

To: Stan O'Neal  
Chairman of the Board, Chief Executive Officer and President  
Merrill Lynch & Co., Inc.  
Global Headquarters  
4 World Financial Center  
250 Vesey Street  
New York, NY 10080 USA

Brussels, April 27 2007

Re: Financial involvement of your bank with the Brantas Production Sharing  
Contract and the Sidoarjo mud volcano in Indonesia

Dear Mr. O'Neal,

allow us to draw your attention to the current catastrophic situation in Sidoarjo, East Java, on Indonesia's most densely populated Island. We are writing to you because your bank is involved in this situation, due to the financial arrangements you have with one or more of the energy companies owning the Brantas Production Sharing Contract. We believe your bank has a responsibility in addressing the severe social and environmental problems that have occurred from the Sidoarjo mud volcano.

On May 29 2006, a mud volcano started gushing from the ground less than 200m from the Banjar Panji I gas exploration well in the Brantas Production Sharing Contract area, and has not stopped since, spilling up to 150,000 m<sup>3</sup> of hot mud on the surrounding area daily. More than 15,000 people have been forced from their homes, approximately 600 ha of land and villages submerged, farmland are ruined, businesses and schools were closed and livelihoods lost. At least 8 people have been killed in a large gas pipeline explosion related to the mud flow. Major impacts on the wider marine and coastal environment are expected, with knock-on effects for the many thousands of people who depend on fish and shrimp for their living. For more information on the social and environmental impacts of the Sidoarjo mud flow, please refer to the attached report 'Lapindo Brantas and the mud volcano in Sidoarjo, Indonesia' (last updated: April 13, 2007)

So far, all efforts to stop the flow have failed. Indonesia's National Mudflow Mitigation Team is currently attempting to reduce the amount of mud flowing by dropping thousands of concrete balls into the mouth of the volcano, a plan that is widely assumed to offer more inherent dangers than chances of success. Experts warn that the flow could go on for many more months, or even years, and may even be unstoppable.

Establishing what has caused the eruption has been a highly controversial issue. Lapindo Brantas Inc., the operator of the Banjar Panji I gas exploration well, claims that the eruption is a natural disaster, triggered by an earthquake two days earlier near Yogyakarta, South Java. Geologists, however, affirm that the earthquake is merely coincidental and is unlikely to have caused the eruption. Instead, it appears that Lapindo Brantas Inc. neglected basic safety standards in their drilling operation, failing to install a casing around the well to the levels required under Indonesian mining regulations. When mud seeped into the well at a depth of around 1,800 meters, and cement plugs were put in to stop the leak, the pressurised mud forced its way to the surface about 180m near the well.

Indonesia's President Susilo Bambang Yudhoyono has repeatedly ordered Lapindo Brantas Inc. to quickly disburse cash compensation for residents of Porong, Sidoarjo, East Java, who have been displaced for nearly a year by the Lapindo mudflow. However, despite promises by Lapindo to pay compensation and to buy affected land at market prices, very little has happened so far. Lapindo reports that it could not yet begin paying compensation to Sidoarjo residents because most lack the necessary residents' land ownership documents. Furthermore, Lapindo claims that the costs for compensation as well as measures to stop the flow and to repair damaged infrastructure are too high.

The Brantas PSC is owned by three companies: the Indonesians Energi Mega Persada (50%) and PT Medco E&P Brantas (32%), and the Australian Santos (18%). Lapindo Brantas Inc., a subsidiary of Energi Mega Persada, is the operator of the project.

Energi Mega Persada has twice unsuccessfully tried to sell its part in Lapindo Brantas in an apparent attempt to dodge its liability for the incident. PT Medco E&P Brantas was until recently owned by the Indonesian Medco Energi Internasional, who has always denied any responsibility for the incident. In November 2006, Medco Energi started a procedure at an international arbitration court in New York, arguing that Lapindo Brantas violated the joint operation agreement for the Brantas PSC, and that Medco Energi should therefore be exempted from any obligation for compensation. In March 2007, Medco Energi suddenly announced the sale of its subsidiary PT Medco E&P Brantas for only US\$ 100 to the Prakarsa Group from Indonesia, which also assumes all liabilities. 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.

We believe that regardless of whether or not it was the missing casing around the well, and whether or not the earthquake or any other natural circumstances played a role in triggering the eruption, the fact that the mud volcano occurred at the site of the Brantas

gas exploration well gives all three companies owning the Brantas PSC the obligation to alleviate the grievances of those affected, and take responsibility for stopping the flow, repairing damage and providing compensation. All three companies involved in the production sharing contract at the time of the incident should be held liable, and under no circumstances should any of the companies be allowed to dodge its responsibility.

We are approaching Merrill Lynch & Co. because it has been involved in the financing of all three companies. Merrill Lynch & Co. has arranged credit facilities for Energi Mega Persada and for Encore International Ltd., which then acquired large blocks of shares of Medco Energi Internasional and became dominant shareholder; it was a bookrunner for a Medco Energi Internasional share issuance and underwrote Franked Unsecured Equity Listed Securities (FUELS) for Santos; and has entered into an interest and currency swap contract worth US\$ 50.0 million with Medco Energi Internasional. For more information on the financial involvement of your bank, please refer to the attached report 'The financing of the three Brantas PSC companies'.

We believe that **Merrill Lynch & Co.**, as a financial institution with significant involvement in the financing of all companies in the Brantas natural gas Production Sharing Contract (PSC), **has a responsibility to use its influence on Energi Mega Persada, Medco Energi Internasional and Santos** to ensure that these companies are assuming their responsibility to take measures to:

- stop the mud flow;
- repair the existing damage, without causing any more environmental or social costs;
- and compensate affected residents.

**We call on Merrill Lynch & Co. to take appropriate steps to guarantee that all costs related to compensation and other measures are fully covered.** While the full costs are not assessed yet, immediate payments by the three energy companies should be made into a government-managed fund in order to provide relief for those affected without unnecessary delay.

In February 2007, Energi Mega Persada has announced that it is seeking new loans to refinance three loans with a total value of US\$ 547.75 million, which are maturing in 2008-2010. This includes a July 2005 loan from Merrill Lynch & Co. **We urge Merrill Lynch & Co. to make any possible new loans and other financial services to any of the 3 companies involved in the Brantas PSC (or their subsidiaries) conditional on the companies taking their responsibility.**

Furthermore, we also call on Merrill Lynch & Co. to develop guidelines for granting loans and other financial services that make community safety and welfare as well as environmental safety and sustainability first and foremost priorities. This implies that in general, investments in exploration and exploitation of oil and natural gas should not be made in densely populated areas such as East Java.

We look forward to **hear your reaction on our requests before May 25<sup>th</sup>**. We plan to release the two reports mentioned in this letter at the end of May, including information on your banks involvement. We hope we can then already refer to appropriate and serious steps your bank has taken towards the owners of the Brantas PSC whom you are financially involved with.

Yours sincerely,

(Paul de Clerck on behalf of the signatories)

Signatories:

Friends of the Earth International  
Paul de Clerck

Friends of the Earth Europe  
Christine Pohl

Friends of the Earth England, Wales and Northern Ireland  
Hannah Griffiths

Friends of the Earth France  
Sébastien Godinot

Friends of the Earth Netherlands (Milieudefensie)  
Anne van Schaik

Friends of the Earth US  
Michelle Chan-Fishel

Banktrack  
Johan Frijns

Attached:

- Report: Lapindo Brantas and the mud volcano in Sidoarjo, Indonesia
- Report: The financing of the three Brantas PSC companies

Similar letters have been sent to other financial stakeholders of the three Brantas companies: Barclays, Credit Suisse, Natixis, Fortis Group