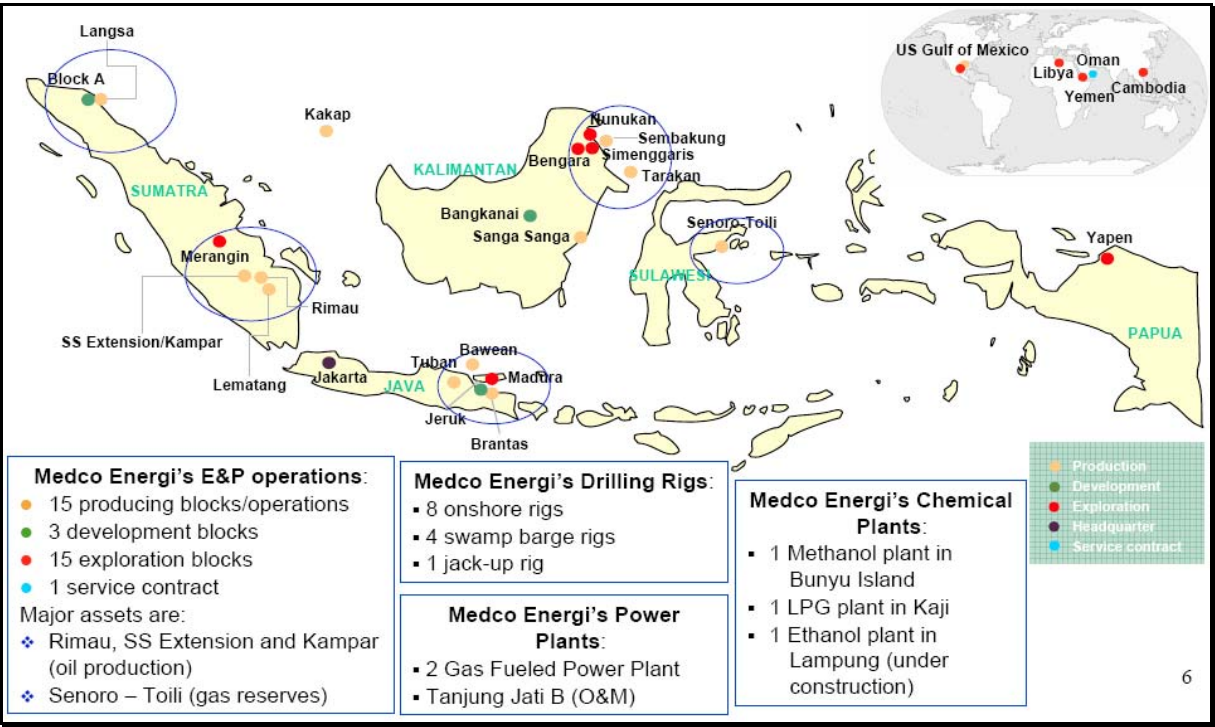


Figure 3. Oil and gas activities of Medco Energi Internasional in Indonesia

Over the year 2006, Medco Energi Internasional realised sales with a total value of US\$ 792.4 million and a net profit of US\$ 38.2 million. Net oil and gas sales made up 80% of total turnover. Major oil & gas customers are PTT (Thailand) and Mitsui (Japan).⁵²

Medco Energi Internasional was founded in 1980 by Arifin Panigoro, under the name Meta Epsi Duta Corporation. Panigoro later became a leading politician in Indonesia, first in the Golkar party of ex-president Suharto and later in the PDI-P party of ex-president Megawati Soekarnoputri.⁵³



3.2 Financing structure of Medco Energi Internasional

At the end of 2006, Medco Energi Internasional owned assets with a total value of US\$ 1,842 million. These assets were being financed by the following financial stakeholders.⁵⁴

• Bondholders	US\$ 664.7 million	36%
• Shareholders	US\$ 533.8 million	29%
• Trading partners	US\$ 214.1 million	12%
• Tax agencies	US\$ 165.4 million	9%
• Minority shareholders	US\$ 121.8 million	7%
• Banks	US\$ 68.9 million	4%
• Others	US\$ 86.8 million	4%

Bond- and shareholders are the most prominent financial stakeholders of Medco Energi Internasional. Banks play only a minor role in financing.

The information found on financial institutions involved in the financing of Medco Energi Internasional is presented in the following paragraphs.

3.3 Financial institutions financing Medco Energi Internasional

3.3.1 Shareholders

After the Asian financial crisis of 1997/98 Medco Energi Internasional got into trouble, but the company underwent a successful debt restructuring in 1999. As a result **Credit Suisse** (Switzerland) became the owner of up to 85.44% of the company's shares. In the following years Cr dit Suisse has gradually sold this shareholding. In January 2005 its last block of shares (representing 17%) was sold to Encore International Ltd., the holding company of the Panigoro family.⁵⁵

At present, the Panigoro family controls 50.7% of the shares.⁵⁶

3.3.2 Bank loans

The following information was found on bank loans provided to Medco Energi Internasional:

- In March and July 2003 PT Apexindo Pratama Duta, a subsidiary of Medco Energi Internasional, secured two loans from **Fortis Bank** (Netherlands) with values of US\$ 39 million and US\$ 26 million to finance the construction of two oil platforms. The loans were repaid during 2005.⁵⁷
- In August 2003 Medco Energi Internasional and its subsidiaries secured a number of bank loans from **Bank Central Asia** (Indonesia) for a total value of about US\$ 47 million. At the end of 2006 US\$ 20.2 million was still outstanding.⁵⁸
- In March 2004 PT Medco LPG Kaji (LPG), a subsidiary of Medco Energi Internasional, secured a four-year US\$ 13.3 million loan from **Deutsche Investitions- und Entwicklungsgesellschaft** (Germany) to finance an LPG project relating in the Rimau Block in South Sumatra. At the end of 2005 US\$ 4.8 million was still outstanding.⁵⁹
- To finance the acquisition of the Australian oil company Novus Petroleum, Medco Energi Internasional in June 2004 obtained a US\$ 200 million short-term bridging loan facility from an international banking syndicate, arranged by **United Overseas Bank** (Singapore) and **OCBC Bank** (Singapore). The loan was repaid during 2005.⁶⁰
- In January 2005 PT Apexindo Pratama Duta, a subsidiary of Medco Energi Internasional, secured a US\$ 30 million bridging loan from **Standard Chartered Bank** (United Kingdom). The loan was repaid in April 2005.⁶¹

- In February 2005 Encore International (owned by the Panigoro family) acquired large blocks of shares of Medco Energi owned by Credit Suisse (Switzerland) and the Thai oil company PTT. The acquisition was paid by a US\$ 278 million loan facility arranged by **United Overseas Bank** (Singapore) and a US\$ 175 million loan arranged by **Merrill Lynch & Co.** (United States).⁶²
- In August 2005 PT Usaha Kita Makmur Bersama, a subsidiary of Medco Energi, secured a four-year Rp 75 billion (US\$ 8.0 million) loan from **Bank Rakyat Indonesia** (Indonesia). At the end of 2006 US\$ 6.2 million was outstanding.⁶³
- At the end of 2005 Encore International secured a US\$ 200 million loan facility from **Credit Suisse** (Switzerland). Shares in Medco Energi served as collateral. The facility was probably sold in parts by Credit Suisse to hedge funds. The proceeds of the facility were used to repay the final part of the February 2005 loans to Encore International.⁶⁴
- In December 2005 PT Medco Power Indonesia (MPI), a subsidiary of Medco Energi, secured a three-year US\$ 12 million loan facility from **GE Capital Services** (United States) to purchase power systems equipment. Outstanding at the end of 2006 was US\$ 11.5 million.⁶⁵
- In December 2005 PT Dalle Energy Batam (DEB), a subsidiary of Medco Energi, secured a eight-year Rp 120 billion (US\$ 13.1 million) syndicated loan from a banking syndicate arranged by **Bank Niaga** (Indonesia). At the end of 2006 US\$ 13.1 million was outstanding.⁶⁶
- In April 2006 PT Dalle Energy Batam (DEB), a subsidiary of Medco Energi, secured a eight-year Rp 120 billion (US\$ 13.1 million) syndicated loan from a banking syndicate arranged by **Bank Internasional Indonesia** (Indonesia). At the end of 2006 US\$ 13.1 million was outstanding.⁶⁷
- In September 2006 PT Apexindo Pratama Duta, a subsidiary of Medco Energi Internasional, secured a US\$ 125 million 10-year loan from an international banking syndicate arranged by Natexis Banques Populaires, which is now called **Natixis** (France). The proceeds re used to finance an offshore oil platform. The following banks participated in the loan syndicate:⁶⁸

- | | |
|----------------------------------|----------------|
| • Goldman Sachs & Co. | United States |
| • Natixis | France |
| • PMA Investment Advisors | Hong Kong |
| • Standard Chartered Bank | United Kingdom |
| • United Overseas Bank | Singapore |

At the end of 2006 this facility was not yet used.⁶⁹

- Apart from the loans and credit facilities mentioned earlier, Medco Energi Internasional and its subsidiaries could use the following guarantee facilities at the end of 2006:⁷⁰

Bank (Country)	Total facility	Used end 2006
• Bank Central Asia (Indonesia)	US\$ 30.0 million	US\$ 0.4 million
• Bank Danamon (Indonesia)	US\$ 35.0 million	US\$ 19.2 million
• Standard Chartered Bank (United Kingdom)	US\$ 39.0 million	US\$ 38.2 million

3.3.3 Investment banks

Since 2002 Medco Energi Internasional and its subsidiaries issued various bonds and shares. Details on the involvement of financial institutions are as follows:

- In March 2002 Medco Energi Internasional issued five-year Senior Guaranteed Notes with a total value of US\$ 100 million on the international capital market. The bonds bear 10% interest per year and are listed on the Singapore stock exchange. The bond issuance was managed by **Credit Suisse** (Switzerland). Almost all of these bonds were exchanged by the bondholders in May 2003 for the seven-year Guaranteed Notes which Medco Energi Internasional issued then.⁷¹
- In May 2003 Medco Energi Internasional issued seven-year Guaranteed Notes with a total value of US\$ 250 million on the international capital market. The bonds bear 8.75% interest per year and are listed on the Singapore stock exchange. The bond issuance was managed by **Credit Suisse** (Switzerland) and **UBS** (Switzerland).⁷²
- In June 2004 Medco Energi Internasional issued five-year bonds with a total value of Rp 1,350 billion (US\$ 145.3 million) on the Indonesian capital market. The bonds bear 13.125% interest per year. The issuance was managed by:⁷³

- **Indo Premier Securities** Indonesia
- Mandiri Sekuritas, part of **Bank Mandiri** Indonesia
- UOB Kay Hian Securities, part of **United Overseas Bank** Singapore

- In February 2005 PT Apexindo Pratama Duta, a subsidiary of Medco Energi Internasional, issued five-year bonds with a total value of Rp 750 billion (US\$ 80.7 million) on the Indonesian capital market. The issuance was managed by:⁷⁴

- Mandiri Sekuritas, part of **Bank Mandiri** Indonesia
- **Andalan Artha Advisindo Sekuritas** Indonesia
- Standard Chartered Securities Indonesia, part of **Standard Chartered** United Kingdom

- In August 2005 the dominant shareholder of Medco Energi Internasional, Encore International owned by the Panigoro family, was offering about 30% of the shares of Medco Energi Internasional to the public. The shares were listed in Jakarta and Luxemburg. **Merrill Lynch & Co.** (United States) and **Credit Suisse** (Switzerland) were the bookrunners and **United Overseas Bank** (Singapore) participated in the underwriting syndicate. The share offer earned US\$ 261 million for the Panigoro family, which was used to repay part of the February 2005 loans to Encore International.⁷⁵
- In May 2006 Medco Energi Internasional issued five-year 7.25% convertible bonds with a total value of US\$ 176.9 million on the international capital market. The issuance was managed by **Credit Suisse** (Switzerland) and **Deutsche Bank** (Germany).⁷⁶

3.3.4 Other financial services

- Since early 2003 Medco Energi Internasional has entered into a number of interest and currency swap contracts with a number of financial institutions:⁷⁷

- **Citigroup** United States US\$ 25.0 million
- **Fortis Bank** Netherlands US\$ 47.9 million

• Investindo Nusantara Sekuritas	Indonesia	US\$ 13.0 million
• Merrill Lynch & Co.	United States	US\$ 50.0 million
• Morgan Stanley & Co.	United States	US\$ 50.0 million
• Standard Chartered	United Kingdom	US\$ 141.4 million
• UBS	Switzerland	US\$ 227.3 million

At the end of 2006, Medco Energi Internasional had no swap liabilities left.⁷⁸

- Medco Energi Internasional and its subsidiaries have several financing subsidiaries in the Netherlands, which are used for tax purposes. Medco Energi Finance Overseas B.V. is managed by the **TMF Group** (Netherlands). Apexindo Asia-Pacific B.V. and Apexindo Khatulistiwa B.V. are managed by Fortis Intertrust Group, which is a subsidiary of **Fortis Bank** (Netherlands). Medco CB Finance B.V. is managed by **Vreewijk Management** (Netherlands).⁷⁹

Chapter 4 Santos

4.1 Short profile of Santos

Santos is a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in Indonesia, Papua New Guinea, Vietnam, India, Kyrgyzstan, Egypt and the United States. Santos is Australia's largest domestic gas producer, supplying sales gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers.⁸⁰

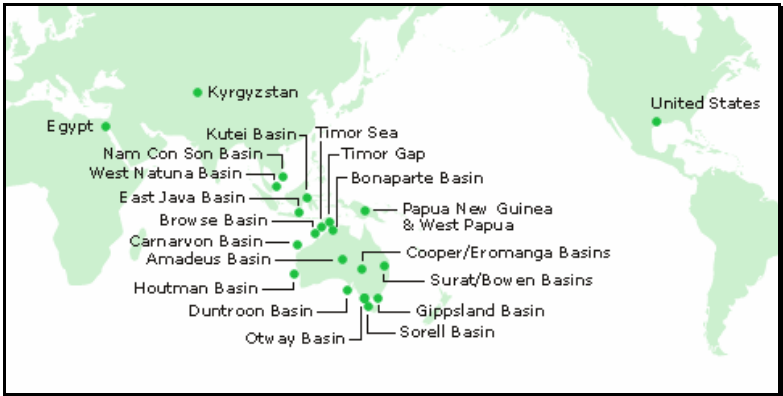


Figure 4. Oil and gas activities of Santos

Annual oil and gas production amounted to 61 million barrels of oil equivalent (boe) in 2006, while its proven and probable reserves amounted to 819 million boe at the end of 2006. In 2006 the company realised annual sales of A\$ 2,769 million (US\$ 2,087 million), resulting in a net profit of A\$ 643 million (US\$ 485 million). The company has 1,679 employees worldwide.⁸¹

4.2 Financing structure of Santos

At the end of 2006, Santos owned assets with a total value of A\$ 6,902.9 million (US\$ 5,448 million). These assets were being financed by the following financial stakeholders:⁸²

• Shareholders	A\$ 3,355.5 million	49%
• Bondholders	A\$ 1,355.5 million	20%
• Tax authorities	A\$ 731.0 million	11%
• Trading partners	A\$ 441.8 million	6%
• Banks	A\$ 294.2 million	4%
• Other stakeholders	A\$ 724.9 million	11%

The shareholders clearly are the dominant financial stakeholders of Santos, financing 49% of its total assets. Bondholders also play a significant role by financing 20% of total assets.

The information found on financial institutions involved in the financing of Santos is presented in the following paragraphs.

4.3 Financial institutions financing Santos

4.3.1 Shareholders

Santos' shares are listed on the Australian Stock Exchange in Sydney and its American Depository Receipts are listed on the NASDAQ in New York. The following investment managers are important shareholders of Santos, for their own account or on behalf of customers:⁸³

- | | | |
|-----------------------------|----------------|-------|
| • Barclays | United Kingdom | 8.27% |
| • Maple-Brown Abbott | Australia | 5.04% |

4.3.2 Bank loans

The following information was found on bank loans provided to Santos:

- During 2006 Santos secured a reserve-based lending facility for US\$ 65.0 million (A\$ 82.2 million) with a floating rate of interest from an unknown bank. At the end of 2006 A\$ 61.5 million was outstanding.⁸⁴
- Santos has access to three multi-currency revolving credit facilities with a total value of A\$ 700 million. These facilities can be used for urgent expenses and investment. At the end of 2006 nothing was outstanding under these facilities.⁸⁵

4.3.3 Investment banks

The following information was found on investment banking services provided to Santos:

- In August 2002 Santos appointed Salomon Smith Barney, which is part of **Citigroup** (United States), to raise US\$ 300 million by selling American Depository Receipts on the American capital market.⁸⁶
- In September 2004 Santos issued so-called *Franked Unsecured Equity Listed Securities (FUELS)*, which are non-cumulative, redeemable and convertible preference shares, for a total value of A\$ 600 million. **Merrill Lynch & Co.** (United States) was underwriting the issuance.⁸⁷
- Santos has a A\$ 800 million Australian commercial paper program supported by revolving bank facilities. At the end of 2006, A\$129.6 million of commercial paper was on issue.⁸⁸
- Santos has a A\$ 1,000 million Australian medium-term note program. In September 2005 two issuances were made:⁸⁹
 - Six-year bonds with an interest of 7.00% for a total value of A\$ 350 million;
 - Ten-year bonds with an interest of 6.35% for a total value of A\$ 100 million;

The issuances were managed by **ANZ** (Australia) and **Commonwealth Bank of Australia** (Australia).⁹⁰

4.3.4 Other financial services

The following information was found on other financial services provides to Santos:

- In October 2006 Santos made a acquisition offer for Queensland Gas Company valuing the coal seam gas company at A\$ 606 million. Santos is being advised by **Caliburn Partnership** (Australia).⁹¹ In February 2007 the offer was cancelled.⁹²

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