adaro

Annual Report 2011

Creating Maximum Sustainable Value. Building Winning Teams. Bigger and Better **Adaro Energy.**

12 REASONS TO INVEST IN ADARO

NEW EDITION

FULLY UPDATED

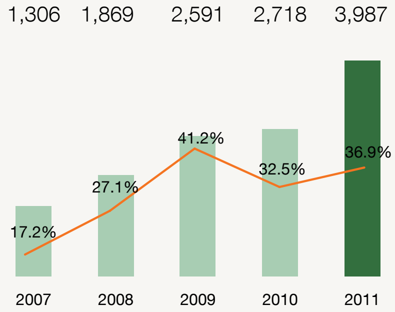
EVERYTHING YOU NEED TO KNOW TO MAKE AN INFORMED INVESTMENT DECISION

Financial Highlights

(US$ millions)

Net Sales and EBITDA Margin

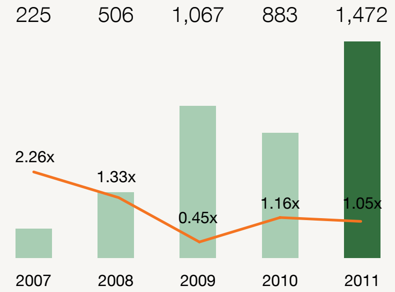
Net sales has experienced strong growth the last five years as we have increased production and achieved better pricing. EBITDA margin has been amongst the best in Indonesian coal.



46.7%
Increase in
Net Sales YoY

EBITDA and Net Debt to EBITDA

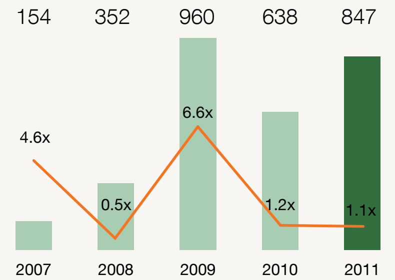
Since 2007, EBITDA has grown significantly, while net debt to EBITDA has improved, demonstrating a healthy balance sheet.



66.7%
Increase in
EBITDA YoY

Free Cash Flow and Cash from Operations to Capex

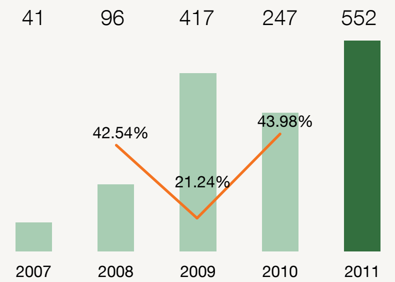
Free cash flow has remained positive and strengthened the last five years, comfortably covering our capital expenditures.



32.9%
Increase in
Free Cash Flow YoY

Net Income and Dividend Payout Ratio

Net income reached a record level in 2011 and has experienced a robust increase since 2007. We will continue to pay a dividend each year to our shareholders.

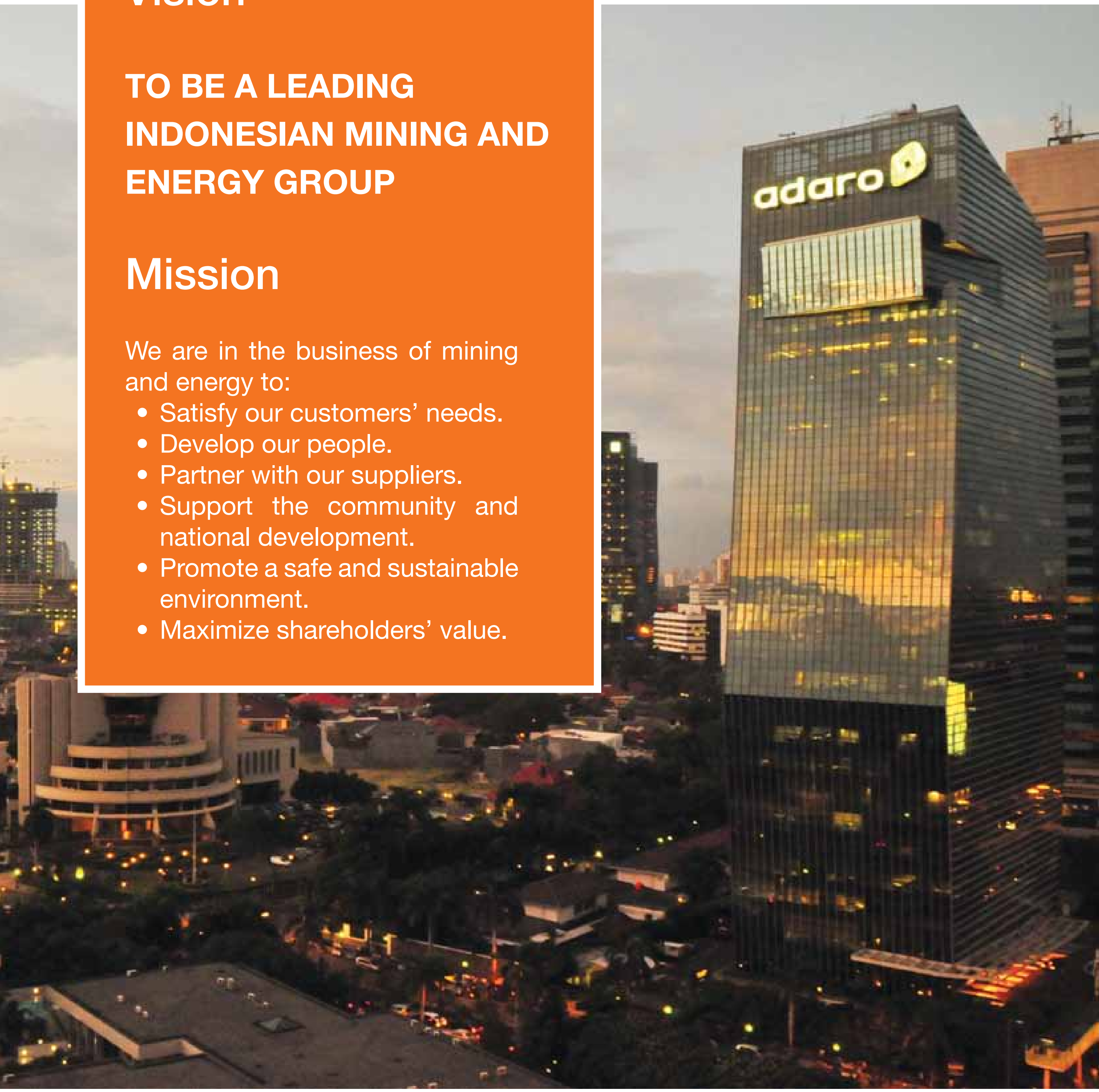


123.7%
Increase in
Net Income YoY

	2007	2008	2009	2010	2011	
Summary of Operational Performance (in million tonnes)						
Production volume	36.1	38.5	40.6	42.2	47.7	1
Sales volume	37.6	41.1	41.4	43.8	50.8	
Overburden removal (Mbcm)	119.9	159.3	208.5	225.9	299.3	

	2007	2008	2009	2010	2011	
Summary of Financial Performance (in million US$)						
Net revenue	1,306	1,869	2,591	2,718	3,987	2
Cost of revenue	-1,032	-1,433	-1,534	-1,889	-2,559	
Gross profit	274	436	1,057	829	1,428	
Gross profit margin	21.0%	23.3%	40.8%	30.5%	35.8%	
Operating income	247	360	951	711	1,284	
Operating margin	18.9%	19.3%	36.7%	26.2%	32.2%	
Net income	41	96	417	247	552	3
EBITDA	225	506	1,067	883	1,472	
EBITDA margin	17.2%	27.1%	41.2%	32.5%	36.9%	4
Total assets	1,553	3,347	4,530	4,470	5,659	
Total liabilities	1,264	1,824	2,648	2,438	3,217	
Stockholders' equity	289	1,523	1,882	2,032	2,442	
Interest bearing debt	780	993	1,676	1,592	2,105	
Cash and cash equivalents	88	221	1,199	607	559	
Available-for-sale investments	184	100	-	-	-	
Net debt	508	672	477	985	1,546	
Net debt to equity (x)	1.76	0.44	0.25	0.48	0.63	
Net debt to EBITDA (x)	2.26	1.33	0.45	1.16	1.05	5
Free Cash Flow (EBITDA - Capex)	154	352	960	638	847	
Cash from Operations to Capex (x)	4.6	0.5	6.6	1.2	1.1	
Earnings Per Share (EPS) in US$	0.01500	0.00392	0.01297	0.00773	0.01721	

1. We recorded our twentieth straight year of annual production growth as coal production increased 13% to 47.7 million tonnes.
2. Strong revenue growth of 46.7% y-o-y due to double-digit production growth and robust thermal coal pricing. Average selling price for Adaro climbed 27.6%.
3. Our record net income of US$552 million included contribution to the government for taxes and royalties of US$450.5 million and US$405.4 million, respectively.
4. We maintained the best EBITDA margin in Indonesian thermal coal of 36.9%.
5. Strong balance sheet with net debt to EBITDA of 1.05x and access to cash and unutilized committed bank facilities totalling US$1.2 billion.



Vision

TO BE A LEADING INDONESIAN MINING AND ENERGY GROUP

Mission

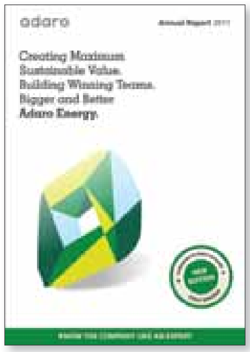
We are in the business of mining and energy to:

- Satisfy our customers' needs.
- Develop our people.
- Partner with our suppliers.
- Support the community and national development.
- Promote a safe and sustainable environment.
- Maximize shareholders' value.

Annual Report Mission

To create a balanced and relevant picture of the Company so as to keep our stakeholders informed.

Content



PT Adaro Energy Tbk
Annual Report 2011

A Snapshot of Adaro Energy

1 PT Adaro Indonesia (AI)
Coal Contract of Work 100%

- Production: 47.7 Mt in 2011
- Product: Sub-bituminous Coal ("Envirocoal")
- License: First generation CCoW valid until 2022
- JORC Compliant Resources and Reserves 2010 adjusted for coal mined in 2011:
  Resources: 4,373 Mt
  Reserves: 891Mt
- Operations: the largest single site coal mine in the southern hemisphere, vertically integrated from pit to port
- Location: South Kalimantan
- Customers: blue-chip power utilities
- Pricing: annual price negotiation and index-linked
- Cost: low to middle production cost compared to peers

1 PT Saptaindra Sejati (SIS)
Mining and Hauling Contractor (100%)

Adaro Power

1 PT Makmur Sejahtera Wisesa (MSW)
2 x 30 MW coal fired mine-mouth power plant

2 PT Bhimasena Power Indonesia (BPI)
2 x 1,000 MW (34%)

3 PT Sejahtera Alam Energy (SAE)
Geothermal

4 South Kalimantan Power Project
2 x 100 MW (65%)

Adaro Logistics

1 PT Maritim Barito Perkasa
Barging and Shiploading (100%)

2 PT Sarana Daya Mandiri (SDM)
Dredging Barito River mouth and water toll contractor

3 PT Indonesia Bulk Terminal (IBT)
Coal and fuel Shipping Terminal (100%)

4 PT Servo Meda Sejahtera (SMS)
Coal Hauling Road (35%)

2

IndoMet Coal project
25% JV with BHP Billiton

- Product: Coking Coal
- License: Third generation CCoW
- Resources: 774 Mt
- Location: Central Kalimantan

3

PT Mustika Indah Permai (MIP)
Coal Lease 75%

- Product: Sub-bituminous Coal ("Ultima")
- License: IUP granted in April 2010 for a period of 20 years
- JORC Compliant Resources and Reserves 2011
  Resources: 286 Mt
  Reserves: 273 Mt
- Location: South Sumatra

4

PT Bukit Enim Energi (BEE)
Coal Lease 61.04%

- Product: Sub-bituminous Coal
- License: IUP granted in March 2011 for a period of 20 years
- Further drilling and coal analysis to support JORC compliant will be resumed in 2012
- Location: South Sumatra

5

PT Bhakti Energi Persada (BEP)
Coal Lease 10.2%

- Product: Sub-bituminous Coal
- Location: East Kalimantan

LEGEND

Alam Tri Abadi (Coal Mining)	Adaro Power	Adaro Logistics	Adaro Mining Services

Our Corporate Structure

Adaro Energy has vertically integrated operations

Alam Tri Abadi

100% **Adaro Indonesia**

Mining license holder - Thermal Coal

25% **IndoMet Coal project**

Mining license holder - Coking Coal

75% **Mustika Indah Permai**

Mining license holder - Thermal Coal

61.04% **Bukit Enim Energi**

Mining license holder - Thermal Coal

Adaro Mining Services

100% **Saptaindra Sejati**

Mining and hauling contractor

Adaro Logistics

100% **Jasapower Indonesia**

Conveyor System

100% **Maritim Barito Perkasa**

Barging and ship loading

51.20% **Sarana Daya Mandiri**

Dredging Barito River mouth and water toll contractor

100% **Indonesia Bulk Terminal**

Coal storage, blending, loading terminal and fuel facility

85% **Indonesia Multi Purpose Terminal**

Port Terminal

35% **Servo Meda Sejahtera**

Haul Road and Barge Loading Port

Adaro Marketing

100% **Coaltrade Services Intl.**

Coal export marketing

Adaro Power

100% **Makmur Sejahtera Wisesa**

2x30 MW
Mine-mouth Power Plant

34% **Bhimasena Power Indonesia**

IPP 2x1,000 MW

65% **2x100MW**

Project South Kalimantan

why invest in Adaro Energy

because...

1 Supportive Macro Conditions

2 Operational Excellence: Proven Track Record of Organic Growth

3 Large Resources and Reserves of Indonesian Coal with Secure License Structure

4 Focus on Indonesia

5 Approach to Growth and Value Creation

6 Execution of Value Creation Strategy

7 Responsible Corporate Citizen

8 Exceptional Safety Record

9 Financial Strength

10 Total Returns to Shareholders

11 Experienced Management Team and Our People

12 Reputable Shareholders and Our Approach to Governance

1 Supportive Macro Conditions:

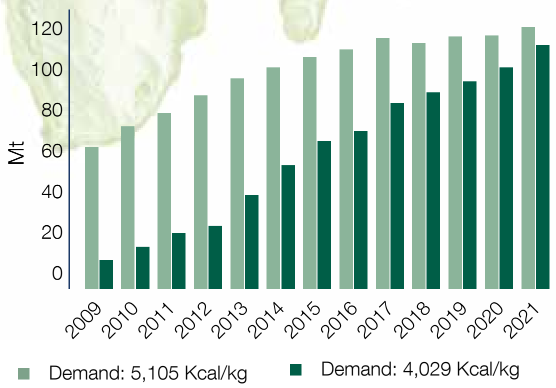
Exposure to Expand Emerging Market and Attractive Thermal Coal Industry

Coal is used to fuel more than two-thirds of power generation by China and India, who together are expected to dominate 70% of the Asia Pacific market by 2030. Wood Mackenzie predicts Asia Pacific's thermal coal demand to grow at a CAGR of 4% for the foreseeable future and will continue to dominate the seaborne thermal coal trade.

Economic growth in non-OECD Asia countries acts as the main driver for energy demand as much of the increase in non-OECD Asia's demand for energy is driven by electricity generation and industrial sectors' needs (IEO, 2011).

New coal-fired power plants totaling 579 GW are expected in the next 20 years in Asia, predominantly in China, India, Vietnam and Indonesia. These projects will approximately require an additional 1.7 billion tonnes of coal per year.

Demand for Adaro Indonesia's Coal Specification is Expected to Grow Significantly

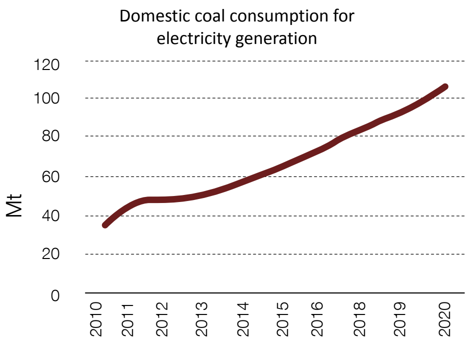


Robust industry fundamentals and outlook strong demand for low CV coal

- Asia is expected to make up 76% of total global seaborne trade in 2021 and contribute 82% of the growth from 2010 to 2021.
- India and China are expected to contribute over 50% of the growth from 2010 to 2021 and together will take up to 33.5% of total global seaborne demand, an increase from 23.6% in 2010.

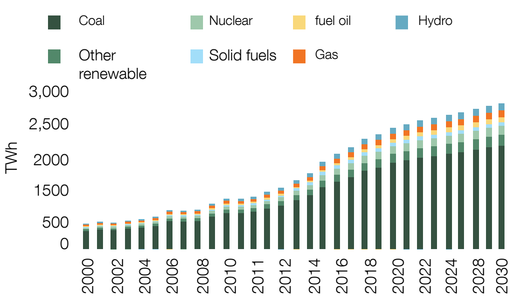
Coal is a key source of generating electricity in target markets

Indonesia



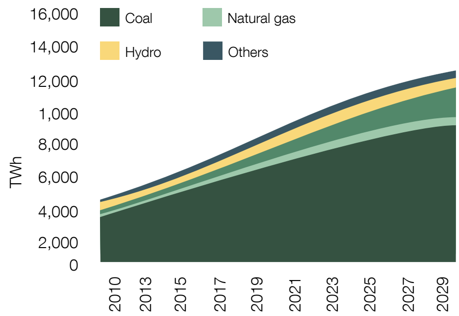
Source: Wood Mackenzie

India



Source: Wood Mackenzie

China



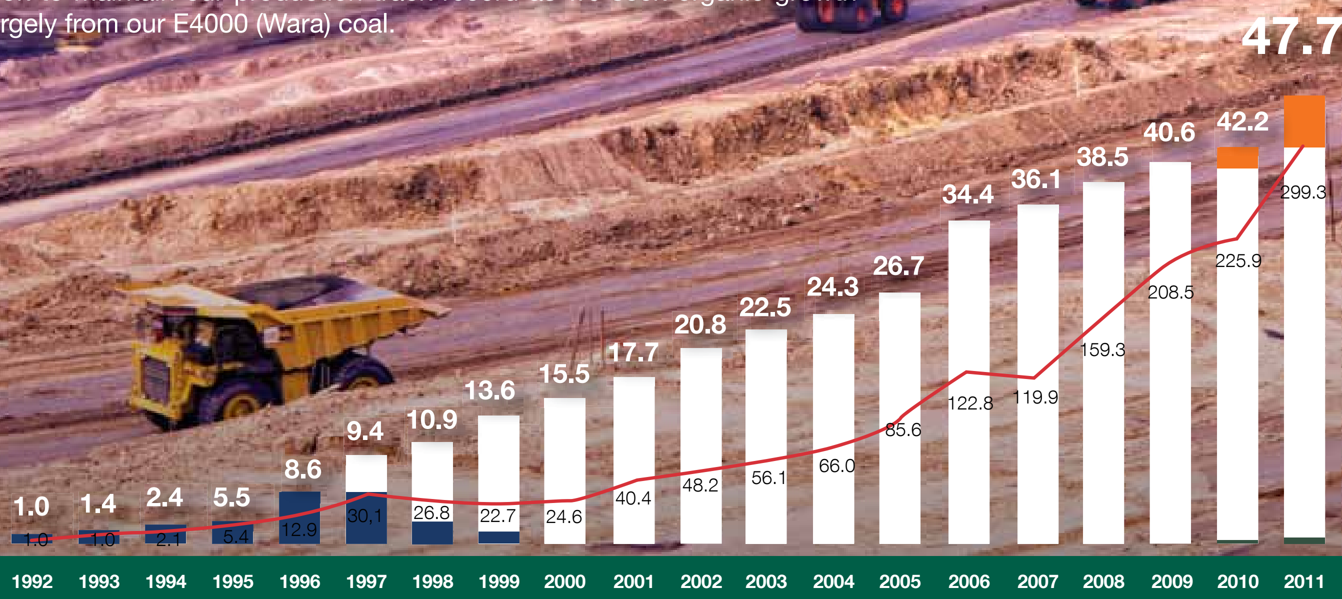
Source: Wood Mackenzie Coal Market Service, Thermal Coal: Trends in Global Markets, December 2011

Operational Excellence: Proven Track Record of Organic Growth

2

We recorded our twentieth straight year of uninterrupted annual production growth from our concession in South Kalimantan, which is the largest single site mine in the southern hemisphere. We take pride in having grown production every year despite past economic crisis and difficult weather conditions. Our operational excellence has assisted us in partnering with several global blue-chip companies on projects.

In 2011, we increased coal production 13% to 47.7 million tonnes and overburden removal 32% to 299.9 million bcm from three pits within our concession; Tutupan, Wara, and Paringin. One of our key growth strategies is continued focus on organic growth from our current reserve base. We look to maintain our production track record as we seek organic growth largely from our E4000 (Wara) coal.



Historical Production Volume (Mt)

Adaro has amongst the lowest costs in the coal mining industry and consistently delivers the highest EBITDA margin in Indonesian coal.

Our Strategy to Improve Efficiency and Cost Control

Project	Reason	Project Cost	Spend Through Q411	Completion Date
Overburden crusher conveyor	Transport 34 Mbcm overburden annually	US$ 212 million	US$ 94 million	Q1 2013
Mine-mouth power plant 2x30 MW	Power operations in South Kalimantan and our overburden crusher conveyor	US$ 160 million	US$ 110 million	Q4 2012
Kelanis	Expand our capacity to 70 Mt from 55 Mt	US$ 55 million	US$ 20 million	Q4 2012
Increase truck size	Improve operating efficiency and reduces pit congestion	NA	NA	Ongoing

3

Large Resources and Reserves of Indonesian Coal with Secure License Structure

Adaro has a very large JORC compliant resource and reserve base of 4.6 billion tonnes and 1.1 billion tonnes, respectively. At Adaro Indonesia, we hold a 1st generation Coal Contract of Work (CCoW), which provides us greater comfort in the dynamic regulatory environment of natural resources. Our CCoW, does not allow for changes in our contract with the government and is more secure than subsequent license types. We pay a 45% tax rate and 13.5% of net sales in royalty under a CCoW.

Currently, we sell two different products from our concession in South Kalimantan, which have heat values of approximately 5,000 kcal/kg (E5000 - Tutupan, Paringin) and 4,000 kcal/kg (E4000 - Wara). Our coal is marketed as Envirocoal and is one of the most environmentally friendly coals with extremely low ash, nitrogen, and sulfur content.

Adaro Energy (Equity Adjusted) Consolidated JORC Compliant Coal Resources (*please refer to "Exploration and Reserves" section for the full disclosure)

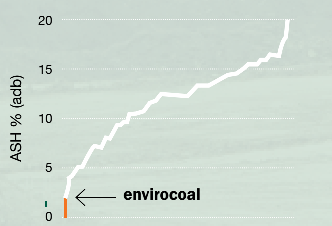
Group	Operating Company	Calculated as at December 31 2011 Using Adjusted 2011 Mine Production & the December 2010 PT Adaro Indonesia JORC Statement				As at December 31 2010[4]				Calculated Changes to Adaro Energy's Coal Resources 2011 vs 2010	
		Total Measured, Indicated & Inferred Coal Resources (Mt)	Measured Coal Resources (Mt)	Indicated Coal Resources (Mt)	Inferred Coal Resources (Mt)	Total Measured, Indicated & Inferred Coal Resources (Mt)	Measured Coal Resources (Mt)	Indicated Coal Resources (Mt)	Inferred Coal Resources (Mt)	Total Measured, Indicated & Inferred Coal Resources 2011 vs 2010 (Mt)	Total Measured, Indicated & Inferred Coal Resources 2011 vs 2010 (%)
Total Adaro Energy	PT. Adaro Indonesia[1,2] PT. Mustika Indah Permai[3]	4,588	1,651	1,437	1,499	4,426	1,517	1,410	1,499	162	3.7%

[1] Based on Adaro Indonesia's 2010 JORC Coal Resource and Reserve Statement adjusted by subtracting 53 Mt of in-situ coal removed by mining during 2011
[2] 1 Mt of in-situ coal was removed from North Paringin by mining in 2011
[3] Based on the JORC Report of PT. Mustika Indah Permai (MIP) dated January 2012
[4] Small differences between 2010 Resource tonnages in this table and those stated in the 2010 Adaro Energy Annual Report based on cumulative rounding errors

Adaro Energy (Equity Adjusted) Consolidated JORC Compliant Coal Reserves (*please refer to "Exploration and Reserves" section for the full disclosure)

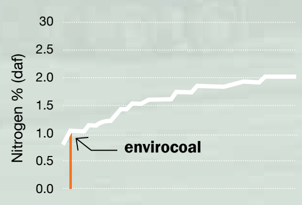
Group	Operating Company	Calculated as at December 31 2011 Using Adjusted 2011 Mine Production & the December 2010 PT Adaro Indonesia JORC Statement			As at December 31 2010[4]			Calculated Changes to Adaro Energy's Coal Reserves 2011 vs 2010	
		Total Proved & Probable Coal Reserves (Mt)	Proved Coal Reserves (Mt)	Probable Coal Reserves (Mt)	Total Proved & Probable Coal Reserves (Mt)	Proved Coal Reserves (Mt)	Probable Coal Reserves (Mt)	Total Measured, Indicated & Inferred Coal Reserves 2011 vs 2010 (Mt)	Total Measured, Indicated & Inferred Coal Reserves 2011 vs 2010 (%)
Total Adaro Energy Coal Reserves	PT. Adaro Indonesia[1,2] PT. Mustika Indah Permai[3]	1,095	830	265	938	699	239	157	16.8%

[1] Based on Adaro Indonesia's 2010 JORC Coal Resource and Reserve Statement adjusted by subtracting 47 Mt of coal produced during 2011
[2] No JORC Coal Reserves were declared for North Paringin in 2010 however 1 Mt of coal was mined in 2011
[3] Based on the JORC Report of PT. Mustika Indah Permai (MIP) dated January 2012
[4] Small differences between 2010 Reserve tonnages in this table and those stated in the 2010 Adaro Energy Annual Report based on cumulative rounding errors



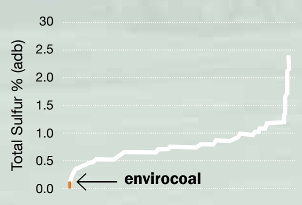
1% - 2.5%
Ash Content (Adb)

- Lowest ash content among coals produced for global export trade, providing consumers with significant cost savings
- Blending Envirocoal with higher ash coal reduces the on-costs associated with ash disposal
- Reduces deposition rates in boilers improving thermal efficiency and reducing maintenance costs



0.9%
Nitrogen Content (Daf)

- Envirocoal is amongst the 10 lowest coals by nitrogen content
- Enables consumers to reduce the costs associated with removing nitrous oxides from the flue gases
- Results in more net power for sale and lower electricity production cost



0.1%
Sulphur Content (Adb)

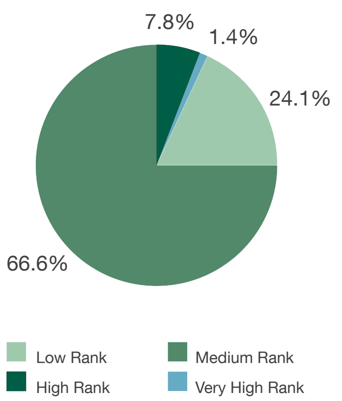
- Regulation of emissions of sulphur oxides has required some consumers to install flue gas desulphurization equipment or to reduce the sulphur content in the blend of coals.
- Envirocoal's ultra low sulphur content enables consumers to meet regulated standards and delay capital expenditure, reducing the cost of plant operation.
- Desulphurization units can cost up to 20% of the total capital expenditure of a new power station

Focus on Indonesia

4

Indonesian Coal

Resources: 160.65 (Bt)
Reserves: 28.02 (Bt)



Indonesia is now recognized as an emerging market leader, with 2011 GDP growth of 6.54%. Furthermore, Indonesia is resource rich and enjoys close proximity to those other emerging nations, namely China, India and South Korea. Indonesia is the world's largest exporter of coal and the country's coal production capacity is estimated to reach 500 million tonnes by 2020, of which 50% is low-rank coal (Wood Mackenzie, 2008).

The rising demand for coal-fired power generation is also expected to drive production growth of Indonesian low-rank coal. Much like reforms to regulation, challenges exist. Growth targets for installation of new generation capacity have slipped, so an objective view should be taken when considering the numbers. Despite this, PLN and private industry projects are under construction and coal fired generation capacity is reported to double between 2011 and 2019 to 31.2GW.

With our performance in 2011 we moved one step closer to achieving our vision to be a leading Indonesian energy and mining company. We are proudly Indonesian and our focus is Indonesia.

5 Approach to Growth and Value Creation

Growth Strategy		Action Plan
Organic growth from current reserve base	Production ramp up and mine planning	Majority of organic growth will come from Wara mine
Focus on improving efficiency of coal supply chain and cost control	Implementation of OPCC, mine-mouth power plant and control of barge cycle time	Chip sealing of hauling road, dredging of channel etc have been initiatives in past that brought down costs substantially
Increase reserves, diversify product, locations and licenses	Acquisition of large coal deposits at different locations in Kalimantan and Sumatra islands	Acquired concessions in South Sumatra, more in due diligence. Partnering with BHP on Coking Coal
Continue to deepen integration	Investment into IPPs	First Indonesian company to participate in IPPs in a significant way. Partnering with reputable global players in IPP sector

Adaro Energy continues to focus on creating maximum sustainable value from Indonesia coal. However, our strategy has shifted from not only developing a single site concession in South Kalimantan, but also incorporating acquisitions of coal deposits in Indonesia into our growth plan to reach 80 million tonnes of production in the medium term.

We will continue to develop infrastructure and improve our coal supply chain to realize efficiencies and strengthen our distinctive position in the market. Moreover, we have further integrated our coal supply chain by moving downstream into power.

Our approach to value creation can be summarized by four key strategies; organic growth from the current reserve base, improving the efficiency of our coal supply chain, increasing and diversifying reserves, products and locations and deepening integration.

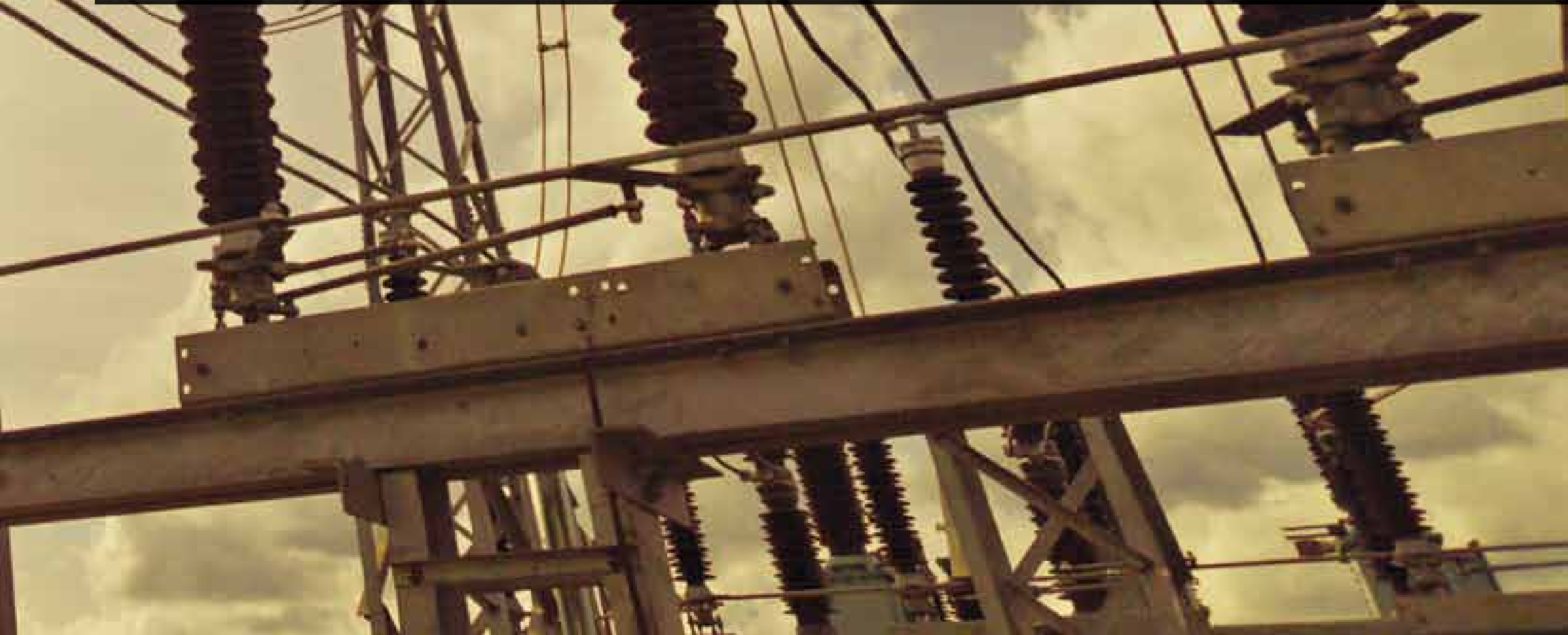
Execution of Value Creation Strategy

6

We are executing on our value creation strategy. We have made investments in a number of infrastructure development projects that are on track and progressing well, further improving efficiency and lowering costs. We also acquired interests in two coal deposits and one logistic company in South Sumatra to diversify our operations and increase reserves.

We deepened integration by moving further downstream into power and establishing the JPower-Adaro-Itochu consortium to build a 2,000 MW coal-fired power station in Central Java, which will be one of the largest in Asia.

Acquisition	Price/ Ownership	Date	Location	Asset	License / Expiry	Expected Operation
IndoMet Coal (IMC) JV with BHP	US$335m 25%	March 2010	Central Kalimantan	Greenfield - coking coal	CCoW NA	TBA
Mustika Indah Permai (MIP)	US$222.5m 75%	August 2011	South Sumatra	Greenfield - thermal coal	IUP 2030	2012
Bukit Enim Energi (BEE)	US$67m 61%	October 2011	South Sumatra	Greenfield - thermal coal	IUP 2031	TBA
Servo Meda Sejahtera (SMS)	US$22m 35%	October 2011	South Sumatra	Logistics - haul road and port	NA	2012
Bhakti Energi Persada (BEP)	US$66m 10%	June 2011	East Kalimantan	Greenfield - thermal coal	IUP NA	TBA



7 Responsible Corporate Citizen

- Record contribution to nation with corporate income tax of US$450.5 million and royalties of US$405.4 million
- We increased community development spending by 70% to US$10 million

By championing the principles of mutual respect, partnership, long-term and sustainable commitment, Adaro's Corporate Social Responsibility (CSR) programs encompass four key areas, economic development, educational enhancement, health improvement, and social cultural promotion.

The aim is to support the enhancement of community welfare that will ultimately lead to the creation of sustainable and independent post-mine communities.

We also attempt to preserve the environment, create a productive community and be a good local partner through all our programs. In 2011, Adaro Energy and its subsidiaries allocated Rp91 billion (~US$10 million) for these programs.

Exceptional Safety Record and Training

8

Adaro Energy is committed to maximizing workplace safety in all its operations to achieve its vision of being a leading Indonesian mining and energy group. We strive to create a safe working environment so that our employees can go home safe and healthy at the end of each day.

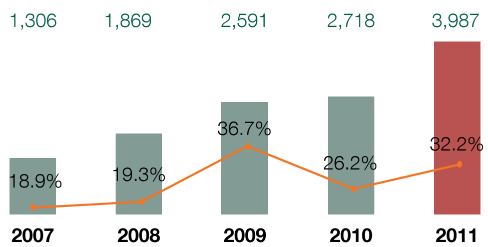
We require our employees and contractors to have the knowledge, skills and desire to comply with national and international standards of occupational health and safety to minimize risk of accidents and injuries occurring from operations. We also have a number of initiatives to help achieve our goals of eliminating work place accidents.

9

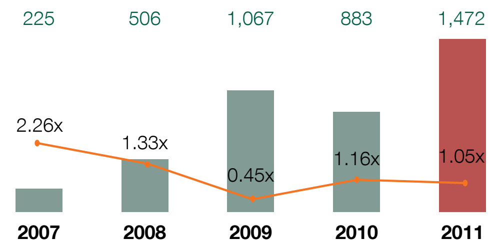
Financial Strength:

Good Access to Capital, Healthy Balance Sheet, Robust Profitability and Strong Cash Generation

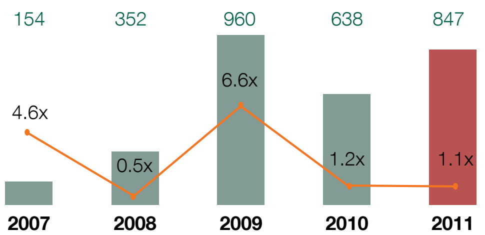
Net Sales (in US$ mn)
& Operating Margin



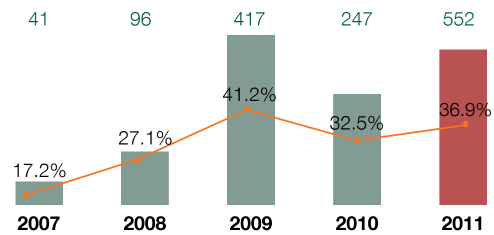
EBITDA (in US$ mn)
& Net Debt to EBITDA



Free Cash Flow (in US$ mn)
& Cash from Operations to Capex



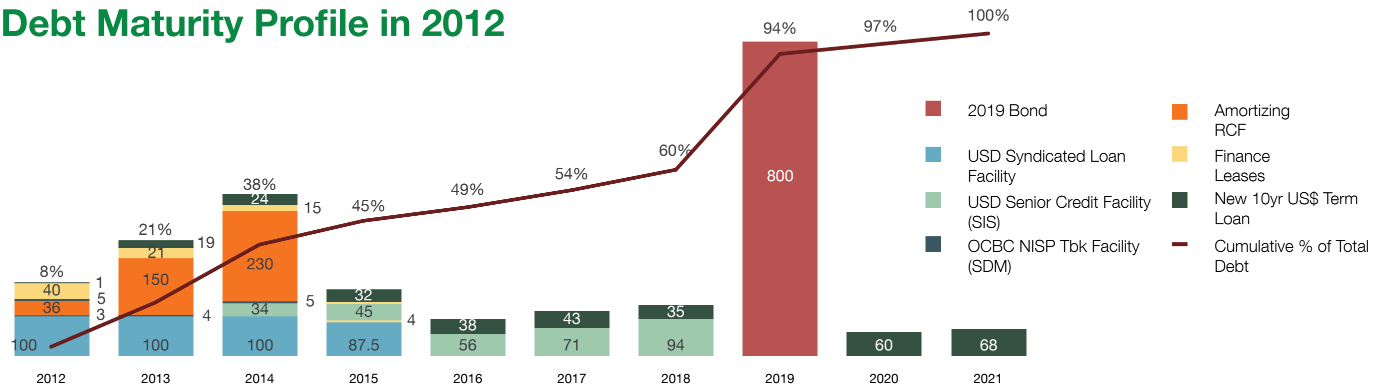
Net income (in US$ mn)
& EBITDA Margin



Exceptional Access to Capital

- US$800 million 10 year, non call 5, Reg S/144A, Guaranteed Senior Notes Currently rated at Ba1 and BB+ from Moody's and Fitch.
- US$400 million 7 year, concluded with 12 banks. Undrawn $100 million.
- US$750 million 10 year bank loans club deals with key relationship banks. Undrawn $600 million.

Debt Maturity Profile in 2012



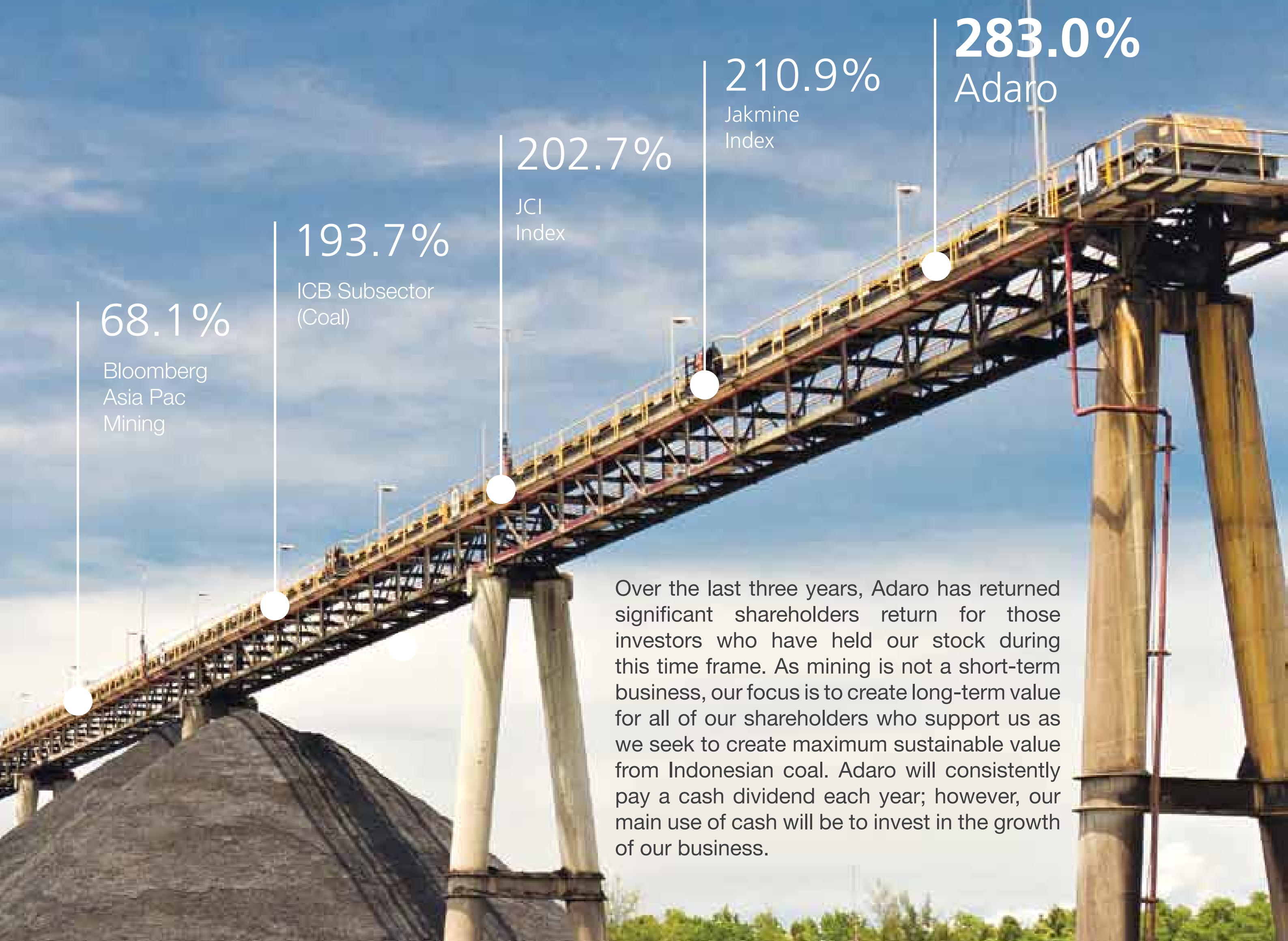
A large group of relationship banks and bond holders continue to be very supportive of Adaro. At end of December 2011, Adaro Energy had approximately $700 million undrawn facilities

Key Lenders to the Group

OCBC Bank
DBS
mandiri
Bank of Tokyo-Mitsubishi UFJ
MUFG
三井住友銀行
SMBC SUMITOMO MITSUI BANKING CORPORATION
HSBC
大華亞洲 UOB ASIA
Standard Chartered
ANZ

Total Returns to Shareholders

10



Over the last three years, Adaro has returned significant shareholders return for those investors who have held our stock during this time frame. As mining is not a short-term business, our focus is to create long-term value for all of our shareholders who support us as we seek to create maximum sustainable value from Indonesian coal. Adaro will consistently pay a cash dividend each year; however, our main use of cash will be to invest in the growth of our business.

3-year Stock Performance

Security	Price Appreciation	Total Return	CAGR
ADRO IJ Equity	264.95%	282.95%	56.45%
JCI Index	181.98%	202.73%	44.66%
JAKMINE Index	188.53%	210.88%	45.95%
ICB Subsector (Coal)	167.49%	193.65%	43.20%
Bloomberg Asia Pac Mining	58.49%	68.13%	18.91%

Adaro Energy's Dividend

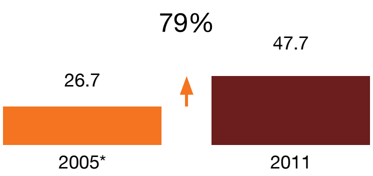
Fiscal Year	Dividend Payout Ratio	Dividend Per Share (IDR)	Dividend Yield*
2010	43.98%	30.35	1.47%
2009	21.24%	29.00	2.41%
2008	42.54%	11.80	1.12%

* Dividend yield is calculated by dividing dividend per share by average stock price for associated fiscal year
Source: Bloomberg and Company estimates

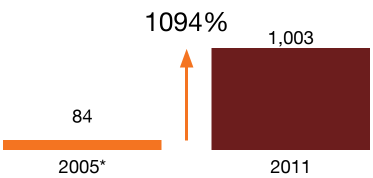
11 Experienced Management Team and Our People

Leadership continuity is key to successful execution of Adaro Energy's strategy and navigating through challenging times

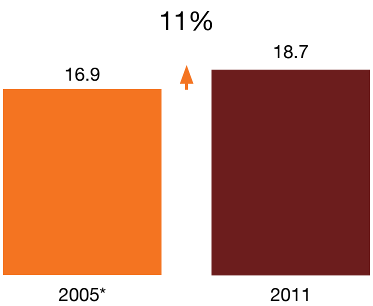
Production (Mt)



Profit Before Tax (US$ mn)



Mine Life (Years)



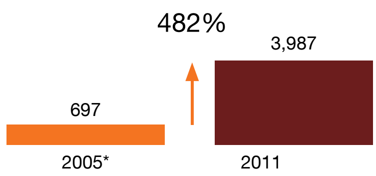
Experienced Management Team with Proven Track Record

More than 135 years of combined industry experience

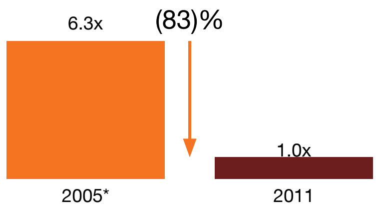
Combined 75 years with Adaro Energy

Average 12 years with Adaro Energy

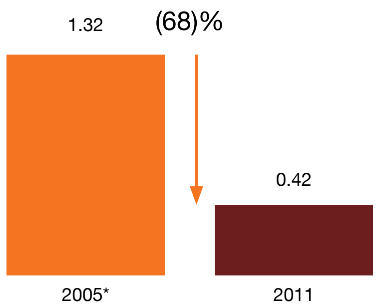
Sales (US$ mn)



Net Debt/EBITDA



Lost Time Injury Frequency Rate



* Represents PT Adaro Indonesia only

- Benefits from experience and active participation of key shareholders
- High operating and safety standards
- Prudent financial policies
- Strong corporate governance and regulatory compliance

Reputable Shareholders and Our Approach to Governance

12

Reputable and Supportive Shareholders

Edwin Soeryadjaya
Teddy Rachmat
Boy Garibaldi Thohir
Benny Subianto
Sandiaga Uno

together hold

63%

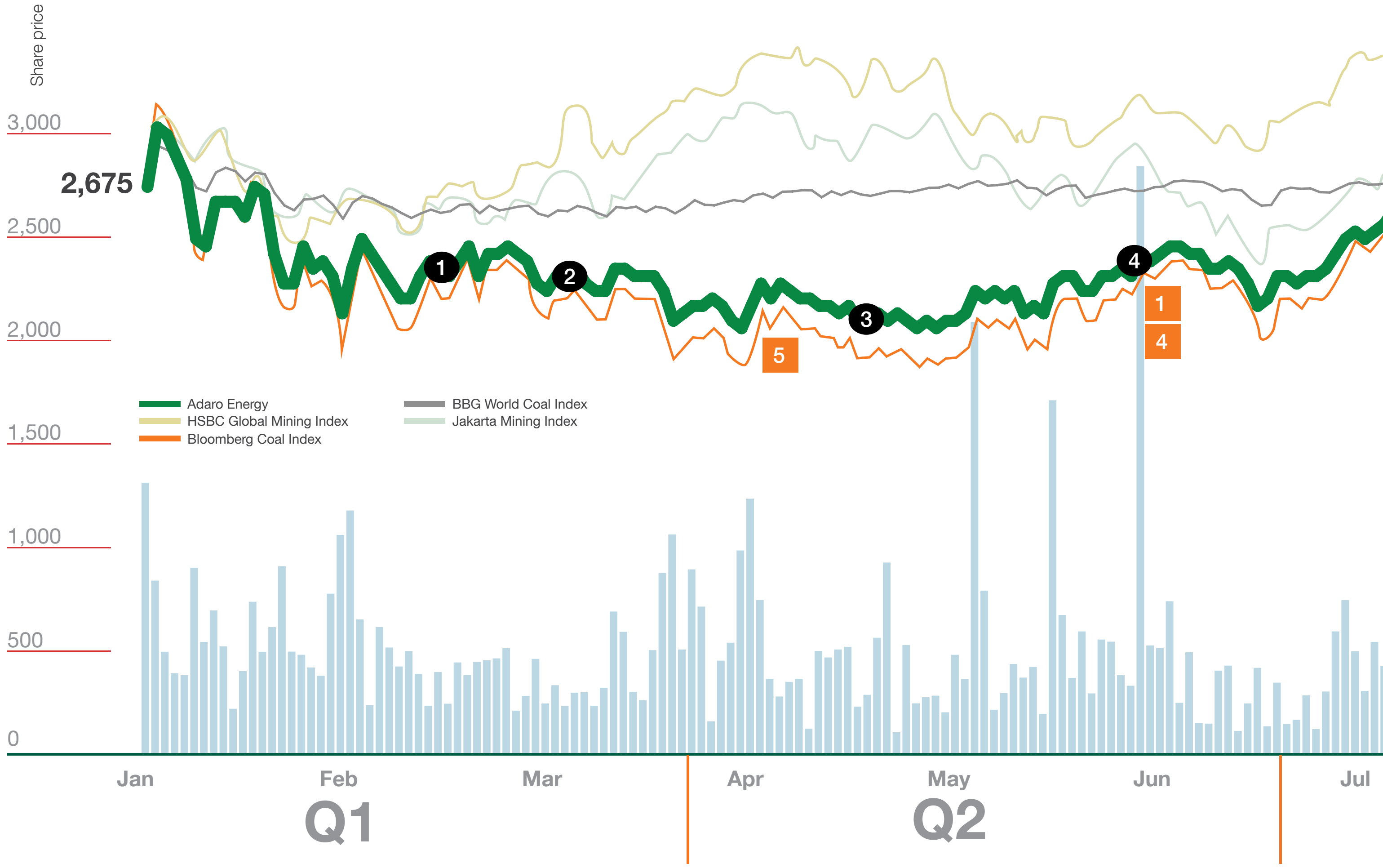
Strong Corporate Governance Structure In-line with International Best Practices

- 1/3 of Board of Commissioners are independent commissioners
- Audit Committee consists of 3 independent members
- Conduct regular internal audit of operations
- Disclosure meets or exceeds with international standards

Wide Recognition Across the Board

- Top Performing Listed Companies 2010 by Investor Magazine
- International Coal Producer of the Year by McCloskey
- 3rd Fastest Growing Company in Asia by Platts
- One of highest tax payers on Jakarta Stock Exchange in 2008 and 2009
- PROPER Green Award for the 3rd consecutive time from Ministry of Environment
- Only coal company to ever receive the PROPER Green Award
- Best CEO in Mining 2010 by Ministry of Energy and Mineral Resources

2011 Important Dates and Share Price Information



1

February 18th 2011

PT Saptaindra Sejati (SIS) refinanced its existing 2008 US$300 million five-year loan with a US$400 million seven-year syndicated bank loan.

2

March 5th 2011

Adaro Energy on the Forbes Global 2000 list at #1,527.

3

April 20th 2011

Adaro held its Annual General Meeting of Shareholders (AGMS) and Extraordinary General Meeting of Shareholders (EGMS) and distributed its final dividend payment constituting 43.98% of 2010 Net Income, or amounting Rp970.77 billion.

7

September 30th 2011

We received Aditama (gold) award 2011 for environmental management excellence in coal sector from the Director General Mineral and Coal, Mr. Thamrin Sihite.

8

October 6th 2011

The JPower-Adaro-Itochu Consortium received Letter of Intent (LoI) to construct a 2,000MW coal-fired power plant in Central Java province.

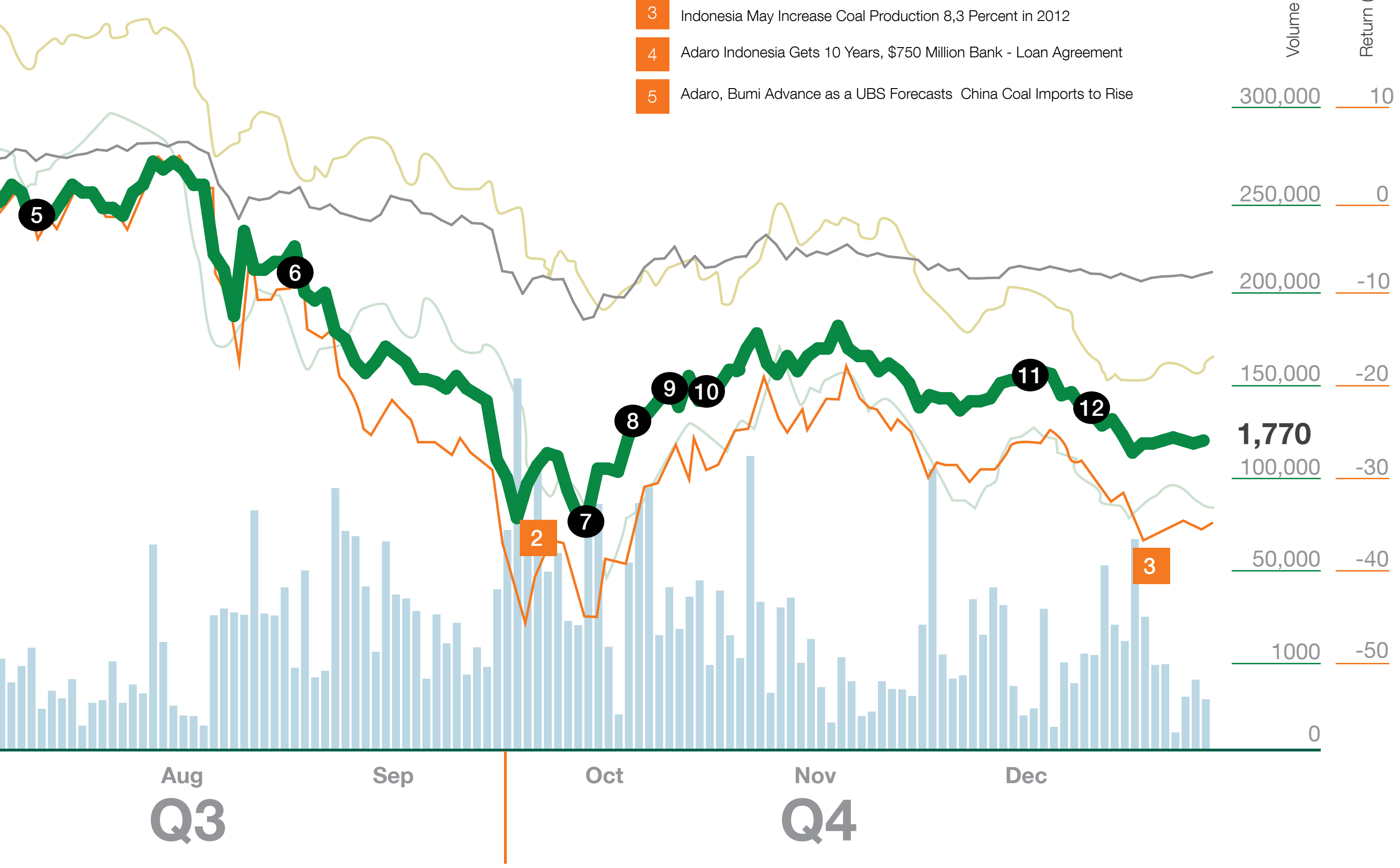
9

October 10th 2011

PT Alam Tri Abadi (ATA), a wholly owned subsidiary of PT Adaro Energy, signed a deed of transfer shares to acquire a 35% interest in PT Servo Meda Sejahtera (SMS) for Rp200 billion from PT Servo Infrastruktur (SI).

Most Read Adaro News on Bloomberg:

1 Bumi, Adaro to help Indonesia Coal Output Rise 71% , WoodMac Says
2 Adaro to Buy Majority Stake in Bhakti Energi Persada This Year
3 Indonesia May Increase Coal Production 8,3 Percent in 2012
4 Adaro Indonesia Gets 10 Years, $750 Million Bank - Loan Agreement
5 Adaro, Bumi Advance as a UBS Forecasts China Coal Imports to Rise



4


May 31st 2011

Adaro, Komatsu and United Tractors launched Bio Diesel Fuel Pilot project in Indonesia to achieve sustainable environmentally friendly mining operations in our mining operations.

5

July 4th 2011

PT Adaro Indonesia closed a US$750 million 10-year unsecured loan facility from our relationship banks, after previously receiving US$1 billion commitment for this 10-year bank loan.

6


August 19th 2011

PT Alam Tri Abadi (ATA), a wholly owned subsidiary of PT Adaro Energy, signed a share purchase agreement to acquire a 75% stake of PT Mustika Indah Permai (MIP) for US$222.5 million (post tax US$ 234.2 million) from Elite Rich Investment Limited.

10

October 14th 2011

PT Alam Tri Abadi (ATA), a wholly owned subsidiary of PT Adaro Energy, signed a deed of transfer shares to acquire 46% interest in PT Bukit Enim Energi (BEE) for US$46 million from Lucky Star Corporation, Oriental Holdings Ltd., and BrightPath Corporation. The group owns 61.04% of BEE.

11


November 30th 2011

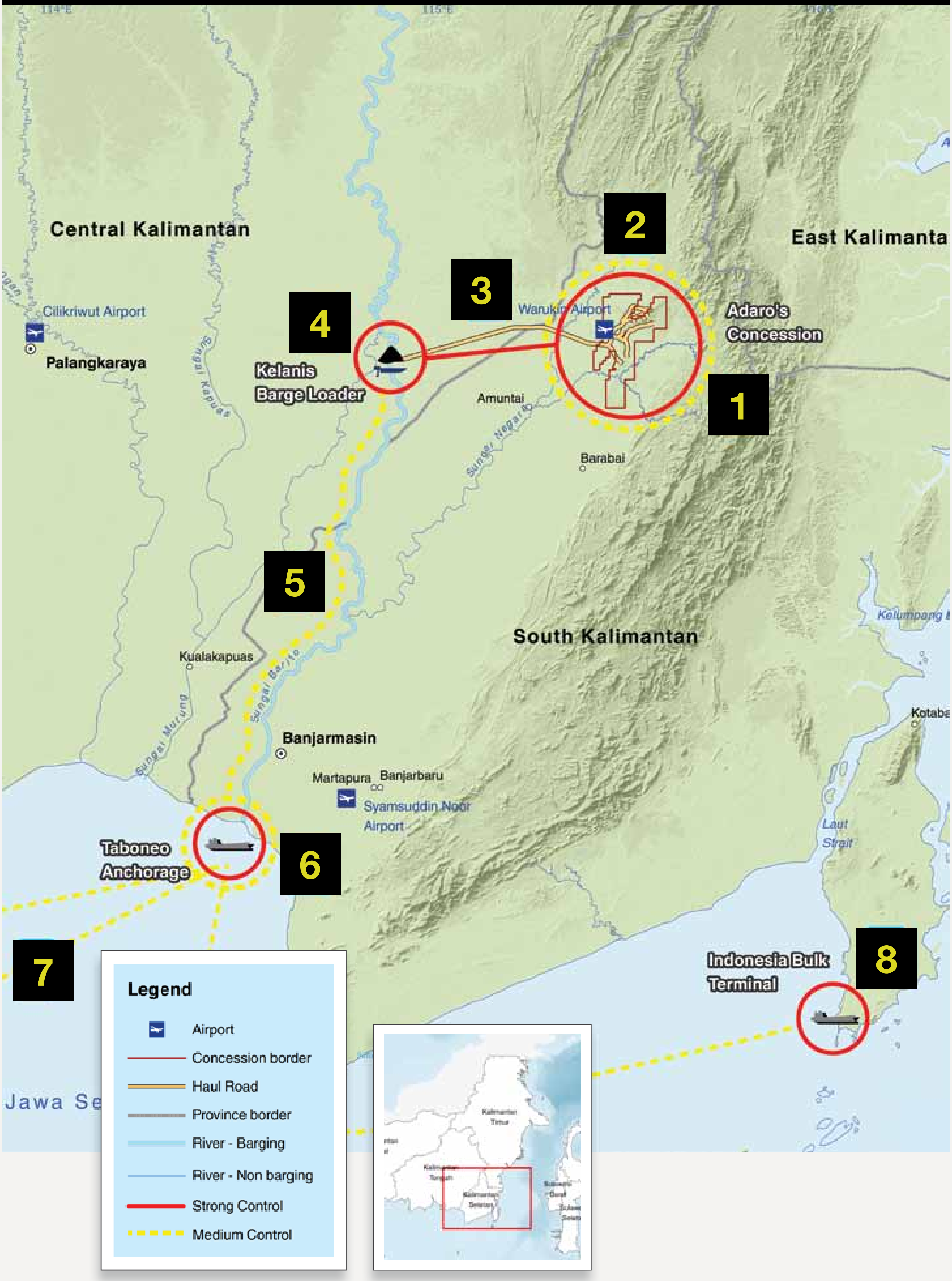
We received PROPER Award with Green Rating for the fourth consecutive year from the Ministry of Environment of Republic Indonesia, Prof. Dr. Balthasar Kambuaya.

12


December 9th 2011

We delivered our first shipment of E4000 (Wara) coal to Hong Kong Electric Company Limited (HKE), HK.

Map of Existing Operations



1 PT Adaro Indonesia,
Mining

Production Volume:
47.7 million tonnes (13% increase y-o-y)
Coal Sales including from Coaltrade:
50.8 million tonnes (16% increase y-o-y)
Overburden Removal:
299.27 Mbcm (32% increase y-o-y)
Planned Strip Ratio: 5.9x (2010: 5.5x)
Coal type: Envirocoal, sub-bituminous, medium calorific value, ultra-low pollutants

2 PT Saptaindra Sejati ("SIS"),
Contract Mining

Total Coal Production:
22.7 million tonnes (37% increase y-o-y)

Total Overburden Removal:
167.5 Mbcm (31% increase y-o-y)

3 Hauling Road:
100% Owned by Adaro Indonesia

Hauling Equipment Capacity:
60 million tonnes a year
Hauling Road Capacity:
80 million tonnes a year
Hauling Road Distance:
80 kilometers
Vehicles: 200 road trains
FY11 Contractors:
PAMA 35%, SIS 32%, BUMA 18%, RAJ 13%, Adaro Indonesia 2%

4 Kelanis: One of the World's Largest Inland River Bulk Terminals

Crushing Capacity:
in excess of 50 million tonnes a year
- 7 crushers with total capacity of 7,500 tonnes per hour
Stockpiling Capacity:
2 stockpiles with capacity of 250,000 tonnes each
Barge Loading Capacity:
2 load out conveyor systems each rated at 5,000 tonnes per hour
Crushing, stockpiling and barge loading facilities at Kelanis can easily be upgraded

5 PT Maritim Barito Perkasa ("MBP")
Barging

Total Coal Barged:
15.8 million tonnes
(36% increase y-o-y)
Barging Distance:
250 kilometers (estimated travel time –24 hours)
MBP/HBI Fleet:
24 barges and 25 tugboats
Self-propelled Barges:
Four units of self-propelled barges with capacity of 12,000 dwt - 15,000 dwt

6 PT Sarana Daya Mandiri ("SDM")
Sea Channel Operator

Total Transit Volume: 79 million tonnes
Capacity:
200 million tonnes per year (previously 60 million tonnes per year)
Total barge steaming time along the channel: reduced by 3 hours
Channel Specifications:
Length: 15,000 meters (old: 14,000 meters)
Base width: 138 meters (old: 60 meters)
Depth: 6 meters LSW (old: 3 meters LSW)

7 PT Maritim Barito Perkasa ("MBP")
Shiploading

Total Coal Loaded:
13.6 million tonnes
(8% increase y-o-y)
Total Dedicated Capacity:
60,000 tonnes per day
MBP Floating Cranes:
4, each with 15,000 tonnes per day capacity

8 PT Indonesia Bulk Terminal ("IBT")
Coal Terminal Services

Total Coal shipped:
4.4 million tonnes (30% decrease y-o-y)
Number of vessels loaded: 65
Stockpile:
Up to 800,000 tonnes of coal
Capacity:
12 million tonnes coal per year, fuel tank capacity of 80,000 kilolitres
Facilities:
2 large berths for 2 barges of up to 15,000 tonnes

COALTRADE SERVICES INTERNATIONAL

Coaltrade Services International Pte Ltd
Marketing

Principal activities are trading of thermal coal, acting as agents for both coal producers and customers.

Total third party coal sales of 3.6 million tonnes.

Letter From the Board of Commissioners

"As a publicly listed mining and energy company, good corporate governance goes hand-in-hand with our Corporate Social Responsibility (CSR). Our commitment to support the local communities and preserve the environment, in which we operate, has been demonstrated in the past and continues to define our business practices."

Edwin Soeryadjaya
President Commissioner

Dear Shareholders,

Adaro Energy achieved a historical milestone in 2011 as we reached 20 years of uninterrupted production growth and record financial results in the midst of a challenging global situation. We are continuously striving to grow and diversify our products and operations and are further enhancing our coal supply chain downstream into the power sector, enabling us to reach our overall long term goal of creating maximum sustainable value from Indonesian coal by building a bigger and better Adaro.

Year End Results

We are pleased with our strong 2011 operational and financial performance. Our achievements were possible due to normal weather conditions throughout the year, the arrival of new and larger sized heavy equipment and quality performance by our mining contractors. We produced 47.7 million tonnes of coal and had sales volumes of 50.8 million tonnes, increasing year over year by 13% and 16%, respectively. Due to higher mining costs, resulting from a higher stripping ratio and longer overburden hauling distances, Adaro Energy's costs of revenue increased 35% to US$2.56 billion. However, we sustained a robust EBITDA (earning before interest taxes depreciation and amortization) of US$1.47 billion, increasing 66.7% from last year, and amongst the best EBITDA margins in Indonesian coal of 37%.

Adaro is currently Indonesia's second largest thermal coal producer in terms of tonnage, operates the largest single coal mine-site in Indonesia, and is a significant supplier of thermal coal to the global seaborne market. Adaro is vertically integrated, either directly or indirectly, and controls all aspects of its business from exploration to marketing. With a present production of approximately 48 million tonnes per year, we are executing plans to boost production to 80 million tonnes per year in the medium term. Adaro has approximately 4.6 billion tonnes of coal resources and 1.1 billion tonnes of reserves based on JORC studies completed in

2011 and 2012 adjusted by 2011 Adaro Indonesia coal production.

Our operations at Adaro Indonesia's Wara pit will be the key organic growth driver in order to achieve our medium term production goal. In 2011, E4000 (Wara) contributed 5.4 million tonnes to total production. Going forward, we expect production at Wara will increase supported by strong demand from developing Asia.

Projects and Business Development Progress

We continue to develop infrastructure and improve our coal supply chain to realize efficiencies and strengthen our distinctive position in the market. Moreover, we have further integrated our coal supply chain by moving downstream into power as well as diversifying our product offerings and increasing our reserve base through acquisitions of coal deposits in Indonesia.

2x30 MW Coal-fired Mine-mouth Power Plant

Adaro Energy's 2x30 MW coal-fired mine-mouth power plant aims to reduce our dependency on oil by powering our overburden crushing and conveying system, which will reduce overburden truck hauling, in addition to providing power to other parts of our mining operations. The plant is owned and will be operated by our subsidiary, PT Makmur Sejahtera Wisesa (MSW), with a total estimated cost of US$160 million. At year end 2011, the total spending on this project reached US$111.8 million. The plant will be fuelled by approximately 300,000 tonnes of E4000 coal per year. The physical progress of the plant is on track and is expected to be in full operation in late 2012.

Overburden Crushing and Conveying System

The out of pit overburden crushing and conveying system is currently being installed. The system will reduce the cost of transporting the overburden material to the dump location, decreasing dependency on the use of diesel. It has a capacity to crush and transport 12,000 tonnes per hour of overburden material equivalent to approximately 34 million bank cubic meters (Mbcm) annually. The project is projected to cost in excess of US$212 million with an expected reduction in operating costs by US$1.00-US$1.20 per bcm compared to the existing use of trucking. The total spending at year end 2011 was US$94.7 million and the project is expected to commence commercial operation in 2013.

Expanding Capacity at Kelanis River Terminal

Our coal crushing, stockpiling and barge loading facilities are located at the Kelanis river terminal with a capacity of 55 million tonnes per year. The upgrade of the existing Kelanis facilities to more than 70 million tonnes per year by the end of 2012 is underway and progressing well. The total estimated cost for this project is US$55 million. Our plan includes upgrading and replacing existing hoppers, upgrading existing as well as adding new conveyor belts, and adding two new barge loading conveyors.

IndoMet Coal project with BHP Billiton

Further studies to identify development options across the seven Coal Contracts of Work (CCoWs) of the IndoMet Coal (IMC) project continued towards the end of 2011. In the IndoMet Coal project, Adaro has an interest of 25% and the remaining 75% is owned by BHP Billiton. Adaro is delighted to have this project together with BHP Billiton, a global leader in the resources industry and the world's largest coking coal producer, in developing this world class asset, which we expect will create significant shareholder value.

JPower-Adaro-Itochu Consortium Signed a PPA for a 2,000 MW Central Java Power Plant Project

In early October, PT Bhimasena Power Indonesia (BPI), a company established by the JPower-Adaro-Itochu consortium, signed a Power Purchase Agreement (PPA) with PT PLN (Persero) for the 2,000 MW Central Java Power Plant (CJPP) project with a total project cost of approximately US$4 billion. The PPA includes the construction of the power plant and a 25-year supply of electricity to PLN. The Government of the Republic of Indonesia (represented by the Ministry of Finance), Indonesia Infrastructure Guarantee Fund (IIGF) and BPI also will guarantee PLN's payment obligation for the CJPP project under the PPA. This is the first formalized public-private partnership (PPP) in Indonesia under a guarantee provided by the IIGF and part of the Master Plan for Acceleration and Expansion of Indonesian Economic Development. This power plant is the first in Indonesia to use advanced environmentally friendly, technology and will serve as a model of high-efficiency power generation. The power plant will utilize Indonesian sub-bituminous coal as fuel, with Adaro Indonesia as the primary coal supplier. The construction is expected to commence in 2012 with commercial operations by 2016-2017.

In moving downstream to the power sector, we have reviewed several Independent Power Producer (IPP) projects located in Indonesia and will continue to do so.

Acquisitions of Coal Mines and Logistics Company in South Sumatra

As part of our efforts to increase our reserves, Adaro Energy continues to look for potential acquisitions of coal deposits in Indonesia employing three selection criteria namely size, location, and quality. In 2011, we acquired two greenfield coal projects in South Sumatra and one logistics company. In mid-August, we purchased a 75% stake in PT Mustika Indah Permai (MIP) for US$222.5 million (post tax US$234.2 million). MIP holds an IUP permit which was granted in April 2010 for a period of twenty years and covers an area of approximately 2,000 hectares. As of December 15th, 2011, the total JORC Compliant Coal Resources for MIP were 286 million tonnes, of which 273 million tonnes are JORC Compliant Coal Reserves with an average calorific value of 4,281 kcal/kg (GAR).

In early October, Adaro acquired a 35% interest in PT Servo Meda Sejahtera (SMS) for Rp200 billion. We carried out this transaction to support and develop our coal logistics operations in the South Sumatra Province. SMS is constructing a dedicated haul road and common user coal port, which will provide coal hauling and barge loading services in South Sumatra.

In mid-October, Adaro Energy bought an additional 46% stake for US$46 million to become the majority shareholder in PT Bukit Enim Energi (BEE) with a 61.04% stake in total. BEE is a coal mining company developing a greenfield coal project in South Sumatra. BEE holds an IUP permit which was granted in March 2011 for a period of twenty years which covers an area of 11,130 hectares. Marston, an international mining consultant, carried out engineering studies of the coal potential of the MIP and BEE mines, on which the valuation was based. Additional drilling and coal analysis are required before a JORC compliant statement of Resources and Reserves can be issued for BEE in 2013.

These acquisitions are part of Adaro's strategic plan to continuously grow and develop both organically and inorganically, creating maximum value from Indonesian coal.

Corporate Social Responsibillity And Community Development

As a publicly listed mining and energy company, good corporate governance goes hand-in-hand with our Corporate Social Responsibility (CSR). Our commitment to support the local communities and preserve the environment, in which we operate, has been demonstrated in the past and continues to define our business practices.

Our CSR programs have become embedded in every activity we do, particularly in our mine site. In addition, Adaro employs the Millenium Development Goals as guidance in implementing our community development programs. We realize that we must not only bring temporary benefits to our surroundings but also sustainable benefits that contribute to the establishment of an independent society based on a harmonic relationship with the natural environment. In fact, we are in the process of developing a mining closure model to ensure we achieve sustainable community development.

Aside from our extensive community programs, Adaro applies strict standards on all phases of its operations through an Environmental Policy and Master Plan to ensure that negative impacts are minimized. Land affected by mining is reclaimed beyond what is required by the regulations. The reclamation encompasses planting of commercial crops, creating fish and shrimp farms, and developing other usages. We continuously monitor air and water quality as well as implement strict programs for air, water and waste handling.

Our efforts and commitment in applying best environmental practices have earned us recognitions. We are delighted to have received the PROPER Green award for four consecutive years from the Ministry of Environment for social programs and environmental rehabilitation. In addition, we received a total of nine awards for our CSR programs in community health, education and economic development from the Ministry of Social Affairs, the Coordinating Ministry of People's Welfare and Enterprise Asia.

Corporate Governance and Compliance

We meet the various requirements of the capital market and exchange regulatory authorities; however, we still continuously seek to improve and develop our corporate governance structure in-line with best practices.

The Board of Commissioners oversees all major aspects of the management of Adaro through routine and ad-hoc board meetings, as well as the activities of the Audit Committee. We have made great progress aligning our best practices and standards with the goals, mission and vision of Adaro Energy; yet, we strive to continuously improve our corporate governance. Our efforts and commitment have gained recognition as we achieved several awards from both international and domestic institutions. We received an award from Corporate Governance Asia, an international institution, while domestically we received an award for the Most Improved Governance from the Indonesian Institute for Corporate Directorship (IICD) and an award as Indonesia Trusted Companies based on Investor and Analysts' Assessment Survey from the Indonesian Institute for Corporate Governance (IICG).

We believe that strong corporate governance is not only a set of procedures and policies to comply with the regulations, but also applies to corporate governance of all our activities and businesses and is a perpetual system that ensures the interests of stakeholders and the sustainability of the company.

Dividend Distributions

The 2011 Annual General Meeting of Shareholders, which was conducted on April 20th, 2011, approved the use of 43.98% net profit for the fiscal year 2010 final dividend payment of Rp970,773,946,700 or Rp30.35 per share. This dividend included an interim dividend of Rp315,061,725,700, which was paid on December 10th, 2010. On November 8th, 2011, the BOC and BOD approved a distribution of the fiscal year 2011 interim dividend in the amount of US$75,167,010.70 or US$0.00235 per share based on the unaudited financial statements as of September 2011. The dividend was paid in rupiah using the Indonesia Central Bank middle rate as of recording date (December 1st, 2011) at a conversion rate from USD to rupiah of Rp9,085/USD. Therefore, the amount of interim dividend paid in rupiah was Rp682,892,292,209.50 or Rp21.35 per share.

Change of the Board of Directors

On April 20th, 2011, Adaro Energy's Extraordinary General Meeting of Shareholders also approved the appointment of the Board of Directors, for a five year term. Therefore, the Board of Directors is as follows:

President Director
GARIBALDI THOHIR
Vice President Director
CHRISTIAN ARIANO RACHMAT
Director
ANDRE J. MAMUAYA
Director
SANDIAGA S. UNO
Director
DAVID TENDIAN
Director
CHIA AH HOO
Director
M. SYAH INDRA AMAN

Closing Remarks

Adaro delivered on our guidance in 2011 with a strong operational and financial performance. We continue to improve our coal supply chain to realize efficiencies through project development and by moving downstream into power. We also made acquisitions in South Sumatra in order to diversify our product offerings and increase our reserve base.

We are pleased to have received national and international awards for our accomplishments during the year in the areas of corporate governance, environment, social welfare, and business and financial performance. All of these achievements demonstrate our efforts to create sustainable value to all of our stakeholders.

As a closing remark, I would like to extend my sincere appreciation to the Board of Directors, employees, customers and all of our stakeholders for their commitment and efforts during the year. We count on their ongoing trust and support to ensure our sustainable growth for the many years to come.

On behalf of the Board of Commissioners,

Edwin Soeryadjaya

President Commissioner

Garibaldi Thohir
President Director &
Chief Executive Officer

Letter From the Board of Directors

> “We view that adhering to our responsibilities as a corporation and acting fairly and equitably is not just the right thing to do, it is a social investment in our future success.”

Dear Shareholders,

I am delighted to report the year 2011 was an extraordinary year of transformation and profitability for your company. We are even more excited and encouraged about our future plans and are convinced we are on the right track to build long term efficient assets that will create sustainable long term value, not only for our shareholders but also for our other key stakeholders such as our loyal employees, our communities and our country.

Here at Adaro Energy, our vision has real meaning and gives every team member the focus needed to succeed. With our performance in 2011, we moved one step closer to achieving our vision to be a leading Indonesian energy and mining company. We not only want to be a great company adhering to international standards, we are and we want to be known as a world class Indonesian company.

The year 2011 was the 20th year of uninterrupted annual production growth, a track record we are all very proud of. It was another great year operationally as we hit the top end of our targets and delivered record-breaking overburden and coal volumes, profits and cash flows. We focused on flawless execution. After many years of careful planning we are happy to report we succeeded in closing a number of important deals in 2011. And although we used considerable cash in making growth investments, we were able to not only further strengthen our capital structure, but also pay our shareholders a considerable cash dividend. As we look forward, we plan to deliver further growth and sustainable value creation. To do that we are improving operations at Adaro Indonesia, continuing to put our customers first, diversifying our locations and products, and moving down stream into less risky power generation.

We are very proud of the team in South Kalimantan. Such dedication and hard work. Our mining contractor, SIS, has done very well in continuing to increase its production, now conducting about one third of Adaro's mining. Our barging and logistics firm, MBP, is working up to 50% of Adaro's barging and already delivers 50% of the floating crane volumes. It continues to get better each year.

Hitting Our Targets, Increasing our Size, Sustaining Our Track Record

In 2011, we produced 47.7 million tonnes of thermal coal, an increase of 13% over 2010, which included 5.4 million tonnes of our new product, E4000, sourced from our Wara pit within our long running Adaro Indonesia concession in South Kalimantan. This production result was towards the top end of our target range of 46-48 million tonnes.

We believe it is important to put the production performance of 2011 in the right context. In 2011, we added 5.5 million tonnes of coal production. While the rate of growth might not seem large, the actual volume is huge and is not far off the combined size of two average-sized Australian coal mines, which on average produce 3.5 million tonnes per year and can take three or four years to start.

With our performance in 2011, Adaro Indonesia retains its position as the operator of the largest single concession coal mine in not only Indonesia, but also, the southern hemisphere. We have maintained this growth for many years, even increasing the rate of growth as the mine increased in size and matured.

In terms of the performance of the company, we must also consider the task of overburden removal. There is no chance of coal production increasing unless we first remove and dispose of the overburden. Our track record over the past few years in terms of increasing overburden extraction and disposal, all of which is done in a safe, efficient and environmentally-friendly fashion that in most instances exceeds international best practices, has been remarkable and 2011 was no different. In 2011, we increased overburden extraction by 32% to 299 million bank cubic meters.

To give you a sense of the volume of overburden we removed in 2011, if we theoretically built a tower using 299 million bank cubic meters of overburden, where the base of the tower is the size of a typical football pitch, the tower would rise up into the stratosphere, a full 60 kilometers into the sky. Each bank cubic meter of overburden weighs approximately two tonnes.

But it is not just the weight and volume, it is also the long overburden hauling and coal hauling distances that make our production increases so remarkable. After extraction, the coal is transported along our privately held hauling road over distances averaging 75 kilometers to our Kelanis river terminal. From there, our coal travels another 240 kilometers to reach our open sea anchorage and transshipment area, called Taboneo, at the mouth of the Barito river, near Banjarmasin.

We hope our shareholders as well as other stakeholders can appreciate the huge scale of Adaro Indonesia's operations and the enormous effort it takes to increase production every year. However, we have done it every year for twenty years and intend to continue. In order to maintain our dependable and reliable operations, which our customers demand, we are making significant investments in the infrastructure and human resources at Adaro Indonesia, as well as maintaining our close partnerships with our dedicated contractors, local communities and other stakeholders. But we also must diversify our locations and coal products so as to confirm to our long term loyal customers that we will continue to be their dependable and reliable supplier, now and in the decades to come.

As we grow aggressively to achieve our medium term target of 80 million tonnes, the large investments we are making to automate the overburden hauling and reduce consumption of diesel, to improve the infrastructure and the human resources, assure our customers that they can continue to rely on us. We will continue to adhere to the same high quality, safety and service standards our stakeholders have come to enjoy and we will not be distracted as we make growth investments and diversify into power and other coal deposits, from maintaining and further improving Adaro Indonesia, our core asset and main source of cash flows.

In terms of our average sales price, our marketing teams negotiated prices that slightly exceeded our target range. The product mix in 2011 had a greater portion of the E4000, which is our new lower priced, as well as lower cost, coal and we are delighted to report it is rapidly gaining acceptance by power plants throughout the Asian region.

Our Adaro Energy cash cost of US$41.21 per tonne came in slightly above our target range of US$38-US$40 per tonne. The reason for the 14% increase is due to higher than expected diesel fuel prices and longer overburden hauling distances, as well as increases in other costs associated with barging, crushing, consumables and maintenance.

Despite the increase in our cash cost, due to the robust pricing environment and the acceptance of the E4000, we were able to improve our EBITDA margin to 37%, and once again delivered the highest EBITDA margin in Indonesian coal. The fears that some of our shareholders had about the E4000 and its impact on our margins did not materialize. In fact we sometimes make as much EBITDA per tonne on the E4000 (Wara) coal as do on our E5000 (Tutupan) coal. We believe the long term outlook for E4000 is good and its acceptance also encourages us to make further investments in other sub-bituminous coal deposits in Indonesia.

As a result of the higher than expected average sales price, and our strong operational performance, our EBITDA increased 73.4% to US$1.47 billion, which exceeded our EBITDA guidance of US$1.1 – US$1.3 billion.

In order to maintain reliable and safe operations, we increased our capital expenditures. In 2011, we aimed for capital expenditures of US$625 million, with more than half to be spent on heavy equipment, and met our target.

Our Strategy

One of the achievements of 2011 was to improve our blueprint for the future. We revisited our assumptions and narrowed our focus. While our strategy has broadened since our listing in 2008, and it is no longer solely about increasing production and efficiency at Adaro Indonesia, it is still very focused. Everything we do is ultimately about creating maximum sustainable value from Indonesian coal.

It is a very good time to be in the coal business and to be Indonesian and we are even more encouraged as we work even harder and commit even more resources to achieving success. We will always aim for good returns, high margins, maintaining a strong balance sheet and on creating long-term low cost assets. We will not be reckless, we will consider all relevant opportunities and decide to invest based only on the merits of the transaction for Adaro.

Our goal is to become not only bigger but also better. We see a bright future for Adaro Energy and for our country.

Typically the coal mining business can be described as long term, capital intensive and slow yielding, and it requires specialized knowledge. We encourage our shareholders to also take a similar medium and long-term view, for example by looking at the next three to five years.

We believe since 2008 a structural change has occurred in the coal sector and the era of cheap coal is over. Our analysis suggests declining grades of coal qualities, more and costlier processing requirements, lengthening transportation distances and higher oil prices are leading to continual annual increases in producers' costs, notably in important coal producing countries such as Australia, China and India.

This trend, when combined with strong demand growth in emerging market Asia, technological enhancements to upgrade low rank coal, advancements in power production that allow for the efficient use of previously unusable low rank coals and the lack of practical energy alternatives, will sustain higher coal prices and create increasing and sustainable demand for the lower heat value sub-bituminous coal, of which we have been experts for the past 20 years.

As well as continuing to focus on consistent organic growth at Adaro Indonesia, we are also looking to increase our coal reserves and diversify in terms of location, products and license maturities. We are seeking to acquire large deposits of coal in Indonesia. We are aiming to have significant operations in what we have identified as the four main coal-producing provinces: South Sumatra, South Kalimantan, East Kalimantan and Central Kalimantan.

In terms of coal products, we want to be able to offer our forty nine customers, all of whom are end users, such as power plants and cement factories, the coal that will best meet their needs. We will do this while providing our industry-leading reliability and customer service that defines the Adaro brand name.

We are also keen to diversify our license maturities so we can mitigate the risk of our permits coming up for renewal at the same time.

We believe the acquisition strategy we have developed will allow us to grow our reserves and production at a more rapid and reliable pace. It brings assurance to our customers, who need to know that as we grow to 80 million tonnes in the medium term, their fuel supply needs will not be put in any kind of jeopardy.

As well as acquiring new coal deposits in Indonesia, we are also deepening our integration by moving downstream into power generation. We believe this move is a logical extension of our coal supply chain, which we finished integrating in 2009. Having succeeded in completing vertical integration from pit to port, we now wish to deepen our integration from pit to power. We see numerous benefits from moving into Indonesia's power sector.

Building a Strong Organization: Our People and Winning Teams

In order to succeed, we must build a strong organization. We need to replicate what we have done at Adaro Indonesia, not just operationally but also organizationally. This means finding the right people and putting them in the right place. We recognize strengthening our organization and building a winning team will not be easy, but we are encouraged by the success of our recent growth. Back in 2005, we produced around 25 million tonnes and 100 million bank cubic meters of overburden, far less than what we produced in 2011. While production has escalated, so too has everything else. We are a larger but also a more complicated organization.

So building a strong organization means getting or developing and retaining the right people. This is so crucial and we are working hard on that front. In 2011, we added 2,000 graduates to our work force.

There are two ways to get the right people. One way is to build from scratch the capabilities of our people and have success. This is effective but takes a long time. The other way is to hire the best of the best from Indonesia and all around the world. Here at Adaro we employ both strategies. We built the Adaro Institute, which opened on May 23rd, 2011, to help develop the skill set and quality of our workforce. We also hired many highly qualified experts, some of whom you will read about in this report.

We do not believe in superman or superwoman, we believe in a super team!

Our Philosophy of Value Creation and Decision Making

Adaro is a unique combination of the old and the new, Indonesian owned and operated, yet also employing and partnering with foreigners, conservative yet rapidly growing, the largest supplier to the domestic market but also a major exporter, tightly controlled by a group of Indonesian business groups, yet no one has majority control. Some people ask us, what makes Adaro work, what is the glue that holds it all together and creates such progress? How does Adaro approach creating value?

Our philosophy of creating value at Adaro is similar to the one our controlling shareholders have used when building other strong Indonesian companies: be an asset to the nation. This affects our decision making in many ways. We want to build a top class organization, one that always delivers operational excellence. We do not just want to be landlords that collect the rent. Our number one goal is to create maximum sustainable value from Indonesian coal by building a bigger and better Adaro Energy. This is how we are now and how we will continue to be an even bigger asset to the nation.

Four Indonesian families, and an individual businessman, through their four business groups, each own a minority stake in Adaro Energy, but together we own a combined 63% interest. The families each have Board representation and Adaro Energy is for each one their largest and most significant investment. The representatives of the four families spend every day working for Adaro Energy and they actively manage the business together with the other Board members, all of whom are independent professionals. We can function effectively because of the trust between us. We have been working together for over four decades. We all believe very strongly in consensus. This approach has made Adaro and is what helps makes it all work.

But at the same time it is challenging as everyone has a different mindset. Adaro Energy has evolved so much in the past few years. Right now the external environment is very supportive, and there are such great opportunities that could take us in so many different directions. We have a responsibility to our shareholders and all of our stakeholders; therefore, we have to be careful not to go one bridge too far so to speak.

The thing that makes it all work for us, the thing that keeps us all working together is a shared passion for Adaro. Everything we do is all about what's best for Adaro.

We as the Board must be the example for all the other winning teams in the organization. We must set the right tone and create the right culture so that our insistence on no politics can be seen and therefor better adhered to. The most valuable thing is a conducive culture. With a good culture, you cultivate productive supportive teams and from that comes increased shareholder value.

Being a Responsible Corporate Citizen

We believe our first duty is to all of our shareholders to create maximum sustainable value from Indonesian coal by building winning teams that create a bigger and better Adaro Energy. We believe creating shareholder value is not inconsistent with also doing the right thing by all of our other stakeholders. Adaro Energy must focus on building long-term low cost assets and on long-term value creation. We believe Adaro Energy's long term and sustainable success will not be achieved overnight and without the support of multiple stakeholders. Given we are not a get-rich-quick organization, we must think of others, and also those that are less fortunate. We view that adhering to our responsibilities as a corporation and acting fairly and equitably is not just the right thing to do, it is a social investment in our future success.

Going Beyond Compliance

We are happy we continue to go "beyond compliance" in terms of our responsibilities to manage the environment, support local communities and to help develop the nation.

For the fourth year in a row, in 2011, we received the green level for the PROPER ranking from the Ministry of the Environment.

We remained the largest supplier to the domestic market. While we have always had to prioritize domestic market as part of the terms of our Contract of Work, recently Indonesia introduced a regulation called the Domestic Market Obligation, which requires coal miners to provide a certain percentage of their production to the local market. We are delighted we not only met our obligation, we exceeded it.

Our New Investments In Coal

In terms of creating maximum long-term value from Indonesian coal, we have incorporated acquisitions of Indonesian coal deposits into our strategy. In 2011, we spent US$377 million to acquire controlling stakes in two coal deposits and a coal logistics company, all located in the coal-rich province of South Sumatra. We also bought a 10% stake in a large coal deposit in East Kalimantan, in which we hope to eventually acquire a controlling stake. These investments add to the first coal acquisition we made, in March 2010, when we bought 25% in IndoMet Coal (IMC) for US$335 million.

In terms of our coal joint ventures, we made meaningful progress. The IMC, or IndoMet Coal, is a metallurgical coal project in Central Kalimantan 75% owned by BHP Billiton. During 2011, we improved the trust and confidence building and were very encouraged with both the project and our partnership. BHP Billiton is doing a great job and we are happy to play our role. They announced a phased approach to development is planned, commencing in early 2012, with construction of a road and associated infrastructure in support of future mine development.

Our other ventures, which made good progress, were PT Mustika Indah Permai (MIP), a South Sumatran thermal coal deposit that we acquired in August of 2011 and PT Servo Meda Sejahtera (SMS), which owns a dedicated hauling road in South Sumatra, that we acquired a 35% stake in October 2011. We are proud of the achievements and progress made at MIP and SMS and we expect production to begin in 2012.

In developing successful joint ventures, we will rely heavily on the business model we developed over 20 years of successful operation in South Kalimantan and we look forward to these joint ventures commencing commercial operations.

Funding

We also had an excellent year in terms of accessing the funds we need to maintain and grow our business. In 2011, we were able to secure another “first” when on July 4 we closed a US$750 million, ten year bank loan, the longest duration for a private sector deal in Indonesia. The challenge is how to manage sufficient growth while also maintaining a strong balance sheet. In 2011, we grew and made acquisitions to spur future growth, yet we also improved the balance sheet with net debt to EBITDA of 1.05 times. We will be selective in making funding decisions and will concentrate on preserving our cash balance and maintaining our strong financial structure, which is the strongest it has ever been.

Cost Reduction

To reduce the impact of higher strip ratios and high fuel costs, we have several strategies to improve efficiency and cost control initiatives, including the US$212 million Overburden Crusher and Conveyor (OPCC) system, the US$160 million MSW mine-mouth power plant and the US$55 million Kelanis river terminal capacity expansion to 70 million tonnes a year. As well, we are also increasing average truck size, which improves operating efficiency and reducing pit congestion, which we estimate lowers costs by 14% compared to smaller trucks.

Our Targets for 2012

In 2012, we are aiming for production of 50 to 53 million tonnes, with 8 to 10 million tonnes from our Wara pit, which is sold under the brand name E4000. Due mostly to a higher blended strip ratio, which we have decided to increase to 6.4x, we are guiding our Adaro Energy coal cash cost to be within a range of US$40 to US$45 per tonne. We view the increased spending on overburden removal as an investment in our future, not a cost increase. For EBITDA, we are expecting US$1.2 –to US$1.5 billion.

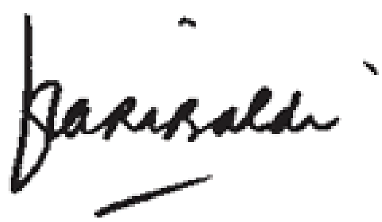
Capital Expenditures in 2012

Not including spending on the IMC or other acquisitions, we forecast our capital expenditures to range between US$650 million and US$700 million in 2012, with almost half, or US$325 million allocated to heavy equipment purchases. We also plan to spend US$150 million on the OPCC and the Kelanis expansion, US$50 million on the MSW power plant, US$15 million on our IBT coal terminal and US$50 million on our new coal deposit in South Sumatra, MIP. We are also expecting to spend US$75 million on routine maintenance.

Thank You

Finally, I would like to thank all of our stakeholders. In particular I would like to thank our dedicated and loyal workforce and contractors and our valued long term customers. I would also like to thank you, our shareholders, for your continued support as we aim to create maximum sustainable value from Indonesian coal and build a bigger and better Adaro Energy.

On behalf of the Board of Directos,



Garibaldi Thohir

President Director &

Chief Executive Officer

Distinguished
Board of Commissioners

Acclaimed Achievements

Indonesian Entrepreneur Of The Year • Best CEO In Asia • Long Serving Executives Of Astra International Group • Senior Executive Of The Kuok/Kerry Group Investment • Distinguished Government Economics Advisor • Successful Business Leaders In Their Own Right

Mr. Edwin Soeryadjaya
President Commissioner

Indonesian Citizen, 62, was awarded his Bachelor of Business Administration degree from the University of Southern California in 1974 and is married with three children.

Mr. Soeryadjaya joined PT Astra International in 1978 and left as the Vice President Director in 1993. The Soeryadjaya family founded and owned Astra International from 1957 to 1992. He successfully spearheaded the financial restructuring of Astra from 1987 to 1990 and led Astra's IPO in February 1990. Mr. Soeryadjaya was awarded 'Indonesian Entrepreneur of the Year 2010' by Ernst and Young, and in 2011 was listed in Ernst & Young World Entrepreneur of the Year Hall of Fame. A long-time proponent of education, he is active in the community through his roles as Chairman of Yayasan Universitas Kristen Indonesia and as Co-Founder of the William Soeryadjaya Foundation.

He is currently the President Commissioner of PT Adaro Energy, PT Adaro Indonesia and among others PT Saratoga Investama Sedaya, PT Pulau Seroja Jaya, PT Global Kalimantan Makmur, PT Lintas Marga Sedaya, PT Saratoga Sentra Business, PT Dianlia Setyamukti, PT Alberta Investama Sedaya, PT Mitra Global Telekomunikasi Indonesia, PT Pandu Dian Pertiwi, PT Saratoga Sedaya Utama, PT Saptaindra Sejati, PT Alam Tri Abadi, and PT Adaro Strategic Investments. He is also the Commissioner of among others, PT Bhaskara Utama Sedaya and PT Mitra Pinasthika Mustika.

Mr. Theodore Permadi Rachmat
Vice President Commissioner

Indonesian citizen, 68, completed his education in Mechanical Engineering from the Bandung Institute of Technology in 1968.

He is the Vice President Commissioner of PT Adaro Energy, a Commissioner of PT Alam Tri Abadi, PT Adaro Indonesia, PT Jasapower Indonesia, PT Dianlia Setyamukti, and PT Adaro Strategic Investments, as well as the President Commissioner of PT Adira Dinamika Multifinance Tbk. He also serves as the President Director of PT Triputra Investindo Arya.

He started his career at Astra in 1969, as a General Manager of the Heavy Equipment Division (1971-1973), Marketing Director (1973-1976), Group Director (1977-1980), Vice President Director (1981-1984), President Director (1984-1998), Commissioner (1998-2000), elected as President Director (2000-2002) for the second time and then President Commissioner (2002-2005). He also held several key positions at PT United Tractors, including President Director (1977-1984) and Commissioner (1984-1999).

He was a prior member of the National Economic Board (1999-2000), Commissioner of PT Multi Bintang Tbk. (2002- 2007) as well as Commissioner of PT Unilever Indonesia Tbk (1999-2009). Mr. Rachmat was named “Best CEO 1994 in Asia” by CEO of the Year Europe and Asia 1994 Financial World.

Mr. Ir. Subianto
Commissioner

Indonesian citizen, 69, completed his education at the Bandung Institute of Technology in 1969. He is a Commissioner of PT Adaro Energy, PT Alam Tri Abadi, PT Adaro Indonesia, PT Adaro Strategic Investments, and PT Dianlia Setyamukti. He is also the President Director of PT Persada Capital Investama.

He began his career at PT Astra International Tbk as a manager in 1969. He then joined PT United Tractors as a director in 1972 and President Director in 1984. He served as a Director (1979-1990), Vice President Director (1990-1998) and Commissioner (1998-2000), and Vice Chairman (2000-2006) of PT Astra International Tbk. He served as a President Director (1984) of PT United Tractors, before being appointed as commissioner and President Commissioner in 1997-1999. He was also the President Commissioner (1995-2001) and Commissioner (2001-2003) of PT Berau Coal.

Mr. Lim Soon Huat
Commissioner

Malaysian citizen, 47, is a Commissioner of PT Adaro Energy and has had more than 15 years financial and corporate management experience within the Kuok Group of companies in Singapore, Thailand, Hong Kong, and China.

Currently oversees the Kuok Group's investments and operations in Indonesia which include sugar cane plantations, sugar milling, flour milling and hotels. He also serves as a Director for PPB Group Berhad, a company listed on the KLSE, Malaysia.

Mr. Ir. Palgunadi Tatit Setyawan
Independent Commissioner

Indonesian citizen, 72, he earned a Bachelor's degree from the Bandung Institute of Technology in 1962 and a Dipl. Ing. Balistic Engineer from the University of Belgrade, Yugoslavian Military Science and Industry Institute in 1966 and Army ABRI Sesko education in 1979. He served in the army until 1981, retiring as Lieutenant Colonel.

He is an Independent Commissioner of PT Adaro Energy. He is also a member of the Audit Committee of PT Mahaka Media Tbk., Independent Commissioner and Chairman of the Audit Committee of PT Pembangunan Jaya Ancol Tbk, President Commisioner of PT Jakarta Propertindo, Head of Center for Entrepreneurship Development, Al Azhar Indonesia University (UAI), Independent Consultant of Corporate Governance, Internal Audit and Corporate Culture.

He served as a Manager, Director, and Commissioner for PT United Tractors Tbk from 1982 to 1998, Senior Vice President for Astra from 1989 to 1997, President Director for PT Astra Mitra Ventura from 1992 to 1997, Director for Asia Region for GIBB Ltd. from 1997 to 1999, and Executive Vice President for PT Raja Garuda Mas from 2000 to 2002.

Dr. Ir. Raden Pardede
Independent Commissioner

Indonesian citizen, 51, earned his Chemical Engineering degree from the Bandung Institute of Technology in 1984, and PhD in Economics in 1995 from Boston University, USA.

He is currently a member of The National Economic Committee (Komite Ekonomi Nasional) and an Independent Commissioner of Bank Central Asia. Previously held position as President Commissioner of PT Perusahaan Pengelola Aset (PPA) (2008-2009), after previously serving as Vice President Director of PT Perusahaan Pengelola Aset (2004-2008). In addition, he had held various positions in the Government and private sector, among others, the Special Staff of the Minister of Finance (2007-2010), the Secretary of Financial System Stability Committee (2008-2009), Chairman of Indonesia's Infrastructure Development Financing (2004-2005), Special Staff of Coordinating Minister of Economy RI (2004-2005), Executive Director of PT Danareksa (2002-2004), Deputy Coordinator for Finance Minister Assistance Team, RI (2000-2004), Chief Economist and Head of Division of PT Danareksa (1995-2002), founder of Danareksa Research Institute (1995), Consultant at the World Bank (1994-1995), Consultant to the Asian Development Bank (2000-2001), Staff Planning in the Ministry of Industry (1985-1990), and Process Engineer at PT Pupuk Kujang / Fertillizer Industry (1985).

Experienced Management Team with Proven Track Record

More than 135 years of combined industry experience

Combined 75 years with Adaro Energy

Average 12 years with Adaro Energy

Benefits from experience and active participation of key shareholders' representatives

High operating and safety standards

Prudent financial policies

Strong corporate governance and regulatory compliance

> *It is my personal responsibility to ensure we are doing the right thing for our communities. We had a great year, but there is still so much to do. As well as making the necessary expenditures for development programs and other initiatives, we also need to spend more time interacting with and being a part of our communities.*

Mr. Garibaldi Thohir

President Director & Chief Executive Officer

Indonesian citizen, 46, earned his Bachelor degree from the University of Southern California in 1988 and an MBA from Northrop University, Los Angeles, United States of America in 1989.

He is the President Director of PT Adaro Energy, PT Alam Tri Abadi, PT Adaro Indonesia, PT Dianlia Setyamukti, and PT Adaro Strategic Investments. President Commissioner of PT Jasapower Indonesia, PT Adaro Power, PT Mustika Indah Permai, PT Servo Meda Sejahtera, PT Bhakti Energi Persada, PT Adaro Mining Technologies, and Commissioner of PT Indonesia Bulk Terminal and a group of 7 CCOW companies in which Adaro holds a 25% JV interest with BHP Billiton (IndoMet Coal project) since 2010. He is also the President Director of PT Trinugraha Thohir, PT Padangbara Sukses Makmur and also serves as the President Commissioner of PT Trinugraha Food Industry, PT Wahanaartha Harsaka, PT Wahanaartha Motorent and is a Commissioner of PT Karunia Barito Sejahtera and PT Wahana Ottomitra Multiartha Tbk.

(please see page 60, A Discussion with Mr. Garibaldi Thohir)

Mr. Christian Ariano Rachmat

Vice President Director & Deputy CEO

"We are focused on people and reserves. Building a strong organization means getting and retaining the right people and putting them in the right place. Coal is a non-renewable resource, and while we have a lot of coal already, we must diversify into multiple coal provinces and at multiple sites."

Indonesian citizen, 39, earned his Bachelor of Industrial Engineering from Northwestern University in 1995.

He is the Vice President Director of PT Adaro Energy, Director of PT Alam Tri Abadi, PT Adaro Indonesia, PT Dianlia Setyamukti, Orchard Maritime Logistics, PT Adaro Strategic Investments, and PT Triputra Investindo Arya. He is the Commissioner of PT Saptaindra Sejati, PT Indonesia Bulk Terminal, PT Jasapower Indonesia, PT Adaro Power, PT Mustika Indah Permai, PT Maritim Barito Perkasa, PT Harapan Bahtera Internusa, PT Bhakti Energi Persada, PT Adaro Mining Technologies and President Commissioner of PT Makmur Sejahtera Wisesa, and PT Adaro Logistics.

Past experience includes Business Analyst at A.T. Kearney (USA) (1995-1996), Operations Researcher and Supply Chain Manager of Toyota Motors (1996-1998) and Director at Triputra Group (1999-present).

(please see page 61, A Discussion with Mr. Christian Ariano Rachmat)

Mr. Andre J. Mamuaya

Director, Corporate Affairs

> *In the long term, we see power as an important minority part of our revenues, providing good returns and more stability than coal as well as creating demand for low rank coals. We will consider the power projects, which commercially and politically make sense for us.*

Indonesian citizen, 41, completed his engineering education at the department of Industrial Mechanical Engineering of Tokyo Denki University (Japan) in 1994 and graduated from the American College, Los Angeles (USA) in Business Administration in 1996.

He is the Director of Corporate Affairs of PT Adaro Energy, President Director of PT Jasapower Indonesia, PT Adaro Logistics, PT Adaro Power, PT Adaro Mining Technologies, and Orchard Maritime Logistics. He also serves as a Director at PT Alam Tri Abadi, PT Adaro Indonesia, PT Mustika Indah Permai, PT Adaro Strategic Investments, PT Dianlia Setyamukti, and PT Persada Capital Investama.

He is also the President Commissioner of PT Bhimasena Power Indonesia – a consortium of JPower-Adaro-Itochu, PT Indonesia Multi-Purpose Terminal, and Commissioner of PT Saptaindra Sejati, PT Makmur Sejahtera Wisesa, PT Harapan Bahtera Internusa, PT Pandu Alam Persada, PT Adaro Persada Mandiri and PT Tri Nur Cakrawala. He served as a Director of PT Anugrahtimur Sejatiperdana from 1997 to 2000.

(please see page 143, A Discussion with Mr. Andre J. Mamuaya)

Mr. Sandiaga S. Uno
Director, General Affairs

"Indonesia is a great place to be right now, and I believe we are just getting started. Indonesia's GDP growth will one day rival and then surpass that of our larger faster growing regional neighbors such as India and China."

Indonesian citizen, 42, graduated Summa Cum Laude with a Bachelor of Business Administration from the Wichita State University in 1990 and obtained a Masters of Business Administration from George Washington University in 1992.

He is a Director of PT Adaro Energy, PT Alam Tri Abadi, and PT Adaro Indonesia. He is the founding partner of Saratoga Capital, a private equity firm he co-founded with Edwin Soeryadjaya in 1998. Saratoga Capital focuses its investments in natural resources and infrastructure opportunities in Indonesia and Southeast Asia. He also co-founded a boutique investment firm, PT Recapital Advisors in 1997.

He is also the President Commissioner of PT Indonesia Bulk Terminal and PT Adaro Persada Mandiri as well as Commissioner in PT Makmur Sejahtera Wisesa, PT Saptaindra Sejati, PT Jasapower Indonesia, and PT Mustika Indah Permai. He is the President Director of PT Saratoga Investama Sedaya, and Director in PT Dianlia Setyamukti, and PT Adaro Strategic Investments.

Since June 2010, Mr. Uno served as a member of the National Economic Council appointed by the President of Republic of Indonesia and he was the Chairman of the Indonesian Young Entrepreneurs Association (HIPMI) from 2005-2008.

(please see page 131, A Discussion with Mr. Sandiaga S. Uno)

> From the perspective of the finance department, our greatest achievement was probably the US$750 million 10-year bank loan that we closed on July 4th, on the back of the challenges caused by the Euro crisis. I was also very pleased with our investments in South Sumatra as they are part of the drive to diversify and increase our reserves so as to create sustainable value from Indonesian coal.

Mr. David Tendian

Director & Chief Financial Officer

Indonesian citizen, 45, graduated with the Honors and Distinction in Economics and Marketing in 1989 and earned his MBA in Economics and Finance from the University of Illinois in 1991.

He is PT Adaro Energy's Director of Finance, Chief Financial Officer and Director in PT Adaro Indonesia, PT Alam Tri Abadi, PT Jasapower Indonesia, PT Indonesia Bulk Terminal, Orchard Maritimie Logistics, PT Adaro Mining Technologies, and PT Bhimasena Power Indonesia. He also serves as Commissioner for PT Bhakti Energi Persada.

He has worked in the coal industry in Indonesia since 2003 with several CCA first generation companies. He formerly held senior level positions in several international banks and private equity firms in the US and Indonesia from 1991 to 2002 and from 2005 to 2006.

(please see page 171, A Discussion with Mr. David Tendian)

Mr. Chia Ah Hoo

Director & Chief Operations Officer

"We had a record year of operational and financial performance. I am happy that we continue to go "beyond compliance" in terms of our responsibilities to manage the environment, contribute to local communities and to help build the nation. For the fourth year in a row, we received the green level for the PROPER ranking from the Ministry of the Environment."

Malaysian citizen, 52, earned his Bachelor of Applied Science (Civil Engineering) from the University of Windsor (Canada) in 1984.

He is the Director of Operations of PT Adaro Energy, Director of PT Adaro Indonesia, PT Alam Tri Abadi, PT Jasapower Indonesia, PT Bhakti Energi Persada, and the President Director of PT Indonesia Bulk Terminal, and PT Mustika Indah Permai. He has been appointed as a Director in a group of 7 CCOW companies in which Adaro holds a 25% JV interest with BHP Billiton (IndoMet Coal project) since 2010. He has over 25 years experience in civil construction projects and open-cut mining projects throughout South East Asia. He joined Adaro in 1991 as Operations Manager of Kalimantan operations and held the position of General Manager of Adaro Indonesia from 1998 to 2005.

(please see page 98, A Discussion with Mr. Chia Ah Hoo)

> *We view adhering to our responsibilities as a corporation, being fair and equitable, is not just as the right thing to do, it is an investment in our future success.*

Mr. M. Syah Indra Aman
Director & Chief Legal Officer

Indonesian citizen, 44, earned his Law degree from the Faculty of Law, University of Indonesia in 1990 and his Lex Legibus Magister (LLM) from University of Washington, School of Law, in 1992.

He is Director and Chief Legal Officer of PT Adaro Energy and Director in a group of 7 CCOW companies in which Adaro holds 25% JV interest with BHP Billiton (IndoMet Coal Project) since 2010. He is also a President Director in PT Adaro Persada Mandiri, and a Director in PT Adaro Logistics, PT Jasapower Indonesia, and PT Adaro Mining Technologies.

He also serves as the Commissioner of PT Indonesia Multi-Purpose Terminal, PT Adaro Power, PT Maritim Barito Perkasa, PT Harapan Bahtera Internusa, and PT Mustika Indah Permai. He previously worked as a practicing lawyer in Lubis Ganie Surowidjojo Law Firm and in Minang Warman Sofyan SH & Associates before joining Adaro in 1996 as a Chief Legal Officer.

(please see page 87, A Discussion with Mr. M. Syah Indra Aman)

Building Winning Teams for

Our Senior Managers

A Bigger And Better Adaro Energy

Human Resources Management

In this Chapter

Djohan Nurjadi
HRGA & IT GM

Djohan has over 16 years of experience in Human Resources Management. Prior to joining Adaro Energy in 2008, he held senior positions in ERA Indonesia and PT Hero Supermarket Tbk. Djohan has a degree in mechanical engineering from Trisakti University.

We believe that our employees are our most critical assets as we continue to create maximum sustainable value from Indonesian coal. The importance of our people is reflected in the theme of our President Director's message of 2012, "Build a Winning Team for a Bigger and Better Adaro".

All our employees are treated equally regardless of their country of origin, race, gender, religion and age. We aim to create a favorable environment for our employees to excel in a high-growth environment. We work hard to establish various programs with the aim to attract and retain talented people, and develop their knowledge, skills and loyalty at all levels and by doing so provide future leaders for the Company.

Our employees are our most critical assets as we continue to create maximum sustainable value from Indonesian coal

The importance of our people is reflected in the theme of our President Director's Message of 2012 "Build a Winning Team for a Bigger and Better Adaro"

Adaro Institute was officially opened on May 23rd 2011 to develop the skills level as well as instill the highest of ethical and social standards through-out Adaro Energy.

The number of permanent employees at Adaro Energy increased 20% to 7,630 employees.

Recruitment and training continued as vital components of developing a motivated team and identifying future leaders in order to support our corporate growth at all levels of our operations.

Our recruitment policy puts internal resources first to meet our manpower needs. This provides our employees with substantial opportunities to optimize their self-development according to their ambitions. External recruitment to locate the best talents from the market to strengthen our manpower resources is conducted in cooperation with reputable universities through regular campus recruitment and job fairs. We also use internationally recognized consultants to assist us with recruitment, succession planning and talent mapping.

The Adaro Institute, which was established in 2010 in Jakarta has now become the focus of our leadership and staff development programs. In addition, the Institute has implemented a mining professional development program, which was set up in 2010 to attract and develop talented engineering graduates in engineering disciplines related to mining operations. This two-year program provides theoretical and practical training in various aspects of the coal mining business to prepare graduates for entry into our workforce. A learning center at our Kalimantan operations will also be established by the Institute in 2013, where graduates will learn practical applications from their theoretical studies.

We believe open communication and trust is an effective tool to build a winning team for a bigger and better Adaro Energy. Informal meetings are organized between the Board of Directors and General Managers on a regular basis to discuss ongoing company developments and information.

(Continued to page 56)

Adaro Institute 2011

Michael Arlantis
Manager People Development

Michael has 15 years experience in human resources development. Prior to joining Adaro in 2010 he worked with PT Freeport Indonesia and PT Coca Cola Distribution Indonesia. He graduated from Middlebury College, USA, majoring in Economics and Chinese.

The growth of the Indonesian coal industry in the last decade has been dramatic. Production has grown from an estimated level of 100 million tonnes in 2001 to about 360 million tonnes in 2011, more than tripling in size in just 10 years.

Equally dramatic has been the rise in international sales from 65 million tonnes in 2001 to about 300 million tonnes in 2011, making Indonesia now the world's largest exporter of coal.

This growth has required a commensurate increase in equipment and people. One result is a people shortage at all levels of operations and management in Indonesia's mining industry. No longer can it just be assumed that qualified personnel will be available when required for further expansion.

Adaro Energy has achieved equivalent levels of growth with similar demands on the people side of the industry. It became apparent that

Participants of Mining Professional Development Program (MPDP) with Michael Arlantis, Priyadi, and Djohan Nurjadi.

President Director, Garibaldi Thohir, and Director of Operations, Chia Ah Hoo, at the opening of Adaro Institute

to continue its growth path Adaro will have to develop and grow its own operator and staff skills.

The decision was made to set up the Adaro Institute for this training and development. Suitable and senior staff were recruited or reallocated from within the Adaro organization for the Institute, facilities were established and the Jakarta training and development center was officially opened on the 23rd of May 2011. In his opening address, Mr. Teddy Rachmat stressed that the aims of the Institute were to develop the skills level of all employees and to instill the highest of ethical and social standards throughout Adaro Energy.

During the year, Adaro Institute launched many key training and development programs for Adaro employees, selected graduates, and prospective students. A total of 4,624 training employees participated in basic leadership and managerial capability development programs in 2011.

Employee Development Programs

In Basic Competency Development, Adaro Institute provided training for Value-Driven Capability, English Proficiency and Computer Literacy. The Institute conducted 47 batches of basic-value driven courses to 946 participants. There were 54 employees who passed the English Proficiency training from six different levels of proficiency with each level running for seven months. In 2011, we conducted for the first time in-house computer training for Microsoft Office modules with a total of 250 participants learning how to use the modules at various levels.

The Institute has trained 1,137 employees in leadership modules and 1,167 employees in managerial competencies, exceeding the 948 targeted employees. As part of professional competency development, the Institute also assists Adaro Energy and Adaro Indonesia in organizing training for project management, presentation skills and human resources. In addition, it also assists other subsidiaries within Adaro Group in other non-technical and technical competency based training subjects.

Graduate Development Programs

The Mining Professional Development Program (MPDP) is an initial development program designed for identifying and developing talented S1 graduates from various engineering backgrounds, including mining, geology, geotech and civil. The Institute initiated the program in January 2011 and has recruited two batches with a total of 22 participants. The graduates have been learning the various aspects of the coal mining industry from pit to port, including mine exploration, exploitation, health, safety, environmental and production statistical analysis. The curriculum is designed not only for in-class learning of the operational aspects on a theoretical basis, but also on practical and experimental learning. The program participants also learn leadership and managerial aspects to improve their soft skills in managing people and business situations. Adaro Institute plans to source and develop two more batches in anticipation of future business needs as we continue to grow in 2012. The Institute also expects to launch another program for graduates with a focus on marketing.

Internship Program

Adaro Institute believes that by having a well-structured internship program, we will be able to identify and select potential talent from an early stage. In 2011, Adaro Institute also launched the revised Adaro Internship Program (AIP) to strategically develop students during the program and source potential talent for future business needs. Since the program was revised and re-launched, the Institute has accepted 19 internship participants in various functions, from mining operations to administration, with five of them coming from overseas.

Adaro Energy's HR, GA and IT Team

Lanny Anggraeni
HRGA Deputy GM

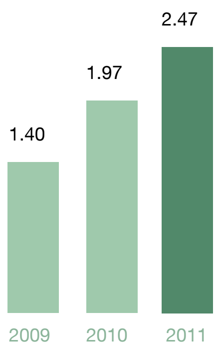
Lanny has over 15 years of experience in Human Resource Management and Operations. Prior to joining Adaro in 2011 she worked with Nokia Indonesia, Johnson & Johnson Indonesia, and Nutrifood Indonesia. Lanny has an MBA degree in HR Management from University of Illinois at Chicago, USA, and a Management degree from Tarumanagara University.

exchange to promote synergy. The Board of Commissioners and Directors also meets with all levels of staff during various events each year to communicate management's objectives and goals and reinforce team spirit.

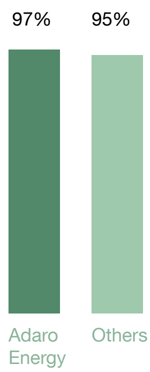
We benchmark ourselves against other coal mining and energy companies to ensure that our policies are in-line with industry best practices, using consultants to assist us with audits on remuneration and job satisfaction levels. The success of our programs in 2011 can be judged by our workforce retention rate of 97%, which was better than the industry standard.

Since the early days of its operations, Adaro has consistently created a working environment that values togetherness among employees and between employees and management. This philosophy has been the foundation for building our winning team and will continue to be our focus for the future.

Adaro Energy Training Cost (US$ million)



Our retention rate is higher than the industry standard in 2011



Working at Adaro

Andrew Scrymgeour
Mining Consultant

Andrew has over 40 years experience in the mining industry, mostly associated with coal projects in Asia including Indonesia, India and Mongolia. He has a degree in Mining Engineering from the University of the Witwatersrand, South Africa.

Born and educated in South Africa and now a US citizen, I am a mining engineer by education, training and experience. I am third generation to be employed in the mining industry and for the past two years I have been working as a consultant to the Business Development group of Adaro Energy, managed by Alastair Grant. During this period I have assisted on several important projects including the acquisition of PT Mustika Indah Permai (MIP). In addition to MIP, which is expected to form an important part of Adaro's coal mining portfolio, I have also assisted on evaluating opportunities to "upgrade" Adaro's coal by reducing its moisture content, thereby increasing its heat content and commercial value in the highly competitive market place in which Adaro is active.

My relationship with Adaro goes back to 1991 when Adaro was much smaller. Norwest Corporation, the consulting company for which I worked for 20 years, was awarded a major contract by the World Bank to enable Perusahaan Listrik Negara Persero (PLN), the government-owned electricity generating entity, to purchase coal through open market competitive bidding. Until that time PLN had been purchasing all of their coal on a non-bid basis from PT Tambang Batubara Bukit Asam (PTBA), their "sister" government-owned coal mining company. My particular function on the project was to perform a comprehensive technical assessment of the bidders to determine their ability to supply coal and their reliability i.e. "security of supply". Adaro was judged to meet all of the requirements and went on to win a contract to supply coal to PLN. This contract played an important part in Adaro's growing success as a world-class mining company and coal supplier. In addition to the PLN work, I prepared the original bankable feasibility study for Adaro's Tutupan Mine, which is now the biggest single-pit coal mine in Asia.

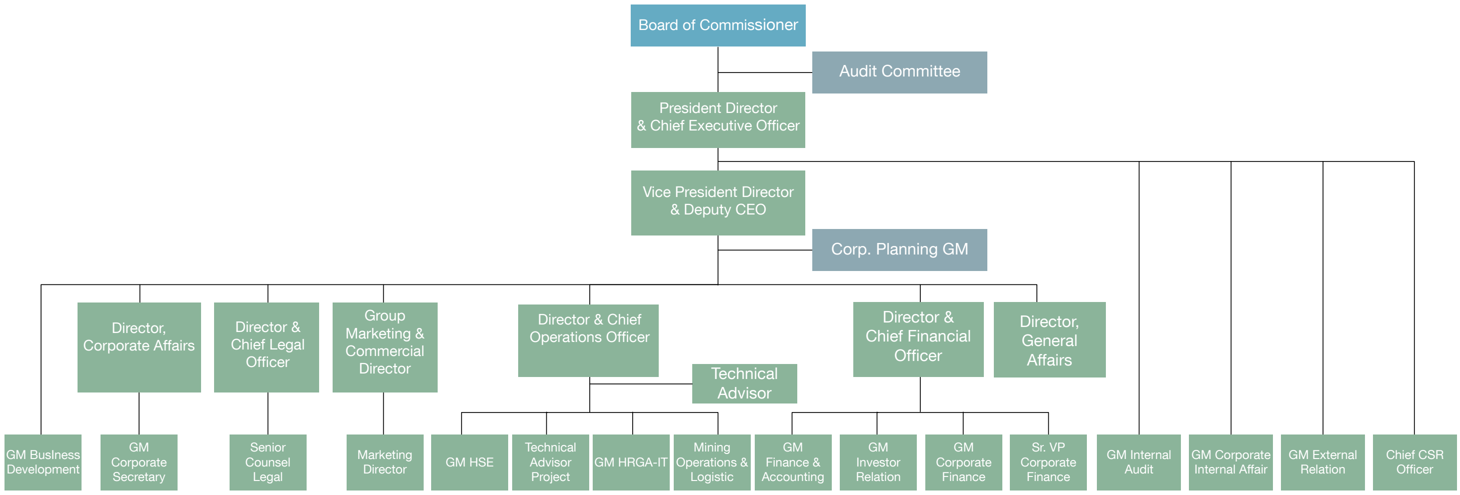
Following my work in Indonesia, I spent almost 15 years working principally in India and Mongolia on a variety of coal projects funded by both the World Bank and private sector companies.

My early work with Adaro gave me great pleasure and satisfaction and I welcomed the opportunity to return to the "Adaro family" and work with them on their various Indonesian coal projects. In comparison to its competitors, Indonesian thermal coal generally has many competitive advantages in the international market place. The major advantages include low ash (typically less than 5% vs. greater than 20% for Australian and South African coals), low sulphur (about 0.5% vs about 1%) and lower transportation costs to major markets in Asia. These advantages result in good profitability for Indonesian mines and provides almost unlimited potential for future growth.

I am a true believer in the importance of mining to national economies and the beneficial impact of mining on the communities within which mines operate. Of course, in order to have this beneficial impact, the mining companies must behave responsibly and, at the very minimum, adhere to all applicable government regulations. World-class mining companies such as Adaro, go well beyond the minimum government standards, and provide many other benefits to the local communities including medical care, financial assistance to local schools and libraries, upgrading of skill levels, improvement of living standards etc. In addition, companies such as Adaro place special emphasis on environmental protection and long-term "sustainable development," which is a very important component of both community relations and investor confidence. Areas where mining has been conducted in a sustainable manner become valuable assets to the local communities due to the creation of tree plantations, agricultural and industrial land, and lakes, on which large-scale fish-farms can be established. Indonesia, with its lush tropical climate allows for rapid restoration and revegetation of mined areas and is particularly good for long-term sustainable development. And last but not least, the occupational skills developed by the mining company (mechanics, equipment operators, nurses, office staff etc.) are easily transferable to the post-mining economy of the communities.

I truly love Asia and its people, with their thousands of years of history, culture and tradition in art, music and literature. It is good to be back in Indonesia and participate in the growth of Adaro's coal mining activity, which is of such great benefit to the country and its people.

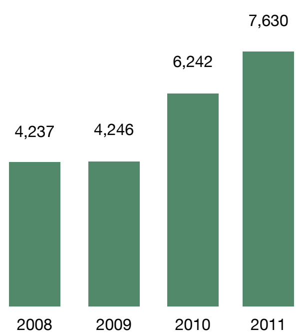
Our Organization Structure



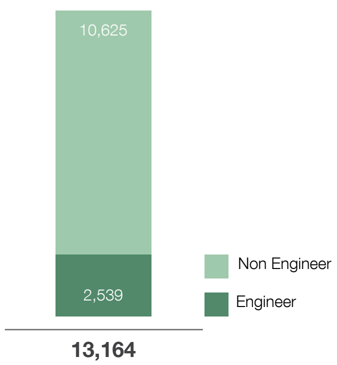
Our Employee Educational Background

Educational Background	Doctorate	Master Degree	Bachelor Degree	Diploma	High School	Grand Total
PT Adaro Explorasi Indonesia			10			10
PT Adaro Energy		31	91	15	8	145
PT Adaro Indonesia	1	14	284	100	409	808
PT Adaro Power		2	7			9
PT Alam Tri Abadi	1	7	32	2	1	43
PT Indonesia Bulk Terminal		1	54	8	216	279
PT Indonesia Multi Purpose Terminal		1	2	2		5
PT Jasapower Indonesia			7	1	1	9
PT Makmur Sejahtera Wisesa		2	44	4	56	106
PT Mustika Indah Permai		1	10	1		12
PT Sarana Daya Mandiri		1	17		11	29
PT Saptaindra Sejati			858	456	4,243	5,557
Coaltrade Services International			5		3	8
PT Maritim Barito Perkasa		7	42	36	487	572
Adaro Bangun Negeri Foundation			28		10	38
Grand Total	**2**	**67**	**1,491**	**625**	**5,445**	**7,630**

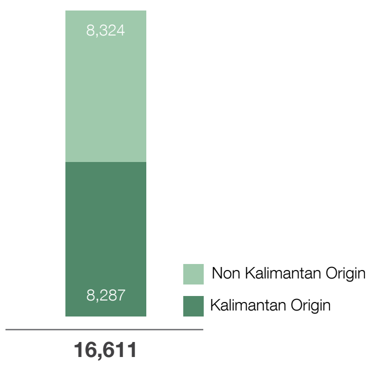
Number of Permanent Employees at Adaro Energy



Engineer vs. Non Engineer (Permanent and Contract)



Total Contractor - Kalimantan origin vs Non Kalimantan origin



Adaro focuses on the continuous development of its employees as key assets of the Company, and ensures **smooth successions** of key people for sustainable long term growth and development.

We are always on the look out for individuals with the passion and drive to be part of our team that thrives on team work, commitment and exellence to create a better future.

Join Us!!

Visit Our Current Job Opening at:
www.adaro.com/career

adaro

A Discussion with

Mr. Garibaldi Thohir,

President Director &
Chief Executive Officer

What is Adaro's vision for the future?

Unlike what I believe perhaps happens at some other companies, here at Adaro Energy, the words of our vision have real meaning and give every member of our winning teams the focus needed to succeed. With our performance in 2011 we moved one step closer to achieving our vision to be a leading Indonesian mining and energy group. We adhere to and for the most part exceed international standards; however, we are proudly Indonesian and are focused on Indonesian coal.

What is your dream for Adaro Energy?

There is still so much work to do, but I believe we are on track to become amongst Indonesia's first Global 500 companies (Fortune magazine's equivalent of the Fortune 500, except it is global). We have been consistent in implementing our strategy over the past several years. As mining shareholders, we know our dream will not occur over night; however, with our proven business model and with our winning teams, we are one step closer to realizing our dream.

One of your personal key priorities is community relations - how do you view Adaro's performance in this area?

It is my personal responsibility to ensure we are doing the right thing for our communities. We had a great year, but there is still so much to do. As well as making the necessary expenditures for development programs and other initiatives, we also need to spend more time interacting with and being a part of our communities. While I believe the level of interaction with the community members is good, I want it to improve and become even more hands on.

What do you see as your main challenge?

The biggest challenge is facing and solving the social problems, which in some cases is probably the side effect of a fast growing economy. Indonesia is getting richer but we have to be mindful of the income gap and that it does not widen too much further. I see it as absolutely necessary that as we build a bigger and better Adaro Energy and create long term shareholder value that we ensure sustainable value creation and make the necessary social investments. Like in everything we do, there must be balance. Social problems are complicated and not technical in nature so we must always be very mindful.

How will you meet this challenge?

I believe in our business model. I believe it has created tremendous sustainable value since operations began in 1992. I believe as we make acquisitions and develop coal deposits elsewhere in Indonesia that we will not only make good profits, but also will bring huge social benefits to the communities. The multiplier effect on local economies from our existing and new mines and the power plants we are building is huge, as well as the large amount of employment, taxes and royalties that our operations generate.

A Discussion with

Mr. Christian Ariano Rachmat,

Vice President Director &
Deputy CEO

What do you want for Adaro Energy?

I want to build a great company.

How are you going to do that?

We aim to create maximum sustainable shareholder value from Indonesian coal by making a bigger and better Adaro Energy. This means continued annual production growth from Adaro Indonesia, improved coal supply chain efficiency through better and increased vertical integration and investments, including moving downstream into power, and increased coal reserves though exploration and acquisitions.

What is your number one focus?

We are focused on people and reserves. We are getting closer with reserves with the successful acquisitions we carried out in 2011. Coal is a non-renewable resource, and while we have a lot of coal already, we must diversify into multiple coal provinces and at multiple sites.

In terms of people, we must build a strong organization. We need to replicate what we've done at Adaro Indonesia, not just operationally but also organizationally. This means finding the right people and putting them in the right place.

So building a strong organization means getting or developing and retaining the right people. This is so crucial and we are working hard on that front. In 2011, we added 2,000 graduates to our work force. There are two ways to get the right people. One is, like Astra International, to build from scratch the capabilities of your people and have great success. This is effective but it also takes a long time. The other way, is like what Mr. Lee Kwan Yew did in developing Singapore, which is to hire the best of the best from Indonesia and all around the world.

What acquisition opportunities are you looking at?

We are currently assessing different opportunities to acquire large coal deposits in Kalimantan. The opportunities that are available play to our competitive advantage and two decades of experience (low-rank, inland coal mines). We will consider all relevant opportunities and decide based only on the merits of the transaction for Adaro. We are in no rush, we have large reserves already, and we will be very selective.

What is your passion?

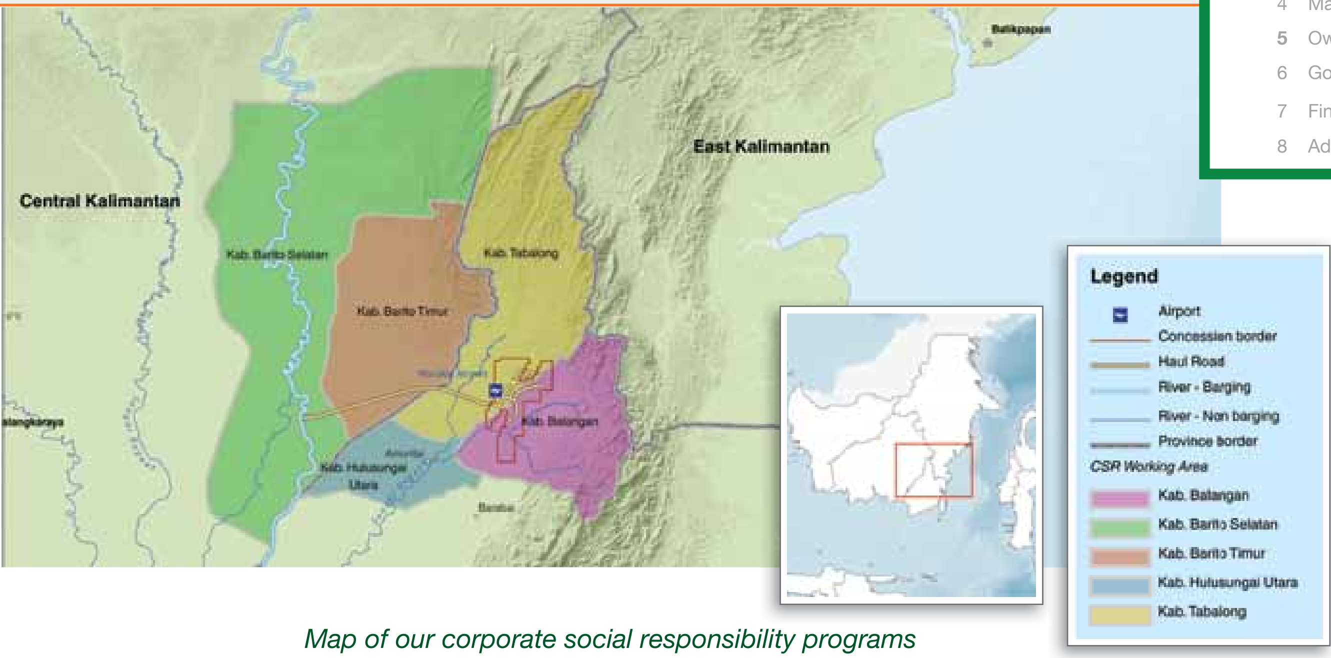
I am a happy person and a family man; I feel blessed. I know it sounds boring, perhaps even cliché, but it is the truth: my work is my passion.

In this Chapter

Investing in Our Communities

Adaro Energy and its subsidiaries allocated Rp91 billion (~US$10 million) to invest in our communities in the area of economic, educational, health and social cultural development.

Our corporate social responsibility and environmental programs gained numerous recognitions from both national and international institutions.



Map of our corporate social responsibility programs

Mohammad Effendi
Chief CSR Officer Adaro Energy, Director Adaro Power

Effendi joined Adaro in 2010. He is in charge of Adaro Group's CSR programs and implementation including developing Adaro Bangun Negeri Foundation. Effendi is also one of directors in Adaro Power. He previously worked for Unilever Indonesia as Vice President Supply Chain and received his Electrical Engineering degree from ITB.

We are fully aware that coal is a non-renewable natural resource that must be managed and used wisely and efficiently to create optimum benefits for all stakeholders, including the communities living around the mine area and adjacent operations. Garibaldi Thohir, our President Director has declared, "the proper and responsible management of natural resources, including coal, will generate benefits for the future generation".

By championing the principles of mutual respect, partnership, long-term and sustainable commitment, Adaro's Corporate Social Responsibility (CSR) programs encompass four key areas, i.e. economic development, educational enhancement, health improvement, and social cultural promotion. The aim is to support the enhancement of community welfare that will ultimately lead to the creation of sustainable and independent post-mine communities. We also attempt to preserve the environment, create a productive community and be a good local partner through all our programs. In 2011, Adaro Energy and its subsidiaries allocated Rp91 billion (~US$10 million) for these programs.

We established Adaro Bangun Negeri (YABN), a non-profit foundation responsible for creating a self-sufficient community during and after Adaro's operations, as well as working together with the regional government to support our community empowerment and mine closure planning program. We use various Governmental regulations as well as ISO 26000 as references for program implementation. We also employ the Global Reporting Initiative (GRI) as guidance for reporting.

In 2011, our CSR and environmental programs gained recognition from both national and international institutions. We won a total of seven awards (2 platinum awards, 2 gold awards and 3 silver awards) from the Ministry of Social Affairs in collaboration with Corporate Social for Community Development. We also won four awards in recognition of our CSR and environmental programs from the Coordinating Ministry of People's Welfare. In addition, we received international recognition called Asia Responsible Entrepreneurship Award for our Maternal, Newborn & Child Health Program from Enterprise Asia.

Related Information

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Corporate Social Responsibility Programs

Some highlights of projects that we have recently implemented include:

a.) Increase the communities' source of income by taking into account the local potential and culture

The activities promoted to increase the communities' income consist of Rural Economic Movement, Independent Village Development, Top-Quality Rubber Plantation Development, and business coaching in the areas of agriculture, handicrafts, business and regional flagship products.

Since micro, small, and medium enterprises often have difficulty in accessing finance, we established a microfinance institution named Banua Bauntung Microfinance Institute. We established this Microfinance Institute in 2005 to provide serious entrepreneurs and potential entrepreneurs of small businesses with easy access to financing. This institution now has three branches in different regencies and had disbursed Rp49.2 billion to 26,344 customers as of December 2011.

The three most successful businesses that have enjoyed this financing benefit are "Tiga Wanyi" in honey trading; "Makmur Jaya" in fisheries; and "Riser Service" who provides electrical services. These three enterprises have all received awards from the Coordinating Ministry of Peoples' Welfare and the Ministry of Social Affairs of Indonesia for their success in developing small businesses.

We Grow Because of Adaro

"In 2008 we applied for a loan to LKM Banua Bauntung, a microfinance institution fostered by PT Adaro Indonesia as initial capital to open a drinking water refill station business. Our business has grown rapidly since. We are grateful to be able to start and develop the business as it is today because of Adaro through its fostered LKM. LKM Banua Bauntung has good service and we hope that it can expand its service to small entrepreneurs."

Abdul Karim

Owner of Drinking Water Refill Station "Rezky Ajib"

Adaro Bangun Negeri Foundation:

Our Future is the future of the Communities

Abdurrahman
CSR Department Head

Abdurrahman has over 20 years experience in community development and environmental project. Prior to joining Adaro in 2006, he worked at Centre for Agribusiness Development, Indoprima Advise Management, and Dharma Bhakti Astra Foundation. He has a Degree in Agricultural and Resources Economic, from Bogor Agricultural University (IPB).

As a company that manages non-renewable natural resources, we are well aware that our existence within the communities surrounding our mine area is not perpetual. Therefore, in 2009 we established a non-profit foundation, Adaro Bangun Negeri Foundation to make long term and strategic contributions by supporting Adaro's CSR activities to ensure sustainability. The foundation implements CSR activities in the area of economic, educational, health, and social cultural development and share the same focus as Adaro's CSR activities. Some of the programs designed to attain this focus are:

Health

In order to ensure our alignment with the Millenium Development Goal targets, sustainability of programs and to ensure effective implementation of our programs, Adaro implements its health programs based on the notion that health standards are strongly connected to local life styles and cultures. This means, changing a culture cannot be attained by merely implementing an activity in a single community or group but has to be widespread. Therefore, in 2011, Adaro launched its Maternal, Newborn & Child Health Program program with the focus of building Centers for Parental Education and the revitalization of Integrated Health Service Centers with coverage area of 10 villages for each center.

In addition, we also conducted coaching activities for School Health Units in 16 schools and cultivated a culture of healthy living through a Clean and Healthy Behavior program in 11 villages.

Adaro provided school libraries for high school students

Education

In 2011, Adaro built an Early Childhood Education Center to be a model education center for others in the area as we believe that character building should be started early in life. This education center also provided coaching to 9 other early childhood centers. Currently, 180 young children are educated in 10 centers in 10 districts of Tabalong regency.

In addition to this activity, Adaro also develops other educational programs specifically designed for elementary schools, middle schools, teachers and school principals, village libraries, and school libraries.

Economy

Economic development activities are conducted by the business development unit, which focuses on agribusiness development, the development of micro, small, and medium enterprises running handicraft and service businesses and the development of rural food and energy security.

As a concrete expression of our intention to be good corporate citizen, Adaro interacts with the local communities through active participation in social activities such as the religious activities during Ramadhan, Eid-ul Adha and on the Social Solidarity Day.

Infrastructure Development as the "Heritage" for the Communities

Being aware of the communities' needs for Islamic religious facilities, Adaro is constructing an Islamic Center in Tabalong that will consist of a grand mosque, hajj manasik (hajj practice) facility consisting of Tawaf, Jumroh and Sai, and other facilities to support Islamic evangelical activities. The complex will be completed in 2012. In collaboration with Tabalong community and Indonesian Council of Ulemas (Majelis Ulama Indonesia), Adaro is also preparing a professional institution to be responsible for management of the Islamic Center. In 2012, Adaro also plans to build a new hygenic traditional market and a multi-purpose building in Paringin district. These facilities are expected to contribute to the economic growth of Balangan regency and the surrounding areas.

b.) Enhance human resources quality and utilize the region's economic potential

We recognize the strategic role of human resources in accelerating the nation's development. Therefore, enhancement of human resources quality is included in the strategy to transform non-renewable resources into renewable resources. We pursue this with various activities such as improving teacher quality, upgrading the quality of schools, improving educational infrastructures, supporting nine-year compulsory education and environment-oriented schools, supporting teachers' participation in the national teacher conference, supporting an extensive scholarship program, and establishing a house of learning.

The "Saraba Kawa" house of learning is a learning center for the youth of Tabalong Regency of South Kalimantan province to express their creativity and to learn to build intellectual, critical, social, and independent qualities.

Established in 2010 under collaboration of the Adaro Bangun Negeri Foundation and a local NGO, this learning center provides a variety of activities through facilities such as a library, multimedia center, creative center, appreciation center, and care center. Currently, around 800 people, including students – primary school to college, professionals, and susceptible groups or uneducated children are registered as members.

To ensure sustainability and self-sufficiency, "Saraba Kawa" runs profit generating units such as an internet cafe and online payment system for electricity and telephone bills. It also produces and markets recycled handicraft from unused materials. Saraba Kawa will open new branches in other areas surrounding Adaro's operations to reach more community members.

"I used to see Adaro as environmental offender, but I changed my view

after I was directly involved in one of Adaro's social responsibility programs. PT Adaro Indonesia continues to support the Seraba Kawa house of learning center to enhance the quality of young people at Tabalong Regency to express their creativity and build their. intellectual qualities."

Firman Yusi

NGO Founder and Executive Director of Seraba Kawa Learning Center

Scholarship Program

Scholarship for Tertiary Education (Beasiswa Utusan Daerah - BUD)

2011 marked the second year we granted university scholarships to qualified students from our neighboring communities of Balangan, Tabalong, and Barito to pursue college education at Bogor Agricultural University in Bogor, West Java or Lambung Mangkurat University in Banjarmasin. Our objective is to optimize the potential of the region's best students with the hope that these students will return to their home villages once they complete their education and develop the communities with their skills.

The courses and skills offered are aligned with the needs of the regions, so that the program will support the acceleration of the region's development. For the students choosing to study at Bogor, the majors offered are related to general agriculture such agronomy, and horticulture, forest product technology, land resources management, community development, and resources and environmental economics. Meanwhile, Lambung Mangkurat University at Banjarmasin offers a medical school program.

A total of 37 students are now enrolled at the two universities with the scholarships covering education and living costs for a 5 year period. On top of the Scholarship for Regional Representatives programs, we also provide other scholarships, i.e. scholarship for high achievers, scholarship for less fortunate students, scholarship for model schools, scholarship for Holy Qur'an memorization, and scholarship for indigenous peoples.

Teacher Quality Enhancement through National Teacher Conference

We realize the critical role that teachers hold in uplifting the education process, thus we have a number of programs that contribute to teachers' quality enhancement. One of them is by facilitating the participation of the best teachers from our neighboring area in an annual National Teachers Conference.

The conference took place in November 2011 in Atmajaya University, Jakarta. We sent 30 teachers from two regencies in South Kalimantan, and one regency in Central Kalimantan. In order to participate in this program, the teachers went through a selection process held in collaboration with local education offices. The selection included essay writing and other achievements.

Community Skills Training for Mine Jobs

Bambang Susanto
External Relations GM

Bambang Susanto joined Adaro in 2010. He has over 35 years experience in Indonesian mining industry having worked at Inco, KPC, and Freeport Indonesia. He was the first Executive Director of the Indonesian Coal Mining Association. He has a degree in Mining Engineering from the Bandung Institute of Technology.

Our subsidiary, PT Saptaindra Sejati (SIS), offers an Operator Preparation Program (OPP) and Mechanics Preparation Program (MPP) as part of our commitment together with regional government to reduce the regional's unemployment rate. The programs offered include various heavy-equipment operating and mechanical training, which is also advantageous for us as we need to increase the need for skilled workers for our operations. We have offered these programs since 2008 and is aimed to develop high schools and vocational schools graduates who fulfill the criteria including academic records, psychological test, and physical examination.

To date, the program has admitted 721 students for OPP and 58 students for MPP from 36 schools from Tabalong, Balangan, Hulu Sungai Utara, East Barito and South Barito regencies, with training periods ranging from 6 to 12 months.

The learning method includes theory and field work with the curriculum consisting of the introduction to mining operations; introduction to heavy equipment, dozer, excavator and dump truck; work health, safety and environment; as well as psychological and physical training in collaboration with the local Military District Command (Kodim).

In 2011, we allocated more than Rp3.6 billion for the two training programs, and the allocation will be increased to Rp4.4 billion in 2012 to accommodate a target of 250 participants. These two training programs will continue into the future in support of the creation of skilled, disciplined, and competitive communities surrounding the mining area.

We supported this activity to help improve teaching performance, as well as to share and develop perspectives and keep up with the latest developments in education. This will in turn inspire the teachers to be more innovative in conducting the learning process and produce high quality students.

c.) Enhance Community Health Standard

In addition to conducting economic and educational programs, we also conducted community health enhancement programs. The activities included in this program are the Maternal, Newborn & Child Health, Pregnancy Awareness, Integrated Children Nutrition, Health Infrastructure, and Clean Water, as well as providing free health service, infection control, and free cataract surgeries.

Since its inception in 2003, the free cataract surgeries program performed in "Magic Cars" – the nickname for the mobile eye clinics where cataract surgeries under international standards are performed – have returned the eye-sight and enhanced the quality of life for more than 4,000 people. This program is implemented in six regencies surrounding our area of operations. In conducting this activity, we collaborate with the local office of health and target the rural poor as the main recipient of this aid.

"Adaro Helps in Various Areas

In the past, there was social jealousy between Adaro and the community. However it does not happen now as the community realizes that Adaro has helped them in many areas, and it is up to them to utilize the assistance provided for future development. We expect Adaro to continue their programs and educating the local community in several areas such as hygiene and healthy lifestyle."

Eli Durgawati

Housewife, Activist of Tabalong Local Community

Corporate Overview

In this Chapter

Adaro is one of Indonesia's largest coal companies and a top five exporter in the global seaborne thermal coal market

Sustaining Growth And Diversification

With nearly 48 million tonnes of coal produced in 2011, Adaro remains one of Indonesia's largest coal companies and a top five exporter in the global seaborne thermal coal market. Our coal comes from three pits within a 36,000 hectare concession in South Kalimantan, i.e. Tutupan, Paringin, and Wara. The latest JORC compliant study conducted in December 2010 with total in-situ coal mined in 2011 shows 891 million tonnes of reserves and 4.4 billion tonnes of resources of Envirocoal from this concession.

After twenty years of uninterrupted annual organic growth, we started to embark on exploration and acquisition of other coal concessions in Indonesia. In the second half of 2011, we acquired two greenfield coal concessions in South Sumatra in order to increase reserves, as well as to diversify location, license maturity and product mix. Along with these acquisitions, we also bought equity in a coal logistics company, which owns a dedicated coal hauling road and barge loading port, to service both concessions.

Coal is the world's most abundant and widely distributed fossil fuel with coal resources accounting for 82% of the world's non-renewable energy resources (IEA, 2010).

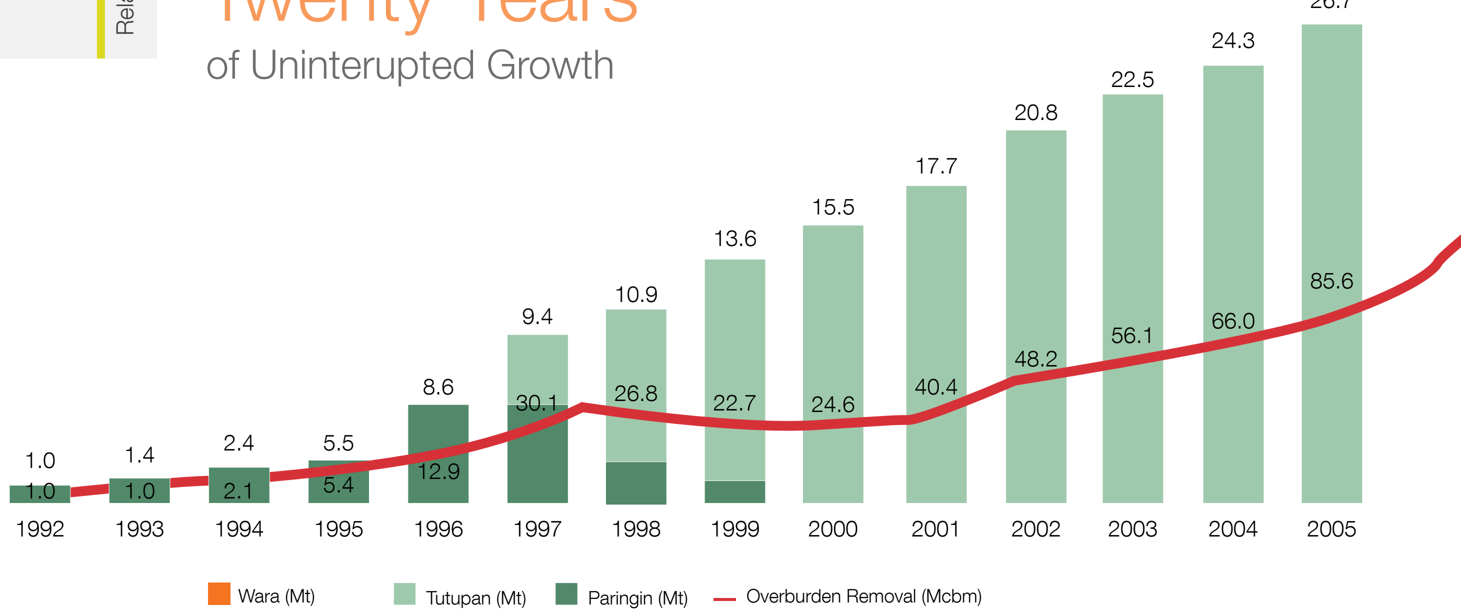
The average calorific value of thermal coal produced in Indonesia has decreased from 5,533 kcal/kg (GAR) in 2005 to 5258 kcal/kg (GAR) in 2010 (Wood Mackenzie, 2011).

We plan to replicate our proven South Kalimantan business model in South Sumatra. These acquisitions demonstrate the implementation of our business strategy, put in place more than twelve months ago, to seek acquisitions of undeveloped coal concessions in Indonesia. These acquisitions also establish our presence in Indonesia's coal-rich provinces of South Kalimantan (Adaro Indonesia), Central Kalimantan (IndoMet Coal Project with BHP Billiton), and South Sumatra (PT Mustika Indah Permai and PT Bukit Enim Energi), hence minimizing single-site concession risk.

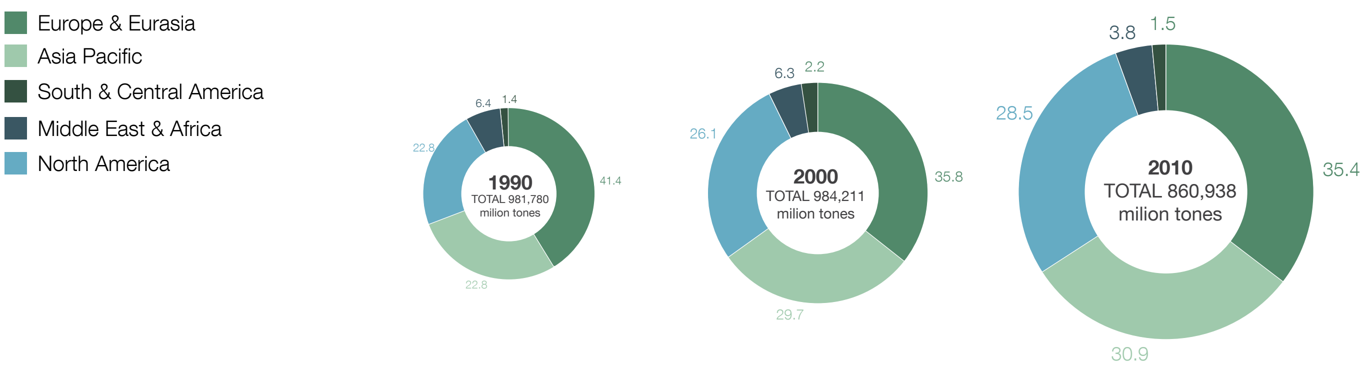
While we continue to focus on coal mining as our core business, in 2011, our subsidiary, PT Adaro Power formed PT Bhimasena Power Indonesia, a consortium with J-Power and Itochu, to build and operate a 2 x 1,000 MW Independent Power Producer (IPP) plant in Central Java, one of Southeast Asia's largest coal-fired power plants. This milestone completes our vertical integration from pit-to-power and is a key factor in achieving our vision to be a leading Indonesian mining and energy group. In the future, we expect power to become an essential part of our business as we expect that the demand for power in Indonesia will increase to support the country's economic growth. Our power division will deliver stable, more predictable returns while at the same time create a market for our low rank coal.

Related Information
Our Subsidiaries: PT Adaro Power 111
2 GW Central Java Power Plant (CJPP) Project 142

Twenty Years
of Uninterupted Growth

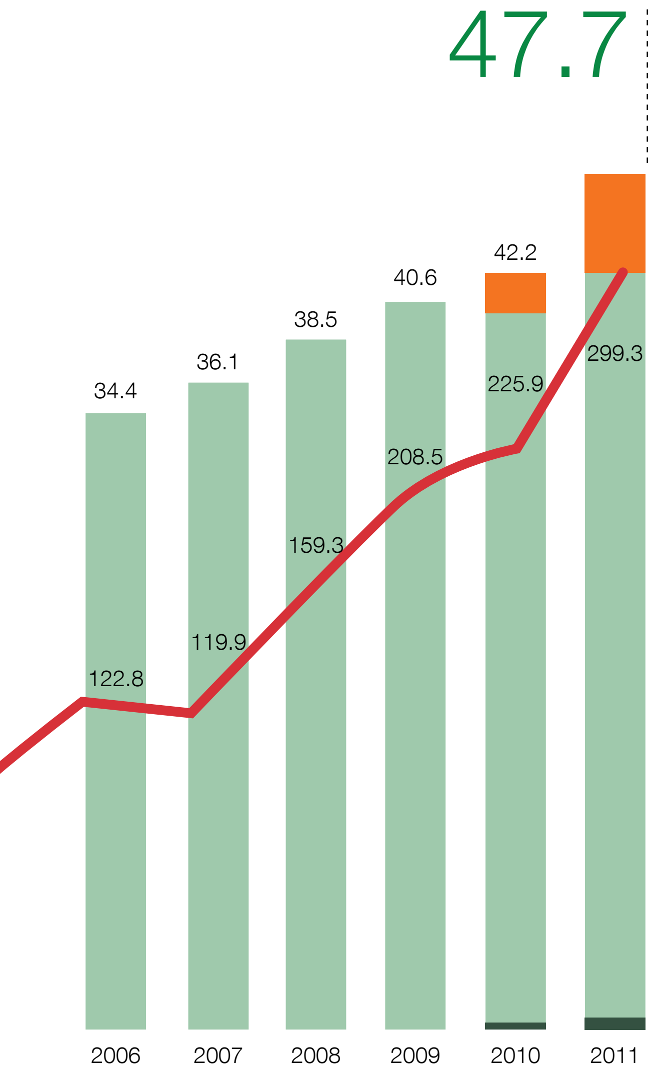


Distribution of proved reserves in 1990, 2000 and 2010 (%)



Source: BP Statistical Review of World Energy, June 2011

Industry Overview



Salim Wibowo Halim
Corporate Planning GM

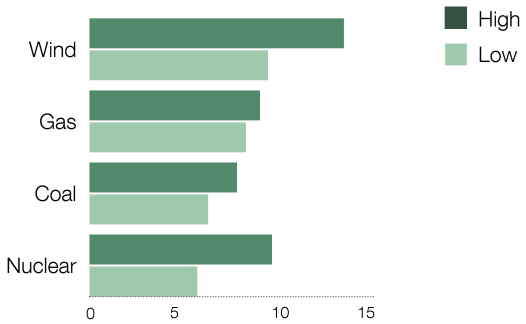
Salim has had over 19 years of experience in Finance and Accounting. He re-joined Adaro in 2008 and previously worked with auditing firm Prasetio, Utomo, and Co. He has a bachelor degree in Accounting and a Master Degree in Strategic Management from Gadjah Mada University.

Why Coal?

Coal is the world's most abundant and widely distributed fossil fuel with coal resources accounting for 82% of the world's non-renewable energy resources (IEA, 2010). With proven global reserves of nearly 1,000 billion tonnes, at current production levels, coal reserves would be able to meet 150 years of demand while oil and gas are expected to last for 46 and 63 years, respectively (IEA, 2010).

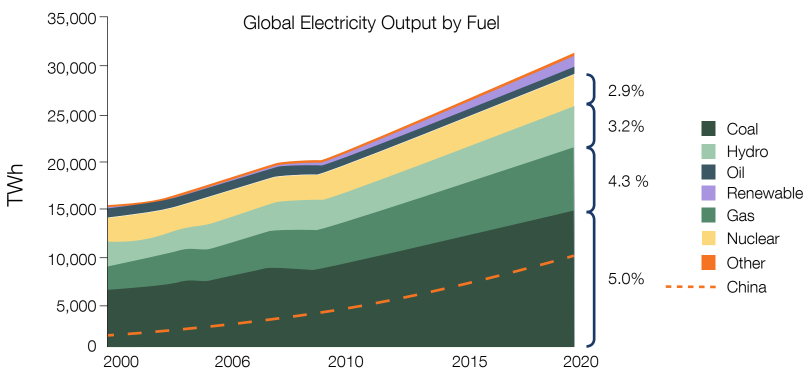
The coal industry is generally divided into two segments, thermal coal and coking coal. Thermal coal, considered as the most abundant and the cheapest source of energy, is widely used to generate electricity through a combustion process. Thermal coal dominates the world's mix of energy sources for electricity generation, fuelling more than 40% of the world's electricity (Wood Mackenzie, 2011). While coking coal, which contains higher heat/calorific value is mainly used in iron and steel manufacturing process.

Cost efficient sources of energy
Cost of generating electricity - Cents/KWh



Source: International Energy Agency: Nuclear Energy Agency

Global electricity by fuel



Source: Wood Mackenzie Coal Market Service, Thermal Coal: Trends in Global Markets, December 2011

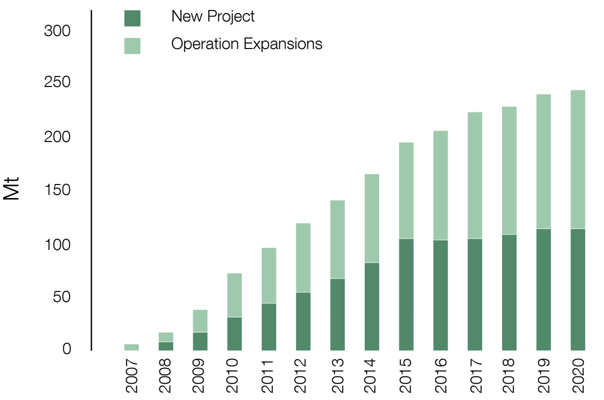
Electricity continues to be the biggest driver for the growing demand in energy. A large part of demand for electricity comes from emerging Asian economies, spearheaded by China and India, as these two economies require ample supply of power to support their economic growth. Coal is expected to play a vital role in electricity generation worldwide as it is the cheapest fuel in electricity generation. Coal is expected to remain as the dominant source of energy worldwide as electricity demand is expected to grow 76% between 2007 - 2030.

Low Rank Coal: Coal for the future

Related Information
Adaro Believes in Growth of Sub-bituminous Coal 74

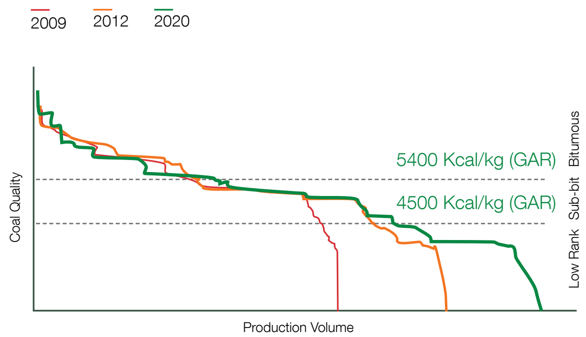
The mining industry in general is facing a downward trend in ore quality and coal is no exception. The scarcity of high heat value coal has promoted a structural change in the coal industry. The average calorific value of thermal coal produced in Indonesia has decreased from 5,533 kcal/kg (GAR) in 2005 to 5,258 kcal/kg (GAR) in 2010 (Wood Mackenzie, 2011), as higher quality coal reserves diminish. Even with the decline in its coal calorific value, Indonesia is still the world's largest exporter of coal. This is due to the growing demand of electricity in emerging Asia countries with a relatively close vicinity to Indonesia, the increasing number of Ultra Super Critical boilers designed to use low-rank coal, and the large reserve base compared to domestic consumption in Indonesia.

Low rank coal production growth



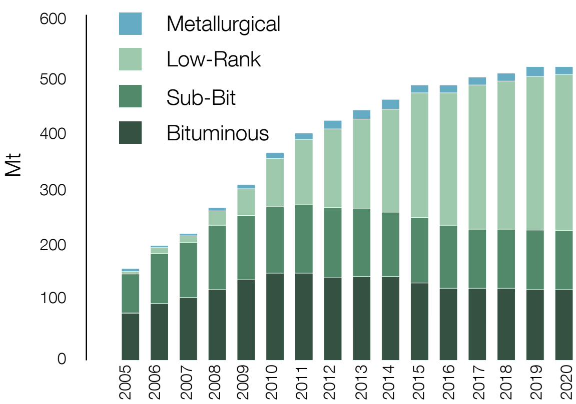
Source: Wood Mackenzie Coal Supply Service, Indonesian Low Rank Coal Positioned to Dominate, 18 September 2008.

Indonesia energy curves - Limited growth in traditional bitumous supply



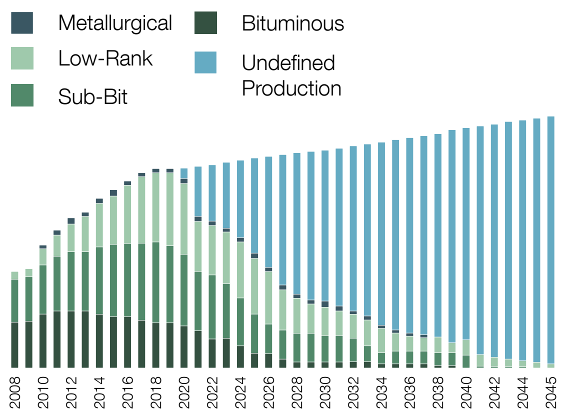
Source: Wood Mackenzie Coal Supply Service, An Insight into Indonesia's Coal Quality Shift, 01 October 2009

Indonesia marketable production by coal type



Source: Wood Mackenzie Coal Supply Service, Indonesian Low Rank Coal Positioned to Dominate, 18 September 2008.

Indonesia production outlook - Shift towards sub-bituminous and low rank production from known operations



Source: Wood Mackenzie Coal Supply Service, An Insight into Indonesia's Coal Quality Shift, 01 October 2009

Adrian Lembong
Business Development GM,
Director IBT,
Director Adaro Power

Adrian had over 8 years experience in Process Engineer, including working assignments in German, France and Mexico prior to joining Adaro in 2006. He previously worked for Sudchemie AG with his last position being responsible for the Marketing and Technical Application in the Asia Pacific Region. He holds a Degree in Chemical Engineering from Karlsruhe University.

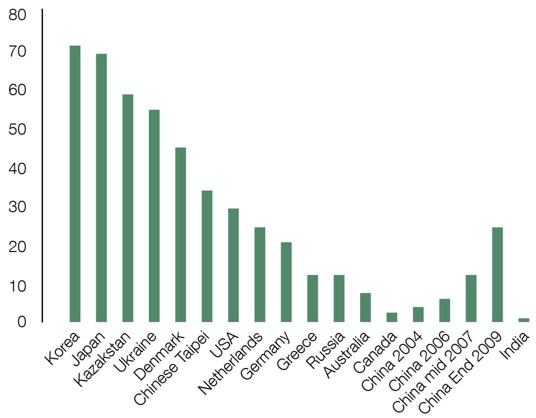
Indonesia's coal production capacity is estimated to reach 500 million tonnes by 2020, 50% of which is low-rank coal (Wood Mackenzie, 2008). A lower strip ratio for Indonesia's low-rank coal results in less production cost, attracting investments in the development of low-rank coal deposits. In addition, lower FOB cash cost for Indonesian low-rank coal is a comparative advantage over other seaborne thermal coal sources. The soaring demand for coal-fired power generation is also expected to drive production growth of Indonesian low-rank coal.

Previously, high CV coal was the primary fuel in coal-fired power plants, while lower heat value coal acted as the blending agent. However, more coal-fired power producers are investing in Ultra-Super Critical (USC) boiler technology, which enables the use of lower heat value coal as fuel. Higher awareness of emission reduction also acts as one of the drivers in the growth of USC technology as improvements in USC plants efficiency ratio reduce CO_2 emissions by half of the standard plant. USC plants are now the standard power plants operating in countries such as Germany, Korea, and China.

However, the real benefit of using USC boilers lies within the high efficiency of fuel burning, which can reach up to a 50% efficiency ratio, making it more attractive to use low-rank coal as fuel. The financial benefits from greater fuel efficiency can offset the additional capital needed to buy such technology, as using low-rank coal will result in lower coal procurement cost. The global average plant efficiency will likely rise and mainly driven by the introduction of USC technology (European Commission Joint Research for Energy, 2007).

Location of advanced PCC plants and their share in coal-fired power generation: (IEA, Power Generation from Coal, 2011

Share of supercritical plants in coal-fired power generations. (%)



In addition, development of low-rank coal enhancement initiatives such as coal gasification and coal upgrading continues to evolve. Once these enhancement initiatives are proven to function effectively on a commercial scale, the demand for low-rank coal will increase more.

Related Information
140 Continue in the Lookout for Potential Coal Deposits in Indonesia to Support Growth

We are challenged by Adaro's Sustainability Concept

We initially only mined, extracted and transported the coal to the port. However, It all changed when PT Adaro Indonesia introduced mining activities with sustainability principle in 2004. It is a challenge for us to continue operate at the highest level while at the same time create stakeholders value. We started to conduct activities beyond mining, such as establishing the Institute for Educational Potensial Development of Adaro & Patners (LP3AP). We grew with PT Adaro Indonesia.

Agus Dwiwidianto

Project Manager of PT Pamapersada Nusantara
(Business Partner)

Adaro Believes in Growth of Sub-bituminous Coal

Neil Little
Senior Marketing Manager

Neil joined Adaro in 2010 and has over six years experience in coal marketing and logistics. He previously worked for QCoal, and QRNational Coal, and Queensland Rail Operations. Neil studied Business Management and Finance at Queensland University of Technology and has a Masters of Integrated Freight System Management from Melbourne University.

2010 saw Adaro's second sub-bituminous coal brand penetrate the seaborne and domestic coal market. Branded Envirocoal 4000, or simply 'E4000', total production from the Wara pit was 2.5 million tonnes. In production terms it was a humble beginning when compared to Adaro's big brother brand, Envirocoal 5000 (E5000), which produced over 40 million tonnes in the same period. E4000 bears its name from the typical heat value or kilocalories per kilogram (Kcal/kg) on a gross as received basis. E4000 also retains 'Enviro' in its title as, like E5000, the ash, sulphur and nitrogen content is extremely low, which makes it one of the world's most environmentally friendly coals.

In 2011, production of E4000 increased 115% to 5.4 million tonnes. In combination with production, sales growth was strong and demand exceeded available supply. This robust market support continued to bolster plans for expansion of the brand. In 2012, production is expected to grow by a further 3.5 million tonnes to a respectable 9 million tonnes. Additional production expansions are planned in subsequent years.

Supplementing the continued growth of the Adaro Indonesia brands, Adaro Energy made significant inroads into the development of low cost greenfield projects in South Sumatra. Coals from these projects are expected to support market development and growth of Adaro's other sub-bituminous coals.

Adaro Indonesia made its mark in 2011 as the largest coal supplier to the Indonesian domestic market. In addition to Adaro's ongoing support of the domestic power and general industry sectors, Adaro's export coal sales were to 49 customers in 17 countries worldwide. Given this success, Adaro is also widely recognized as a leader in the development of sub-bituminous coal for international markets.

Adaro's proven track record for development and delivery of sub-bituminous coal has not been without challenges. It is worthwhile to reflect on the rapid rate of demand change for the E5000 brand. More than likely it's a forgotten fact that E5000, now a premium sub-bituminous coal, was not always held in such high regard. During the early 90's Adaro's E5000 sub-bituminous coal was certainly not supported as it is today. Market scepticism regarding the supply of coal outside the typical Newcastle coal spec of 6322kcal/kg was more typically the norm. The notion that coal with a heat value in the range of 5000kcal/kg would be readily accepted by Japanese, Korean, Taiwanese and Malaysian buyers was considered dubious at best.

For the naysayers, it could be most certainly said that the boat has been put out to sea given the market success of coal with a typical heat value of 5000kcal/kg. Adaro Indonesia alone has increased production year on year from 15.5 million tonnes in 2000 to 47.7 million tonnes in 2011. Further, Indonesian coal production as a whole increased from a mere 77 million tonnes in 2000 to 329 million tonnes in 2011. Not to say that 100% of this growth is attributed to coal with a typical heat value of 5000kcal/kg, nonetheless the remarkable ramp-up will give a good sense of the misplaced scepticism given Indonesia's vast sub-bituminous coal reserves. The total production numbers also give Indonesia the crown as the world's largest exporter of thermal coal.

The question beckons, "What has been the catalyst for the remarkable ramp-up and what factors support future growth of Adaro Energy's sub-bituminous coal?"

Let's start by looking at the domestic picture. Indonesia is now recognized as an emerging market leader, with 2011 GDP growth of 6.54%. Furthermore, Indonesia is resource rich and enjoys close proximity to those other emerging nations, namely China, India and South Korea, which form part of the macro-economic pillars of today's global growth. From a regulation perspective, the Indonesian Government has challenges to overcome. To overcome these regulatory challenges, government and industry participants, both domestic and abroad, have partnered to invoke structural change and promote growth. These micro and macro factors certainly set the scene for continued robust domestic development.

Supporting Indonesia's aggressive growth is an equally aggressive expansion plan of the national power grid. Much like reforms to regulation, challenges exist. Growth targets for installation of new generation capacity have slipped, so an objective view should be taken when considering the numbers. Despite this, PLN and private

Production of E4000 increased 115% to 5.4 million tonnes in 2011

industry projects are under construction and coal fired generation capacity is reported to double between 2011 and 2019 to 31.2GW.

In addition to strong domestic demand, export markets are well poised to support Adaro's existing and greenfield projects. China will lead the way in this space, closely followed by India, albeit at a subdued rate. In any case, blending requirements to fuel cost competitive power in China and India, in addition to growth markets in South Korea, Vietnam, Taiwan, Malaysia and Thailand, will present ongoing growth opportunities. Notably, Adaro can offer significant value to these markets in terms of seasonality, decreased sovereign risk and lower cost of production, this over and above other likely suppliers in Australia, South Africa, Colombia, USA and Russia. Moreover, China's power and general industry growth in southern and eastern coastal regions meshes well with the proximity of Adaro's existing and greenfield projects. This close proximity will contribute further to Adaro's competitive advantage in the seaborne supply market.

Supplementing growth of domestic and international sub-bituminous coal sales is new coal technologies. A talking point for 2011, the development of viable coal upgrading technology has been a hot topic. So what is coal upgrading? Simply put, it's the removal or reduction of a coal's total moisture content. By extracting or reducing the amount of moisture, a higher heat (energy) value can be achieved. Adaro's typical moisture for the E4000 brand is approximately 38% and Indonesian low rank sub-bituminous coals can be up to 50%. Comparatively, the typical total moisture of Newcastle thermal coals is approximately 10%.

Adaro Energy continues to work with partners to be a first mover in the sub-bituminous coal upgrading space. Further, given the timelines for Adaro Energy's greenfield sub-bituminous projects the future success of commercially viable technology is most certainly a positive for Adaro and customer alike. This will be a scene to watch closely.

Like coal upgrading, coal gasification also offers opportunities to merge further into the value chain. Investigating this process forms part of the long term strategy of Adaro Energy and like coal upgrading, will be a space to watch.

In summary, Adaro believes in the future of sub-bituminous coal. The overall market outlook from a domestic demand perspective supports this view. Additionally, international buyer's intent on cost competiveness will continue to seek out coals for blending, which have a lower cost of production to offset those higher cost producers, not to mention minimizing sovereign and seasonality risks.

Furthermore, Adaro's well-established partnerships merge seamlessly with market development expertise to support further expansion. Like E5000 in the early 90's, opportunities to grow low rank and sub-bituminous coal sales are ever present. Capitalizing on these opportunities has been the cornerstone of Adaro's success story. It is Adaro's intent to have history repeat and create maximum sustainable value to build a bigger and better Adaro.

Map of Indonesian Coal Resources and Reserves

Related Information
Global Coal Market 78

Global Demand and Supply Outlook: the story of emerging Asia's energy demand

We believe that demand and supply for thermal coal will continue to be in balance going forward. Strong thermal coal demand will be countered by additional supply coming to the market as infrastructures challenges will slowly be resolved. Thermal coal trade has grown rapidly since the 1970's oil crisis and now constitutes for nearly three-quarters of the world's seaborne coal trade. Thermal coal trade is predominantly seaborne between the Asia Pacific and the Atlantic market. Dominant suppliers to the Asia Pacific market are Indonesia, Australia and Vietnam, while South Africa, the USA and Colombia dominate the supply for Atlantic market, with additional coal from Venezuela, Poland, Russia, Indonesia and Australia. The relatively high cost of long distance coal shipping largely determines this market segregation. Between the two markets, Wood Mackenzie predicts the Asia Pacific to continue its growth with a forecasted CAGR of 4% in the foreseeable future and will continue to dominate the seaborne thermal coal trade.

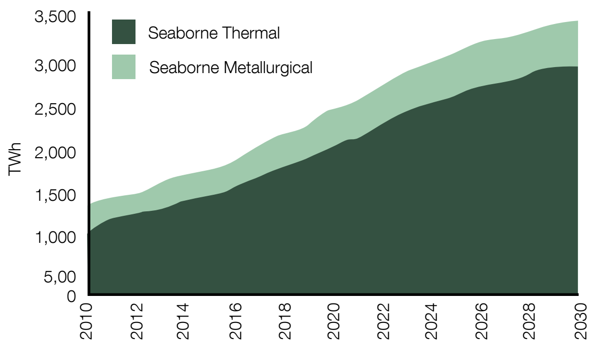
The robust growth in the Asia Pacific market is attributed to the strong demand for thermal coal in Asia, which grew much faster than in the Atlantic markets. Coal is used to fuel more than two-thirds of power generation in non-OECD Asia, led by China and India who together are expected to dominate 70% of the Asia Pacific market by 2030. On average, from 2008 to 2035, world coal consumption is projected to increase by 1.5 percent yearly, while non-OECD Asia consumption increases by 2.3 percent yearly (IEO, 2011). Economic growth in non-OECD Asia countries acts as the main driver for energy demand as much of the increase in non OECD Asia's demand for energy is driven by electricity generation and industrial sectors needs (IEO, 2011).

China's increasing role in global energy demand is planned to result in a 49% contribution to global coal demand growth from 2002 to 2030. Wood Mackenzie forecasts that Chinese thermal coal demand will grow to nearly 5 billion tonnes by 2025. According to the China Electricity Council, Chinese power generation may rise 8.5% per year to 1,437 GW by 2015 and to 1,885 GW by 2020. This means that it will grow by 80 GW per year or roughly more than two times Indonesia's current total electricity capacity of 34GW.

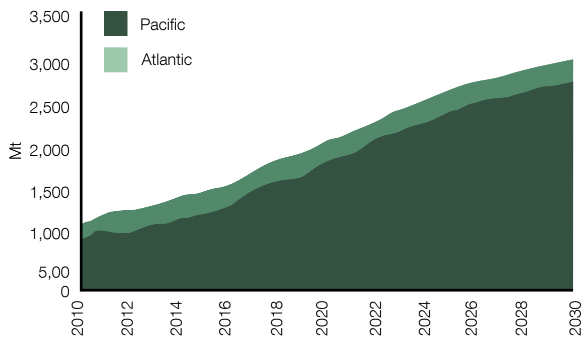
India's domestic shortfall in coal supplies to meet power demand will spur the country to import more coal, and is predicted to surpass China by 2019. India already overtook Japan as the biggest buyer of Indonesian coal in 2011. In contrast to China, the Indian import demand represents a structural shift due to domestic coal shortages, which requires the country to urgently expand imports of coal, including lower rank coal. As of now, over 400 million Indians have no access to electricity, and India plans to install additional 79 GW of electricity by 2012 with 79% of this being coal-fired generation (Coaltrans 2010). In summary, it is expected that additional new coal-fired power plants of 579 GW are expected in the next 20 years in Asia, predominantly in China, India, Vietnam and Indonesia. These projects will approximately require an additional 1.7 billion tonnes of coal per year.

Continued investments in infrastructure projects in Australia, Africa and Indonesia will be needed in order to

Thermal volumes account for nearly three-quarters of seaborne coal trade



The Pacific basin dominates thermal seaborne trade...



Source: Wood Mackenzie Coal Market Service, Thermal Coal: Trends in Global Markets, December 2011

meet the strong Asian demand for coal. Indonesia and Australia will continue to dominate during the period of tight thermal coal export supplies as some of the infrastructure projects in other countries will continue to struggle to move forward. Other risks and challenges include limited availability of working capital, especially for small and medium sized coal producers, regulatory environment and more challenging mining conditions (i.e. further inland and more lower rank). However, Wood Mackenzie predicts that the positive long-term outlook for thermal coal will drive the development of emerging supply. The infrastructure proposals for emerging supply, especially in Indonesia and Australia, present significant upside potential and cost competitiveness.by China and India who together are expected to dominate 70% of the Asia Pacific market by 2030. On average, from 2008 to 2035, world coal consumption is projected to increase by 1.5% yearly, while non-OECD Asia consumption increases by 2.3% yearly (IEO, 2011). Economic growth in non-OECD Asia countries acts as the main driver for energy demand as much of the increase in non OECD Asia's demand for energy is driven by electricity generation and industrial sectors' needs (IEO, 2011).

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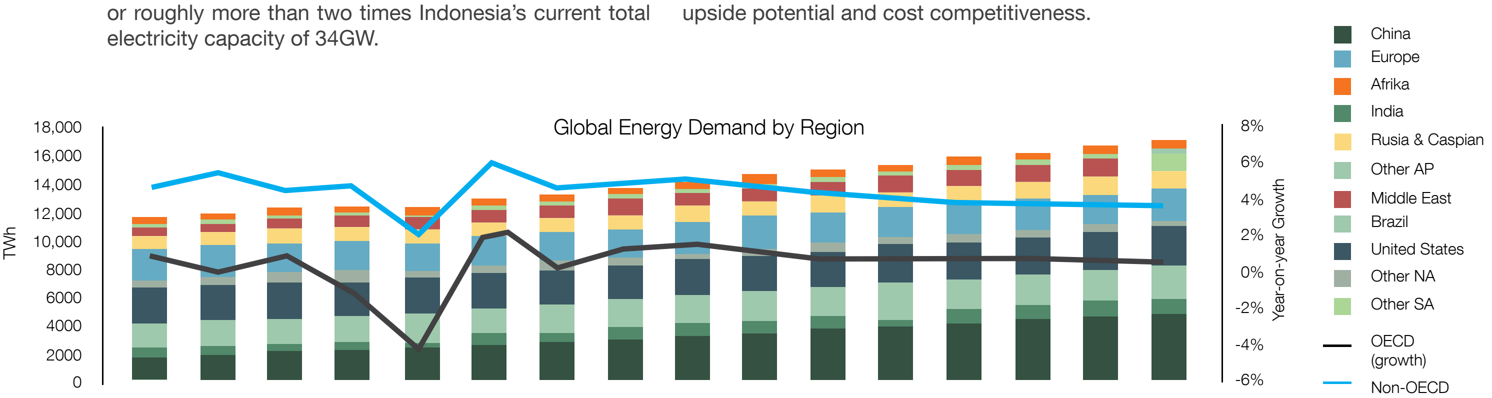
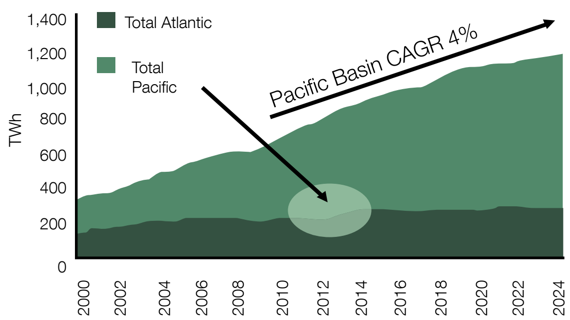
Continued investments in infrastructure projects in Australia, Africa and Indonesia will be needed in order to meet the strong Asian demand for coal. Indonesia and Australia will continue to dominate during the period of tight thermal coal export supplies as some of the infrastructure projects in other countries will continue to struggle to move forward. Other risks and challenges include limited availability of working capital, especially for small and medium sized coal producers, regulatory environment and more challenging mining conditions (i.e. further inland and more lower rank). However, Wood Mackenzie predicts that the positive long-term outlook for thermal coal will drive the development of emerging supply. The infrastructure proposals for emerging supply, especially in Indonesia and Australia, present significant upside potential and cost competitiveness.



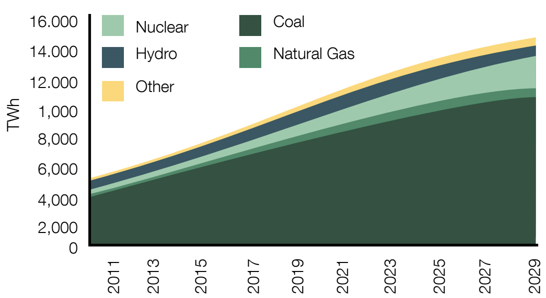
Source: Wood Mackenzie Coal Market Service, Thermal Coal: Trends in Global Markets, December 2011

Atlantic thermal seaborne coal demand doesn't rebound to pre-recession levels until 2012-13, then remains relatively flat



Source: Wood Mackenzie Coal Market Service, Wood Mackenzie Australian Coal Forum, 23 November 2010

Robust GDP drives China's power demand and despite non coal initiatives, coal maintains the majority share of generation



Source: Wood Mackenzie Coal Market Service, Thermal Coal: Trends in Global Markets, December 2011

Global Coal Market

Rodrigo Echeverri
Market Research and Strategy Manager

Rodrigo has over eight years experience in coal production and marketing with previous experience in Cerrejon mine in Colombia and its sales arm, CMC in Ireland. Cerrejon and CMC are jointly owned by BHP Billiton, Anglo American, and Xstrata. He has a B.Sc. in Mechanical Engineering from Universidad del Norte, Colombia and a M.Sc. in Engineering from the University of British Columbia, Canada.

Global Coal Newcastle Index

The global coal industry experienced an eventful 2011. The price recovery for coal that started in the fourth quarter of 2010 continued into the first three quarters of 2011 with the globalCOAL Newcastle Index hovering around the US$120/tonne level. However, the market weakened during the last quarter and settled at US$121.36/tonne, US$8.60 below the peak in January.

The first quarter of 2011 was arguably one of the most remarkable periods in recent coal history. In December 2010, most of the northern hemisphere was being battered by one of the strongest winters in the last few decades, bringing most of Europe and North America to a standstill. By the time most major coal importers returned to the market to refill their depleted stocks, the Queensland floods provided another shock, constraining Australian metallurgical and thermal supply for several months. Simultaneously, the political turmoil in the Middle East resulted in a rally in oil prices, with a direct impact on oil-linked gas contracts in Europe, placing coal again into the equation as the cheapest fuel for power generation even after accounting for the price of carbon dioxide in the European Trading Scheme.

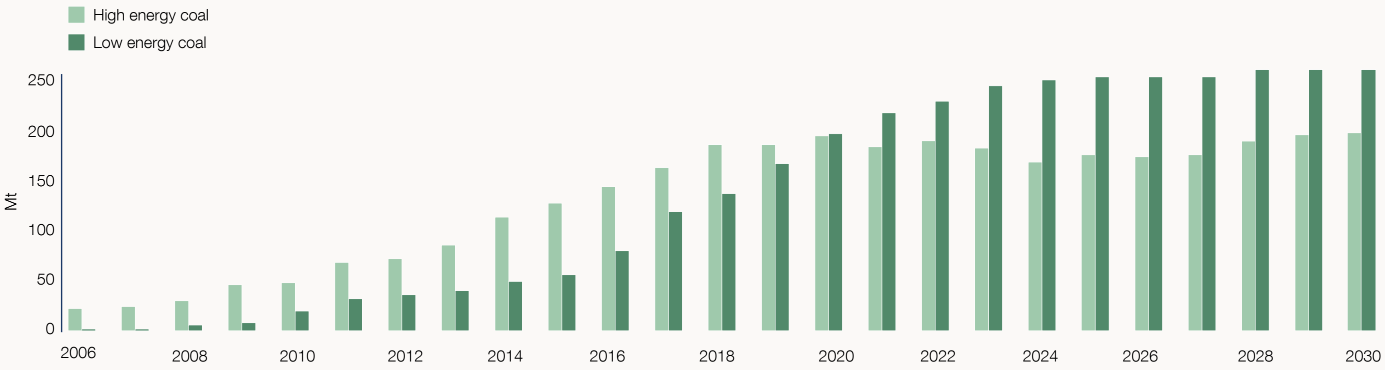
The unfortunate events of the March 2011 earthquake and tsunami in Japan had significant, long-lasting implications for the coal market. Most directly, the damage to several coal-fired power plants along the Japanese east coast caused a loss of capacity equivalent to approximately 12 million tonnes per year. However, this effect proved to be only temporary with most coal units back in operation by the end of the year. On the other hand, most of the replacement capacity for the damaged units came from gas in the form of LNG, which further supported internationally traded gas prices and indirectly enhanced the competitiveness of coal.

Most importantly, the Fukushima disaster caused a long-lasting setback to the nuclear industry, as this source of energy came to be distrusted worldwide by the public, governments and investors. The safety of many nuclear power plants, both in the operation and planning stages came under scrutiny. The first and most visible policy change was the review of the life extension plan for German nuclear plants built before 1980. The de-commissioning of seven nuclear plants in Germany created an immediate surge in coal consumption, supporting coal fundamentals further throughout 2011. The combination of the previously mentioned factors proved once again that coal is a reliable fuel that can provide much needed stability in times of uncertainty.

China Thermal Coal Supply and Demand Balance (Base Case)

		2010	2011	2012	2014	2015	2020	2025	2030
Demand	Thermal Coal Consumption	3,034.6	3,255.7	3,494.9	3,748.1	4,254.3	6,476.3	6,403.0	6,982.6
	Generation	1,615.4	1,783.5	1,949.1	2,150.5	2,517.4	3,482.8	4,283.1	4,785.8
	All Other Consumption	1,419.2	1,472.2	1,545.8	1,597.6	1,736.9	1,993.6	2,119.9	2,196.8
Supply	Thermal Coal Production	2,916.3	3,113.9	3,358.2	3,568.6	4,030.1	4,986.1	5,486.9	5,850.1
	Thermal Coal Exports	19.1	21.0	20.0	19.6	15.1	21.5	19.0	18.6
	Landborne Thermal Coal Exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Seaborne Thermal Coal Exports	19.1	21.0	20.0	19.6	15.1	21.5	19.0	18.6
	Thermal Coal Imports	137.4	162.8	156.7	199.1	239.3	511.8	935.1	1,151.1
	Landborne Thermal Coal imports	1.5	7.8	12.7	16.7	19.2	24.5	35.9	57.8
	Seaborne Thermal Coal Imports	135.9	155.0	144.0	182.4	220.1	487.3	899.2	1,093.3
	Seaborne Thermal Coal imports (kcal/kg)		5,748	5,806	5,821	5,879	5,758	5,756	5,887
	Total Thermal Coal Supply	**3,034.6**	**3,255.7**	**3,494.9**	**3,748.1**	**4,254.3**	**5,476.4**	**6,403.0**	**6,982.6**

Thermal Coal Imports into India - by Grade



Source: Wood Mackenzie

China: A solid importer

Another important factor in the market in 2011 was the consolidation of China as one of the top three coal importers in the world. After an increase of more than 30 million tonnes in thermal coal imports in 2010, a major market unknown was whether China would become a solid importer rather than a swing player in the market. An important development in 2011 was that, despite the strength in international market prices, total Chinese imports in 2011 remained at levels similar to those in the previous year . This is further proof that the intention of the Chinese utilities is to remain active in the international coal market, sourcing competitive coals in order to complement their domestic supply chain. Additionally, it is important to see the continued growth of Indonesian coal exports into China in spite of falling domestic prices in China. The lower cost of sub-bituminous Indonesian coals, on a delivered energy basis, was welcomed by Chinese end-users and the demand for this grade of coal in most of coastal China is likely to become permanent rather than arbitrage-driven. Additionally, as cape-size facilities have become available, freight has become cheaper for power plants, especially in the northern coastal region, cementing Indonesian coals as a permanent part of the supply mix.

The above factors contribute to a solid outlook for thermal coal imports into China, as supported by Wood Mackenzie's forecast, which shows continued growth of coal imports into China despite a substantial increase in China's own production.

India: Cementing a place among the top importers

As expected, India provided significant support to the international coal market in 2011, with new coal-fired units being commissioned along coastal regions designed for coal imports. By the end of the year, India's coal imports surpassed more than 90 million tonnes and ranked amongst other big importers such as Japan, China and South Korea.

Another factor of extreme interest is the increase in the Indonesian share of coal imports, particularly low-grade coals. In 2010, South African coal accounted for almost one-third of total thermal coal imports, but as new plants have been built to take advantage of the economics of lower-grade coals, the share of Indonesian coal has increased to almost 80%. This trend is expected to become even more significant in future years.

Indonesia: The Crash Program and DMO

The anticipated surge in coal demand from the first 10,000 MW Crash Program sponsored by PLN fell short of expectation as the commissioning of several power plants in 2011 encountered delays or technical glitches.

Estimated domestic demand by the power industry in 2011 was 66.3 million tonnes, an increase of 10.8 million tonnes over 2010. Further growth of 3.22 million tonnes is expected in 2012 as commercial operations of the new units are progressively achieved. Additionally, the cement and industrial sectors contributed a demand growth of 3.2 million tonnes in 2011.

As the Domestic Market Obligation (DMO) came in full force in 2011, Adaro succeeded at placing 10.66 million tonnes on the domestic market, surpassing its 2011 DMO target of 18.41% set by the government.

Demand - Rest of the world

Korea increased its coal intake due to a combination of factors, mostly the commissioning of new coal-fired units, but also the increased blend of lower-CV coals into their generation mix as power plants took advantage of the economics of Indonesian sub-bituminous coal. In spite of all the bleak forecasts for coal imports into Europe, the market grew in 2011 by more than 15 million tonnes due to higher gas prices in the continent. This type of growth is not expected to remain in the future, but the trend shows that coal still plays an important role in fuel switching dynamics even in a heavily regulated environment.

The other sources of growth included Turkey, Chile and Brazil, all with new capacity for coal imports.

Supply

Once more Indonesia took the top spot in exports growth worldwide, providing more than half of the additional tonnes needed by the international market. Australia only attained modest growth, mostly because of the disruptions of the Queensland floods in the first quarter.

A surprising development was the addition of approximately 15 million tonnes of thermal exports by the USA. This development came about as prices in Europe became more attractive to domestic prices in the USA, especially for high-sulphur coal from the Illinois basin, which can be burned only as a blend by plants in Europe with desulphurization units. Furthermore, low grade coals from Powder River basin also found their way into the Asian market.

The remaining share of the growth was taken by Colombia and Russia, which found strength in the European and South American markets.

Edwin Tsang
Marketing Director AI,
President Director Coaltrade

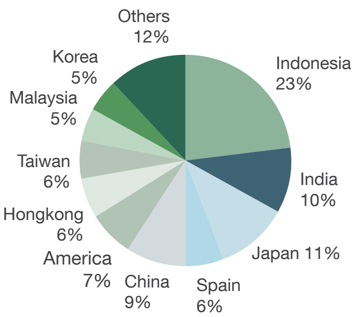
Edwin Tsang joined the company in October 2006. He is currently the Marketing Director of Adaro Indonesia and Director of Coaltrade Singapore. Prior to this he had over 25 years of experience in the coal industry, firstly with China Light and Power as Fuel Supply Engineer in the 1980s, then with the Sydney based mineral and energy consultancy firm – Barlow Jonker, as a member of the coal consultancy team in the early 1990s and finally as Managing Director of Total Energy Hong Kong. He holds a Bachelor of Science Degree in Mechanical Engineering from Hong Kong University and an MBA from the Chinese University of Hong Kong.

Marketing Envirocoal

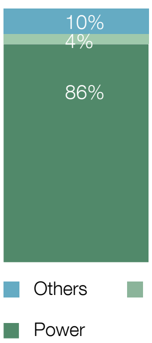
All coal within our concession area is sub-bituminous characterized by low pollutant traits of low ash, sulphur, and nitrogen content. This coal is trademarked as Envirocoal. We service 49 customers in 17 countries, primarily blue-chip power utilities and some cement producers, and have developed loyal, diversified, long-term relationships with our customers. We offer volume-based contracts with annual price negotiation. Prices are either fixed or set with reference to index prices, while costs are effectively managed through our vertically integrated coal supply chain.

Our experienced combustion engineers, also known as our technical marketing team, visit all customers to provide advice on boiler operation and optimization when using Envirocoal as fuel.

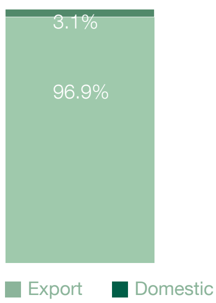
Geographical breakdown of customer



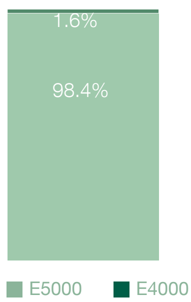
Customer type by % volume

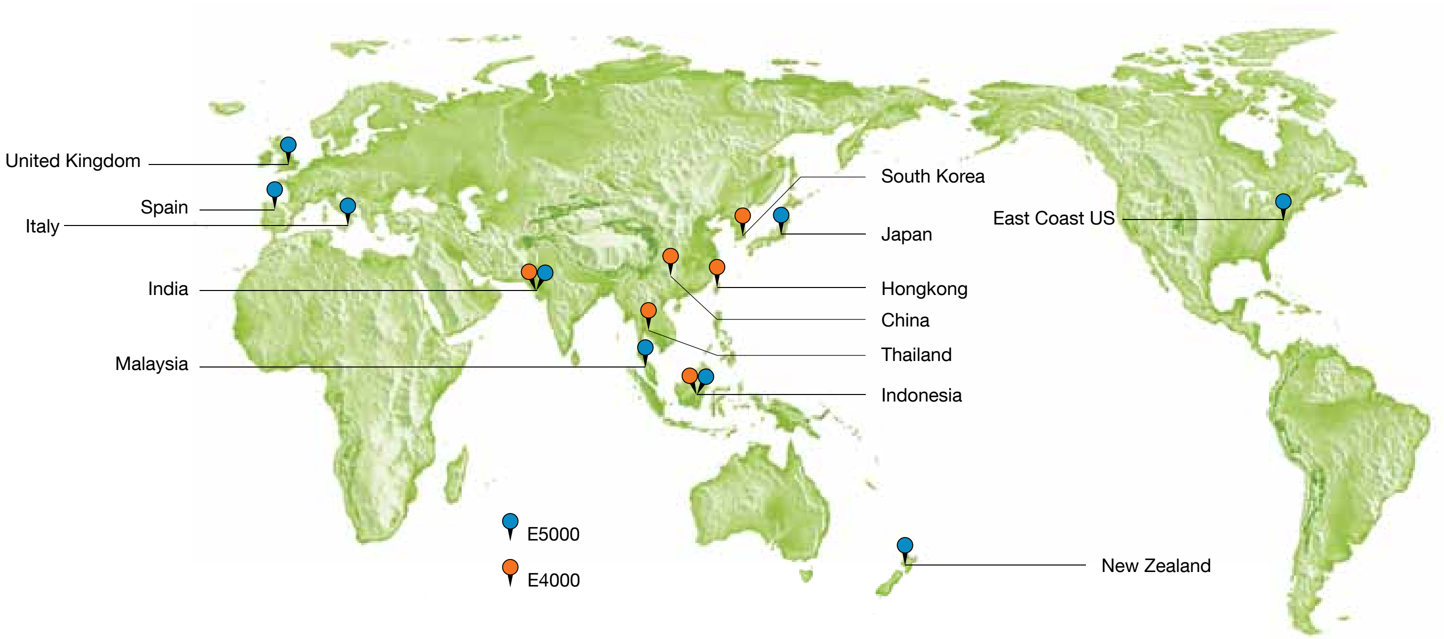


E4000 sales destination



Type of coal sales domestically





In addition to top class customer service, we emphasize consistent coal quality, and maintain our reliability as well as dependability.

The low pollutant traits of Envirocoal earn it the reputation as amongst the best environmental solid fuel available, as Envirocoal's gaseous emissions and particulate airborne emissions are lower than any other solid fuel. Envirocoal's captured ash wastes are very low compared to other coals. The chemical composition of airborne and captured ash wastes from Envirocoal renders them benign and suitable for recycling. Furthermore, Envirocoal is able to generate economic benefits. Once a power plant is built, the cost of electricity or steam is aggregated into fuel cost, maintenance cost and operating cost. With its expanding sales, Envirocoal has shown itself to be competitive with higher rank coals on per unit of energy basis, as lessened impacts from ash reduce the maintenance costs of pulverizers, coal pipes, boiler tubes, and other equipment along the coal path.

Lastly, Envirocoal can be used in meeting environmental regulations without the need for Flue Gas Desulphurisation units (FGD). This largely reduces capital and operational costs by eliminating the need for a scrubber. In terms of the technical benefits of Envirocoal, the coal's high surface area, combined with high volatile matter, results in excellent ignition, stable combustion and near complete char burnout, with combustion efficiency often greater than 99.7%.

We sell two kinds of Envirocoal, E5000 (Tutupan and Paringin) and E4000 (Wara). Wara commenced production in 2010 and produced 5.4 million tonnes in 2011, more than a two-fold increase from the previous year. Since production commenced, E4000 has been gaining international acceptance, even though it has a lower calorific value and higher moisture content compared to E5000. In 2011, Wara received additional demand from Hong Kong and added Thailand in its customer base. Currently, customers of this product consist of power utilities in India, China, Indonesia, South Korea, and Thailand.

Geoff Palmer
Marketing GM

Geoff has over 35 years experience in coal operations and coal marketing with Kaltim Prima Coal and Westar Mining's Canadian coal operations prior to joining Adaro in 1997. He has a degree in Physical Metallurgy from the British Columbia Institute of Technology.

Competition

E5000 has three main competitors in the environmental, sub-bituminous coal market, while E4000 has more than twelve competitors. We compete with the other producers on price, certainty of delivery, and established record of quality. Adaro's customers continue to select us as their supplier of choice most importantly because of our reliability and certainty of future supply. The competitive advantages that we have over our Indonesian competitors lies on our large proven coal reserves, strong relationships we have built with our mining contractors, our vertically integrated business model, proven track record of supplying quality Envirocoal to our customers and our financial strength to support growth. We also believe that we hold competitive advantages over Australian and South African competitors when selling Envirocoal to customers in Asia given our relative geographic proximity to such customers.

Related Information
97 Technical Marketing Report

Members of the Adaro Energy Legal Department

Indonesia's Regulatory Environment

The Indonesian Constitution declares that all natural resources within Indonesia shall be managed by the State and utilized for the Citizen's welfare. Indonesia has introduced several regulations affecting the mining industry with the most recent one being Law No. 4 of 2009 regarding Mineral and Coal Mining ("Law No. 4/2009"), also known as the New Mining law which replaces the preceding mining Law No. 11 of 1967 regarding Basic Provisions of Mining. The introduction of the New Mining Law represented significant change to the previous Indonesian mining regulatory regime. Some of the implementing regulations of Law No.4/2009 are as follows:

- In September 2009, the Minister of Energy and Mineral Resources issued Ministerial Regulation No. 28 of 2009 regarding The Conduct of Mineral and Coal Mining Services Business, which provides a legal framework for the use of mining services in conducting mineral and coal mining activities in Indonesia. Among others, this regulation provides specific requirements in the use and appointment of mining services contractors.

- In December 2009, the Minister of Energy and Mineral Resources issued Ministerial Regulation No. 34 of 2009, regarding Domestic Market Obligation for Mineral and Coal. This regulation obligate mining companies to sell a portion of their production to domestic customers for the sake of national interest ("Domestic Market Obligation" or "DMO") and applies to all types of coal and mineral. For 2011, the Government established a DMO of 24.17% as stated in the Minister of Energy and Mineral Resources Decree No. 2360/K/30/MEM/2010 which was amended to 18.41% by the issuance of Minister of Energy and Mineral Resources Decree No. 1334.K/32/DJB/2011.

- In February 2010, the Government of Republic of Indonesia released two implementing regulations for Law No. 4/2009 which is Government Regulation No. 22 of 2010 regarding Mining Areas (GR No. 22/2010) and Government Regulation No. 23 of 2010 (GR No. 23/2010) regarding Mining Business Activities. GR No. 22/2010 deals with the establishment of mining areas under the new mining business license ("Ijin Usaha Pertambangan" or "IUP"), while GR No. 23/2010 provides the clarifications surrounding the procedures to obtain new IUPs.

- In September 2010, the Minister of Energy and Mineral Resources issued Ministerial Regulation No. 17 of 2010 regarding Mineral and Coal Benchmark Price. This regulation provides the details and mechanism for setting the minimum benchmark prices for the sales of mineral and coal, further this regulation regulates that coal sales shall be conducted with reference to the benchmark price issued by the Government.

- In December 2010, the Government of Indonesia released an implementing regulation for Law No. 4/2009, i.e. Government Regulation No. 78 of 2010 regarding Reclamation and Mine Closure. This regulation complements Ministerial Regulation No. 18 of 2008, and both Regulations are to be obeyed by mining companies.

Risk Management

Mining is a risky, highly regulated, capital intensive and slow yielding industry. The objective of our risk management initiative is to help the Board to manage risks that may have an adverse impact on our business as we continue to create maximum sustainable value from Indonesian coal.

In 2011, we commenced development of an integrated and Company-wide risk management policy and framework for Adaro Energy. The initial implementation of our risk management framework has been at PT Adaro Indonesia, and we will gradually implement this policy in subsidiaries besides PT Adaro Indonesia from 2013 and beyond.

One of the primary ways to mitigate risk and uncertainties is through insurance. We have a wide range of insurance coverage placed with internationally recognized insurers comprising of Property All Risks and Business Interruption, Heavy Equipment, Marine Cargo and Marine Hull, Director and Officer Liability, Comprehensive General Liability, Terminal and Port Operator Liability, Charterers Liability and other general insurances.

The following describes Adaro Energy’s risk management, which consists of commercial, social and regulatory risks that may have an effect on our business:

Commercial Risk

Unusual and Unseasonable weather Patterns	Our mining operations are subject to unexpected weather patterns that can adversely impact business. Such unexpected weather patterns may include heavy rainfall and flooding. The impact of these events can lead to operational disruptions along our coal supply chain, from mining and road transportation to barging and ship-loading operations. To mitigate the weather risk we have undertaken a number of initiatives that include; prioritizing pit dewatering by supplying additional dredging systems to clean up mud from pits and increasing pit dewatering pumping performance, as well as weather proofing of pit haul roads to reduce stoppage time due to rain.
Cyclicality and Fluctuation in Global Commodity Price	The prices for Envirocoal are based on global coal prices. The cyclicality and fluctuation of global coal prices may have a material impact on our financial performance. As a commodity, coal is subject to global prices that may fluctuate due to supply and demand dynamics, geopolitical factors and changes in the world economy. We continue to focus on building long-term, low cost assets by improving the efficiency and integration of our coal supply chain to manage the risk of global coal price fluctuations.
Fluctuation in Fuel Price	Fuel is one of the major cost components, which accounts for approximately 25% of our mining costs. We bear the full risk of fuel price fluctuations as the fuel costs for all mining contractors are managed and procured by us and not incorporated in the contract rates. As a result, any significant increase in fuel price would cause a corresponding increase in our costs. In return, all contractors are committed to gradually reduce fuel consumption.

We continue to improve the efficiency of our coal supply chain and reduce dependency on oil as part of our overall strategy. This includes the construction of a 2x30 MW mine-mouth power plant, designed to use our E4000 coal, to provide power for our mining operations and the signing of three new barging contracts, which incorporates a term to reduce fuel consumption. We also enter into fuel hedging contracts to meet fuel requirements on a selective basis. In June 2011, we entered into a fuel swap contract that covered 80% of our second half 2011 fuel requirements, while in August 2011 we entered into a similar fuel swap contract covering 80 % of the fuel requirements for the first quarter of 2012.

Fluctuation in Currency Exchange Rate

Our earnings are naturally hedged as the majority of our revenues and costs are in U.S. dollar. All of our export sales and a significant portion of our domestic sales are priced, invoiced and paid in U.S. dollar with the remainder primarily paid in Rupiah. Our cost of sales and operating expenses are denominated and paid substantially in U.S. dollars with the remainder primarily paid in Rupiah.

Fluctuation in Interest Rate

We aim to reduce the risk of interest rate fluctuation by entering into interest rate swaps from variable to fixed rates. When appropriate, Adaro Indonesia and SIS have entered into interest rate swap contracts to hedge floating interest rate into fixed rate payments with its relationship banks.

Ability to Obtain Heavy Equipment, Machineries and Other Engineering Supplies

Our operations at the mine and other parts of our coal supply chain depend on our ability to acquire necessary heavy equipment, machinery and other engineering supplies. These may include excavators, dump trucks, bulldozers, graders, hauling trucks, coal crushing plants, materials handling systems, and other engineering supplies to maintain roads and rivers. In 2011, we secured long-term supply agreements with a number of key suppliers for heavy equipment delivery until 2014.

Growing Inorganically through Coal Deposits Acquisitions

We recognize that the quantity of coal reserves is finite and non-renewable. In addition to organic growth, acquisitions will assist in our overall strategy to create maximum sustainable value from Indonesian coal and diversification. In 2011, we acquired majority stakes in two Sumatra based companies and we continue to selectively look into other potential acquisition targets in Kalimantan and South Sumatra. We prefer to acquire and develop greenfield deposits rather than operational mines, as the purchase price is less and we can utilize our specialized knowledge of turning coal deposits into profitable long-term assets, thus creating maximum value for our shareholder. Below are some risks associated with growing inorganically through coal deposits acquisitions:

- Operational risk: The main operational challenge of developing greenfield deposit is developing low cost, efficient transportation, as available coal deposits are generally located further inland. We aim to replicate our proven vertically integrated business model in our existing South Kalimantan operation to other coal deposits we acquire in order to build long-term and low cost assets.

- Commercial risk: One main commercial risk is the marketability of low rank coal, as greenfield development opportunities in Indonesia are mainly low rank coal deposits. We believe that the era of cheap coal is over and that sub-bituminous coals will be in greater demand in the future, especially in emerging markets in Asia. We have proven techniques in developing markets for high moisture coals, firstly with our E5000 Envirocoal in the 1990's and with our E4000 (Wara) over the last three years. Both these coals were considered unmarketable in the past due to their respective low heat values and high moisture content. We will utilize this knowledge to develop markets for even lower heat value and higher moisture coals. In addition, we continue to study the feasibility of coal enhancement technology to permanently reduce moisture and enhance heat value. Another commercial risk arising from coal deposit acquisitions is determining the fair value of the assets based on the size and quality of the resources. To mitigate this risk, we always conduct complete due diligence with the assistance of internationally recognized mining consultants to identify total minable reserves and resources and establish fair value for assets.

- Legal risk: The introduction of regional autonomy in Indonesia in 2001, which delegated the issuance of mining licenses to regional authorities, has caused uncertainties in the mining industry due to overlapping issues. To mitigate this risk, we always conduct complete legal due diligence prior to making acquisitions to ensure that the targeted asset has obtained the necessary licenses through a legitimate and lawful process.

Moving Further Downstream to IPP Business

We view domestic Independent Power Producer (IPP) developments as an important part of our long-term strategy to provide stable returns and minimize the volatility inherent in producing and selling coal on the global market. In addition, these projects will create demand for low-rank coal. In June 2011, the J-Power-Adaro-Itochu Consortium won the bid to construct a 2,000 megawatt (MW) coal-fired power plant in Central Java. We will selectively look into other IPP projects, which fit with our strategic plan and make economic sense. There are political, economic, environmental and operational risks associated with our IPP development as discussed below:

- Commercial risk: The fluctuation of coal prices may have a material impact on our IPP project's profit margin. To mitigate this risk, the fuel cost is passed through to the Indonesian State Electricity Corporation (PLN) above a predetermined fuel price as specified in the Power Purchase Agreement (PPA). Adaro's role in the IPP business will be coal procurement and to sell the coal on a CIF basis at market price based on the Indonesian reference price.

- Political risk: Any changes in political situation may affect the relationship between Adaro and PLN as the buyer. To mitigate political risk, we aim to ensure that the PPA contains a clause that the Indonesian government will honor the contractual agreement should a change in political situation occur.

- Environmental risk: Coal-fired power plants are generally perceived as major contributors of CO2 emissions, impacting climate change. Our 2,000 MW coal-fired power plant will be the first power plant in Indonesia to use advanced Ultra-Super Critical (USC) technology and will serve as a model of high-efficiency power generation. An important feature is the project will utilize Indonesian sub-bituminous coal as fuel, which has low ash and ultra-low sulphur. We are committed to the environment and aim to use advanced and efficient technologies on our future IPP projects, which are likely to have more expensive construction costs but higher efficiency and produce fewer emissions.

Social Risk

Related Information	
Adaro Institute 2011	54
Community Skill Training for Mine Jobs	66

Retaining and Attracting Qualified and Skilled Human Resources to Support Growth

Coal mining and power are industries that require specialized knowledge, expertise, and experience. The skills shortages in engineering, mining operators, heavy equipment operators and other technical services may impact our operations. Our future growth plan depends on our continued ability to attract and retain skilled and qualified personnel and is a major focus of our human resources policy. We continue to attract and recruit highly qualified employees and we also established the Adaro Institute in 2011 as a learning center to meet our manpower needs.

Relationship with Local Communities

Our track record of annual production growth for twenty years would not have been achievable without the support from local communities. The lack of support and failure to settle any local community issues may adversely affect our operations and delay our infrastructure projects. By partnering and growing with the community, we have identified the needs and concerns of the people affected by our operations through several community development programs and we will continue with this spirit of cooperation in all of our future projects.

Regulatory Risk

Regulatory Changes

Mining is highly regulated industry and the introduction of new regulations may adversely affect our operational activities. We aim to comply with all regulations and review the new regulations that may have material adverse effect on our operations.

Exposure to Health, Safety and Environment

We are subject to health, safety and environmental regulations in Indonesia. Any incident related to occupational health and safety may disrupt operations and damage our reputation. Any non-compliance with environmental regulations may result in penalties, which may adversely impact our financials. To mitigate this risk, we have developed the Adaro Safety, Environmental, and Production (ASEP) Management System, with the goal of continuously meeting domestic and international standards of safety performance and minimizing environmental impact from operations.

A Discussion with

Mr. M. Syah Indra Aman,

Director &
Chief Legal Officer

You are on the Board of the IndoMet Coal project. What progress was made in the IMC and your other coal investments?

In terms of our joint ventures, we had very meaningful progress with two of them. The IMC, or IndoMet Coal, is a metallurgical coal project in Central Kalimantan, of which we own 25%, and the remaining interest is owned by BHP Billiton. During 2011, we improved the trust and confidence building and were very encouraged. BHP Billiton is doing a great job and we are happy to play our role. They announced that construction would begin in early 2012.

The other joint venture I want to highlight is MIP, or PT Mustika Indah Permai, which is a South Sumatra thermal coal deposit, which we acquired in August of 2011 and own a 75% controlling interest. I am proud of the achievements and progress made at MIP and we expect production to begin in 2012. We will rely heavily on the business model we developed over 20 years of operating in South Kalimantan and I expect good long term value creation from this investment.

Is there any lingering legal issues related to MIP?

Prior to acquiring MIP, we conducted a legal due diligence of MIP's tenure and found MIP's license, known as an IUP, was obtained through a lawful process. Since the time of the MIP acquisition, the Supreme Court of the Republic of Indonesia has completed Judicial Reviews of the claim filed by the plaintiff, who contested, among others, the legality of the MIP IUP through state administrative and civil court proceedings. The Judicial Reviews are final and binding, thereby confirming, amongst other things, that MIP's IUP was obtained through a lawful process.

Do you believe it is Adaro's job to help eradicate poverty in the local communities?

I believe our first duty is to our shareholders to create maximum sustainable value from Indonesian coal by building winning teams that deliver a bigger and better Adaro Energy. I believe creating shareholder value is not inconsistent with also doing the right thing by our communities and other stakeholders. Adaro Energy must focus on building long term low cost assets and long term value creation. I believe Adaro Energy's long term and sustainable success will not be achieved overnight and without the support of multiple stakeholders. Given we are not a type of organization that merely thinks of itself, we must also consider others, and also those that are less fortunate. We view adhering to our responsibilities as a corporation, being fair and equitable, is not just the right thing to do, it is an investment in our future success.

Review of Coal Operations

In this Chapter

Adaro's Kalimantan head office near the Tutupan mine

Mining Operations and Contract Mining

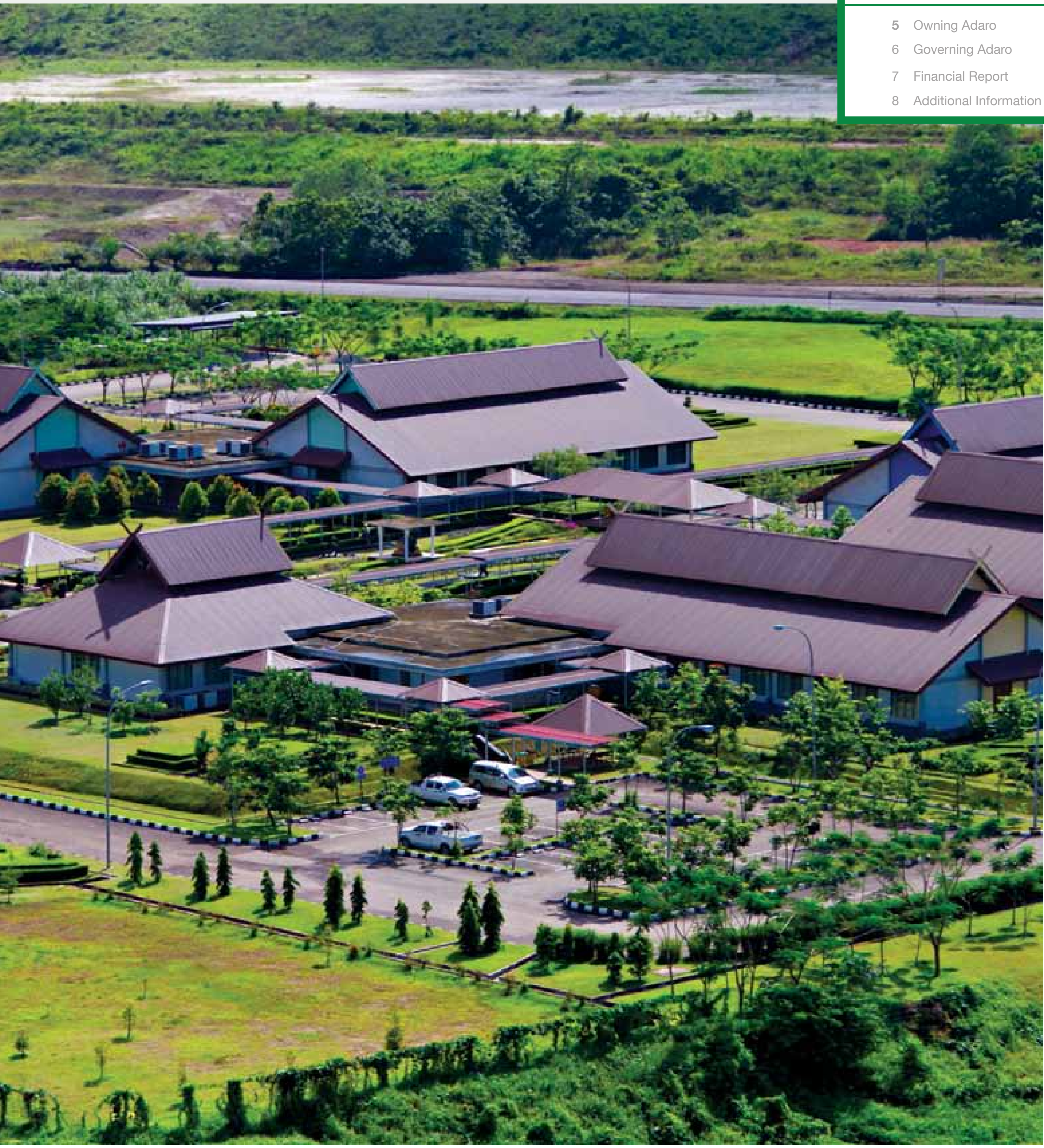
Priyadi
Operations GM

Priyadi has more than 22 years experience in mining engineering. Prior to joining Adaro in 1991 he worked with Tanito Harum. He holds a degree in Mining Engineering from UPN Yogyakarta.

In 2011, we saw a major improvement in mining operations as weather conditions, which adversely affected production in 2010, returned to a normal distinct wet and dry season. In addition, several measures that we introduced from 2009 onwards to minimize the impact of rain to our operations, as well as the introduction of new and larger equipment started to take effect as seen from the significant rise in coal production and overburden removal. The improvement in weather conditions and operations upgrading enabled us to maintain our track record of continuous production growth since the commencement of our operations in 1991 with 13% rise in coal production to 47.7 million tonnes for the year.

We use excavators and 70 to 100 tonnes class haul trucks for coal extraction, hydraulic face shovels and 150 to 200 tonnes class haul trucks for overburden stripping and hauling at our Tutupan, Wara and newly re-opened Paringin mines. Overburden stripping, hauling and dumping are carried out until coal is exposed and then coal production can

We maintain our track record of continuous production growth since the commencement of our operations in 1991 with 13% rise in coal production to 47.7 million tonnes for the year.



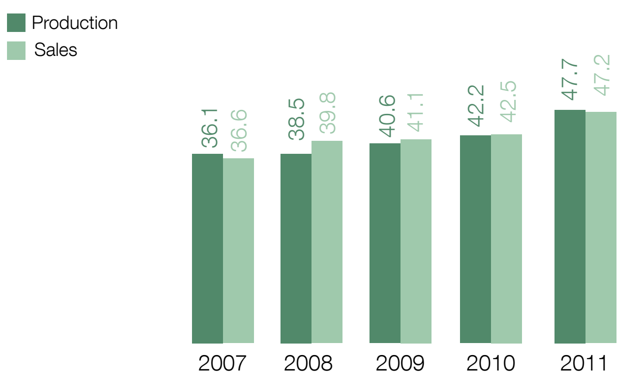
PT Adaro Indonesia	2007	2008	2009	2010	2011
Key Financial Highlight (in US$)					
Total Assets	1,106,690,589	1,278,899,044	2,303,408,132	1,884,993,302	2,699,587,574
Total Liabilities	999,941,392	1,023,049,240	1,844,077,979	1,648,576,462	2,312,088,594
Interest Bearing Debt	543,239,583	514,131,373	1,204,276,566	1,141,253,560	1,629,685,812
Total Equity	106,749,197	255,849,805	459,330,153	236,416,840	387,498,980
Revenue	1,146,339,836	1,617,765,114	2,406,903,867	2,411,971,193	3,386,176,347
Operating Statistics					
Coal Sales (Million tonnes)	36.6	39.8	41.1	42.5	47.2
Coal Production (Million tonnes)	36.1	38.5	40.6	42.2	47.7
Overburden Stripping (Mbcm)	119.9	159.31	208.5	225.9	299.27
Average blended stripping ratio (planned)	4.25	4.25	5.0	5.5	5.9

begin. Stripped topsoil is stockpiled for use in post mining rehabilitation activities.

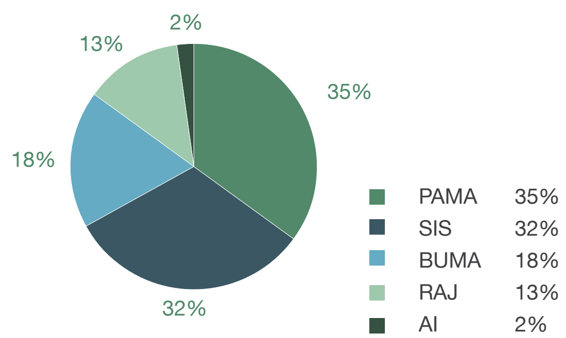
We continue to focus on doing exploration work, mine planning, production supervision, environmental rehabilitation, waste water management and coal marketing while all other aspects of our mining operations are undertaken by subcontractors.

We employ four major contractors, including our subsidiary PT Saptaindra Sejati (SIS), to do mining operations activities. These contractors have been working with us for many years, in one case even since the beginning of our operations in 1991. They undertake overburden stripping and removal, coal extraction and transportation, and some aspects of environmental reclamation under multi-year contracts. They are also responsible for the provision of sufficient equipment, materials and labor to meet production targets that we set. The use of contractors allows us to significantly reduce our funding of capital expenditures and working capital and allows us to focus on certain activities such as exploration and mine planning, quality control and marketing to ensure that we continue

PT Adaro Indonesia
Sales and Production Volume (Mt)



Coal mining contractors



to maintain a high quality and reliable output to our customers.

In 2011, PT Pamapersada Nusantara (PAMA) was responsible for 35% of Adaro's coal production followed by our subsidiary, SIS with 32%, PT Bukit Makmur Mandiri Utama (BUMA) with 18% and PT Rahman Abdijaya (RA) with 13%. PT Adaro Indonesia took responsibility for coal production from the newly re-opened Paringin mine with coal output representing 2% of total production.

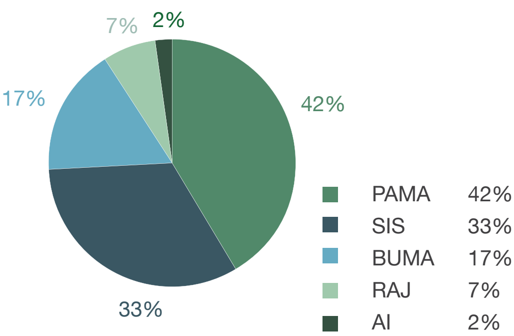
Coal Mining

Suhernomo
Coal Processing and Barge Loading Deputy GM

Suhernomo has over 21 years experience in coal mining operations and has been with Adaro since 1997. He previously worked with several coal mining and contractors in Indonesia. He has a degree in Mining Engineering from UPN Veteran Yogyakarta and is now pursuing a Magister Science Degree at Lambung Mangkurat University, Banjarmasin, South Kalimantan.

Production from PT Adaro Indonesia was 47.7 million tonnes, in-line with our target of 46 to 48 million tonnes for the year and a 13% increase over 2010. During the year, we broke our own record for daily coal extraction of coal from the pits to the run of mine stockpiles of 204,495 tonnes achieved on December 2nd 2011. This is a 19.7% rise over the previous record. The coal extraction record was especially significant as it was established during a wet season month. Monthly and quarterly records also continued to be broken with coal output averaging in excess of 4 million tonnes per month for the 9 months from April to December.

Overburden removal contractors



AI and SIS personnel at Tutupan mine.

Our Tutupan mine, which produced 41.3 million tonnes in 2011, will be consolidated at between 40 to 45 million tonnes per annum for the foreseeable future. In order to allow Tutupan to receive long term remedial works such as weatherproofing of mine haul ramps, construction of high capacity pit drainage systems and extensive pre-stripping works to expose coal and increase pit inventory so that the mine will be better positioned to handle unforeseen operational issues such as abnormal weather in the future thus minimizing production volatility.

Wara, our newly operating mine, which lies 5 kilometers to the west of Tutupan produced 5.4 million tonnes of coal, more than double 2010's output. This high rate of expansion was due to the increased pit area allowing access to more and bigger mining equipment, and low overburden stripping ratio.

Paringin, our reopened mine, located to the south of Tutupan produced slightly in excess of 1 million tonnes for the year. However, exploration in the past has delineated a substantial resource and it is planned that production for this mine will expand to 5 to 7 million tonnes per annum in future years. Coal from Paringin is similar in quality with Tutupan coal and can be blended as a homogenous product.

Overburden Removal

The rate of overburden removal increased dramatically in 2011, reaching 299 million bank cubic meters (mbcm) for the year due to the increase in size and number of the overburden removal fleet as well as the return to normal weather conditions.

This was a 32% increase over the previous year and the volume removed was more than double the volume removed as recently as 2007 where we removed 120 Mbcm.

We introduced new equipment in 2011, including 35 units of 200 tonnes class and 57 units of 150 tonnes class Caterpillar, Komatsu and Hitachi haul trucks, and 9 units of 350 to 400 tonnes class Komatsu and Hitachi face shovels with a bucket capacity of 24 cubic meters. At the end of 2011, the heavy equipment fleet for both overburden removal and coal extraction numbered 1,131 units, a 24% increase in fleet numbers from 2010.

Dumping coal to one of the crushers at Kelanis River Terminal

During the year, we removed mud and water that had accumulated in one of the contractor's mining area at South Tutupan, which had prevented coal extraction from the pit bottom in 2010. This action allowed us to mine the coal in that area and a new water drainage sump was developed. We carried out this work in conjunction with the development of a new mud removal system in South Tutupan that allows us to pump up dredged mud to a holding pond for water injection, which reduces the mud density thus allowing the mixture to be pumped out of the pond by conventional water pumps.

These measures and other upgrades to water drainage systems that we implemented in other areas of the mine, together with expansion of external sedimentation settling, ponds will enable the water management system to handle significantly more runoff than has been experienced in the past therefore reduce the impact of future abnormal weather events.

Hauling and Kelanis

Hauling

2011 was also a record year for coal hauling from the mines to Kelanis. We achieved a new daily record of 163,491 tonnes on the 22nd September, beating the old mark set in 2009. It is worth noting that we exceeded the old record six times during the year.

Coal haulage operations on the 80 kilometer haul road from the mines to Kelanis continued at a high level of efficiency throughout the year with no major stoppages being recorded. At the end of the year, there were more than 320 units of the 130 tonnes capacity truck trailers in operation.

Kelanis

The operations at Kelanis Terminal, which handles all coal crushing, stockpiling and barge loading of incoming coal from our Tutupan, Wara and Paringin mines, maintained an extremely high level of availability throughout the year without any major breakdowns. We completed the upgrade of one of the crushing stations, which had begun in 2010. This increased Kelanis Terminal's crushing capacity to 55 million tonnes per annum and allowed Kelanis Terminal to handle increased production output from our mines with little difficulty. We set new records for daily crushing and barge loading with 163,754 tonnes being crushed on the 23rd October and 173,571 tonnes being outloaded to barges on the 15th December.

Left: Adaro Energy's Logistics Department with Mr. Terry Ng (center)

Right: Personnel of Permata Barito Floating Office.

Marine Logistics Operations

Terry Ng
Director at SDM, SMS and IBT

Terry is in charge of coal logistics and has been with Adaro since 2002. Prior to joining Adaro he was with Schlumberger for 5 years and Regional Marketing Engineer as his last appointment. He holds a degree in Electrical Engineering from McGill University, Canada.

Barging

All of our coal is transported by barge from Kelanis terminal to export shiploading points or direct to domestic destinations by six marine contractors including our subsidiary, PT Maritim Barito Perkasa (MBP). There are currently 55 units in the barge fleet, a reduction from 73 units in 2010. However the average barge size has increased to 10,978 dwt from 10,197 dwt with the replacement of smaller 8,000 dwt barges for larger capacity barges of above 10,000 dwt.

Even with the reduction in barge numbers, the fleet transported 47.17 million tonnes, a 12% or 5 million tonnes increase over 2010 due to the positive impact of the efficiency improvement program started in 2010, which decreased cycle times to the Taboneo anchorage from 120 hours to 97 hours during the year, equivalent of one extra cycle per barge per month.

	Units	2011	2010	% Change
Floating Cranes	Mt	29.4	23.1	27%
Self Geared	Mt	5.0	4.9	2%
IBT	Mt	2.1	3.5	-40%
Barges	Mt	10.7	11.0	-2%
Total	Mt	47.2	42.4	11%

New fleet additions during the year included a 15,000 dwt self-propelled barge, which was put into operation on domestic routes joining three 12,000 dwt units already in service. In 2012, new fleet additions will accelerate with 5 sets of 15,000 dwt towed barges and tugs scheduled to commence operations.

Ship-Loading Operations

Captain Robert Possumah

Robert has 15 years experience in coal transshipment, barge handling, and bulk coal terminal. Prior to joining Adaro in 2008, he worked with PT Arutmin Indonesia, PT BHP Mineral, PT IBT and PT. Banpu. He holds a degree in ship handling from Australian Maritime College and Indonesian Marine Nautical Science. He also has a Maritime Pilot certificate from the Indonesian Government.

Ship-loading operations are primarily undertaken at Taboneo anchorage where 94% of export coal or equivalent to 34.4 million tonnes was loaded, while the remaining 2.1 million tonnes was shipped through the IBT terminal on Pulau Laut.

There are five floating cranes and one trans-shipper at Taboneo, operated by contractors including MBP, for loading gearless bulk carriers up to large cape size vessels in excess of 200,000 dwt. The floating cranes can load at rates ranging from 15,000 to 20,000 tonnes per day while the trans-shipper has a loading rate of up to 35,000 tonnes per day. In addition, we can also provide sufficient barge capacity to load up to four self loading geared vessels, which gives a total ship-loading capacity of 165,000 tonnes per day at Taboneo.

Trevor Shipton
Port Manager IBT

Trevor has 40 years of experience in the mining industry. He joined IBT in December 2004 initially as Maintenance Manager, being promoted to Port Manager in 2010. Prior to joining IBT he was with BHPB and Rio Tinto mining operations in Papua New Guinea specialising in Maintenance Management.

With the IBT terminal remaining as a strategic back-up, total ship-loading capacity is currently in excess of 50 million tonnes per annum. Meanwhile, total transport capacity, which includes direct domestic barging, is in excess of 60 million tonnes per year.

Marketing and Sales

Related Information
Marketing Envirocoal 80

Our coal sales efforts continue to focus on the key thermal markets of Asia which together accounted for 87% of our market in 2011. The remaining 13% was supplied to the Atlantic market and the Americas. Power generation companies constituted 75% of our customers by volume in 2011.

Peter Arendt
Planning, Strategy and Market Development GM

Peter Arendt joined Adaro in February 2011 and has over 25 years experience in coal marketing, business development and mine operations. Prior to joining Adaro, he held positions in Canada with Luscar Ltd. and in Australia with BHP, Oaky Creek Coal and New Hope Corporation. Peter holds a Bachelor of Engineering (Mining) from the University of Queensland and a Graduate Diploma in Business from the Curtin University of Technology, and is registered as a Professional Engineer in British Columbia and Alberta, Canada.

Sales growth continued in 2011, reaching a total of 47.2 million tonnes, an increase of 4.80 million tonnes or 11.3% of the 42.4 million tonnes sold in 2010. Of the 2011 total sales, 36.5 million tonnes was delivered to export customers while 10.7 million tonnes went to the Indonesian domestic market.

E5000 is our long term established brand mined from Tutupan. Even though the export market saw reduced demand in the second half of the year, we still experienced solid demand for our coal. E5000 remains highly regarded for its favorable environmental characteristics of ultra-low sulphur, low ash and low nitrogen. Sales of E5000 in 2011 were 41.7 million tonnes, which is slightly higher than 2010 sales of 40.4 million tonnes.

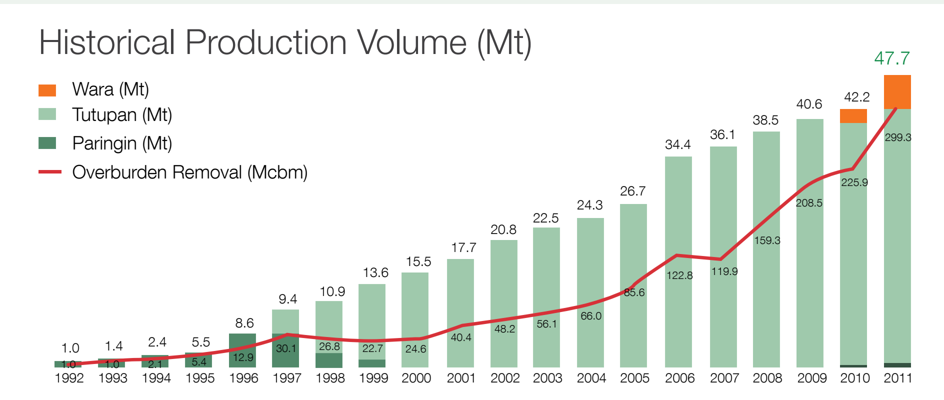
Sales strategy for E5000 is focused on achieving and extending long term contracts in the higher value markets where it receives pricing that recognizes and values its favorable quality characteristics. As part of this strategy, we shipped trial/spot cargoes of E5000 to two power utilities in Japan and an industrial company in South Korea and concluded a new five year contract to another Japanese power utility. In the future, E5000 tonnage may be reduced in markets in which quality and reliability are not sufficiently recognized in pricing.

Asia remains the largest export market for E5000, with 22.3 million tonnes shipped in 2011, or 71% of all export sales. Demand in E5000's traditional European markets increased substantially, with 2011 sales of 5.8 million tonnes, representing an increase of 51% over 2010 sales of 3.9 million tonnes. At the same time, sales to the Americas were lower in 2011, primarily due to low dispatch from the power plants. The reduced demand from the Americas, specifically the eastern US and Chile, will allow us to redirect E5000 sales to fulfill the strong demand in the Asian and European markets for E5000.

One of the highlights of 2011 was our invitation by CLP Power Hong Kong to officiate at a ceremony celebrating the completion of their emission control projects. We are a long-term supplier of E5000 to CLP and were cited as CLP's main supplier of ultra-low sulphur coal.

E4000 is the base component coal in a power station in China, and has specific value as a blend coal with higher ash and high sulphur coals. The largest growth in E4000 sales were in China and India, where collective sales tripled from 1.2 million tonnes in 2010 to 3.8 million tonnes in 2011, equivalent to 69% of total E4000 sales. Market acceptance has also been achieved in other parts of Asia, where 1.2 million tonnes or 22% was sold to a premium customer in Korea under a long term contract, as well as sales to long-term customers in Thailand and Indonesia. A new three year contract for E4000 was negotiated with of one of China's five major utility companies, with deliveries to begin in 2012.

(Continued to page 110)



At Adaro Energy (IDX:ADRO), our overriding goal is to create maximum shareholder value. We do this by creating sustainable value from Indonesian coal. Since 2009, we have delivered some of the best shareholder returns in Indonesia.

With 20 years of uninterrupted growth, Adaro's Tutupan mine in South Kalimantan is one of the largest single-site coal mines in the southern hemisphere. We have delivered over 416 million tonnes of thermal coal to our satisfied customers in 17 countries around the world. We have proven that we can build operations on a huge scale and operate them successfully, at low cost, without disruption. In 2011, we delivered an industry topping EBITDA margin of 37%.

We have embarked on a program of growth through acquistions. In 2010, we closed a joint venture deal for a large metallurgical coal project, encouraging us look for other Indonesian coal acquisitions to boost reserves and diversify. In August and October 2011, we established a foothold in South Sumatra by acquiring two coal deposits and equity in a logistics company.

It is our firm belief that continual growth cannot be achieved without building trusting and mutually beneficial relationships with local communities surrounding our projects. Building exemplary community development and environmental programs and behaving as a responsible corporate citizen are all part of our core business, and important reasons for our continued growth every year since we began operations in 1992. Sustainable growth and value creation make us the partner of choice for coal mining and energy in Indonesia.

We encourage you to please contact us to find out more about how we are continually striving to create a bigger and better Adaro Energy.

adaro

PT Adaro Energy Tbk, Menara Karya 23rd floor, Jl. H.R. Rasuna Said Blok X-5, Kav 1-2 Jakarta 12950, Indonesia

Please Contact: Cameron Tough | cameron.tough@ptAdaro.com | www.Adaro.com

Going forward, India and China are the major target exports markets for E4000 coal. Existing and new power stations in India and China practice a high degree of blending and have a lot of flexibility with respect to the quality of their coal feedstock. With its low sulphur, low ash and low nitrogen, E4000 is an excellent coal to blend with higher sulphur and higher ash coals, and continued future growth is expected in these markets.

Over the next five years, there will be significant additional demand in India and Southeast Asia from new independent power projects, or IPPs, that will come on-line. We already have a number of IPP customers and are engaged in a number of commercial dialogues and MOUs with international electrical utility companies and multi-national consortiums, which are bidding for IPP projects. These IPPs typically have their electricity output contracted to government-owned utility companies, and seek large reliable coal producers to provide their primary coal requirements. Our marketing effort is specifically focused on these IPPs as future markets for E4000 coal, and the marketing team is actively working to conclude supply agreements.

Adaro Indonesia's Marketing Department with Mr. Edwin Tsang

In the domestic market, we continue to be a strong supporter of the Indonesian Government's promotion of the use of coal for power generation, cement and other industries. In 2011, we maintained our position as one of the largest suppliers to the domestic market. Supply was 10.7 million tonnes of mainly E5000 coal, equivalent to approximately 18% of Indonesia's domestic coal consumption.

We had anticipated to deliver significant volumes of E4000 to meet PLN's increased demand under the 10,000 MW "crash program.". However, the expected PLN demand for E4000 was unfortunately not realized due to various factors, including the delay in commissioning of new units. This did not negatively impact upon E4000 sales, as the tonnage that would have been sold to PLN was placed in the higher demand international markets. Moving forward, we will continue to work with PLN and other Indonesian coal utilities, cement plants and industrial consumers of coal to achieve increased sales of E4000 to the domestic market. In this regard, increased sales of E4000 to domestic cement plants are expected in 2012.

A major commercial focus is to align contracts sales strategy with prevailing government regulations, which include Ministerial Regulation No.17/2010 with respect to coal price, and Ministerial Regulation No. 34/2009 with respect to Domestic Market Obligation (DMO). We are committed to meeting these requirements and are working with our customers in this regard. With respect to the Domestic Market Obligation, our actual delivery to the domestic market exceeded our 2011 DMO requirement by 1.45 million tonnes.

With year-over-year production increases from 2010 to 2011 and further medium-term increases planned, market development will continue to be our major focus in 2012. These efforts will focus on the natural high growth markets in Asia, notably Indonesia, China and India while maintaining our position in the premium traditional markets in Northeast Asia.

With the continued increase in coal production and sales in 2012 and beyond, we added new marketing management personnel in 2011 in the areas of market research, strategy and market development. Further additions to the marketing team are planned for 2012 to ensure that the size and qualifications of the marketing team will correspond and support the increased sales volumes, the growing number of customers, and a more diversified customer base.

Technical Marketing Report

Dee Rees

Dee Rees has worked in the coal industry for 40 years. He has a Ph. D. in chemical engineering from Brigham Young University, USA. He has been working with Adaro since 1992 as a technical consultant. He has recently been pioneering new technology on drying and upgrading Indonesian low-rank coals.

From the beginning, Adaro Energy has added value to coal products by establishing a technical link with its customers. Traditionally coal companies build relationships with the Purchasing group of customers, but Adaro Energy has worked hard to build relationships by offering technical expertise and services to the Engineering and Operations groups of customers.

When Envirocoal first arrives at the plant and is introduced into the furnace, Adaro is there to provide assistance and suggestions how to use the coal. The Company is there to assist the customer to get the most value from our coals by adjustments to the operation to get lowest environmental emissions, higher efficiency, or implement strategies for blending to get lowest electricity production costs.

Whether the customer is large or small, Adaro Energy strives to function as a team with the customer. Recent example include, in India, a new customer who will use only a few hundred thousand tonnes per year and a large steel company with the potential to use millions of tonnes of Adaro's Wara coal each year. Each was having problems and equipment suppliers were blaming the coals. During the Adaro visit, it was established that any particular fuel was the least likely cause of the problems, and that slight changes in operation and re-design of some equipment was the best solution. At the end of the visit the plant manager of the steel plant, a person recently hired from an older customer of Adaro, instructed his operating staff to '. . . stay in touch with Adaro!' This is an example of new teams adding value to Adaro coals and ensuring customer satisfaction.

The Asian Subbituminous Coal Users' Group held their first meeting in Hong Kong in late 2011, and Adaro Energy was a major catalyst in the formation of the group. The purpose of the group is for users of lower rank coals to meet and discuss best practices to get the most value from using these coals, modeling a similar group in the USA. The Asian Subbituminous Coal Users' Group is an important element in assuring the long term use of Adaro's coals. This is a winning team in action to promote the use of Indonesian coals far into the future, and Adaro Energy is proud to have been instrumental in the formation of this group, and a charter member.

No one has more experience in handling Indonesian environmental coals than Adaro Energy. The company is not only committed to use best practices in its own operation, but it works to bring those practices to customers' operations to help them get the maximum benefit from using Adaro coals. Over the years, Adaro has invited customers to come to Indonesia to see first hand how to properly handle and store coal, and has sponsored seminars where Adaro employees teach and instruct in coal handling, laboratory analyses, dust control, etc. This is another way the company builds relationships with customers' staff, and thereby adds value to its products. This helps to ensure strong sales in the future.

The Adaro team includes sales people and agents in various countries who maintain the first line of contact with the customers and provide service for various aspects of the contracts. The company realizes that these team members also need training and experience in how to provide the best service to customers. Including these people as members of the Adaro Energy team is a key component of adding value to Adaro products.

Adaro Energy recognizes that to supply energy far into the future, Indonesia's large amount of high-moisture, low-rank coal must be used. The key to unlock such a vast resource is to upgrade this coal so it can be used in current markets to generate steam and electricity, and in advanced technologies of gasification or liquefaction. The first step for use in any of these technologies is to reduce the moisture to increase the specific energy content.

The company is evaluating a number of technologies to 'dry' the coal from 45-55% moisture to 10%, thereby increasing the available energy in a tonne of coal by 80%. The problem in doing this is that the coal becomes much more dusty and prone to spontaneous combustion during transport and storage. The solution for this is to dry the coal then form it into briquettes that can be handled safely and easily. When this upgrading is done at the mine site the savings in transportation and efficiency when burned are significant, both to Adaro Energy and the customers.

Adaro Energy is considering building a medium-sized pilot plant to demonstrate the technology of coal drying and briquette making. Additionally Adaro will determine if the briquettes are suitable in its supply chain and verify that the economics are satisfactory. The pilot plant would pave the way to build commercial plants much larger in capacity.

Adaro Energy can only build sustainability far into the future by having the coal resources, using the best available technology and practices for production, having an effective team to supply the coal, and in building a team between the Company and the customers. This philosophy and practice has propelled Adaro to profitability in the present and will build a sustainable future.

A Discussion with

Mr. Chia Ah Hoo,
Director &
Chief Operation Officer

What are your thoughts about the company's performance in 2011?

We had a record year of operational and financial performance. We delivered on our targets set for 2011, while also executing on our strategic objectives of making acquisitions and moving downstream into power generation.

Our goal is to create a bigger and better Adaro Energy and I believe we did achieve that. Of course, we still have so much more to do, but I am happy and proud of what we've accomplished so far.

With our investment of PT Mustika Indah Permai (MIP) in August 2011 and the March 2012 release of MIP's JORC reserves estimates of 273 million tonnes, we moved one step closer to beginning commercial operations and creating shareholder value from our investments in South Sumatra. We aim to have coal production within the second half of 2012. Together with our other South Sumatra investments, SMS and BEE, we are building long term, low cost assets to achieve our vision to become a leading Indonesian mining and energy group. The investments in South Sumatra are a strategic step to address improvements we wanted to make with our mining assets and to reduce revenue concentration risks.

Congratulations on achieving twenty years of uninterrupted production growth at Adaro Indonesia.

I am very proud of the team in South Kalimantan: such amazing dedication and hard work. Our mining contractor, SIS, has done very well in continuing to increase its production, now conducting about one third of Adaro's mining. Our barging and logistics firm, MBP, is conducting up to 50% of Adaro's barging and already delivers 50% of the floating crane volumes. It continues to get better each year.

You have said before that Adaro operates "beyond compliance", what do you mean?

I am happy that we continue to go "beyond compliance" in terms of our responsibilities to manage the environmental, contribute to local communities and to help build the nation. For the fourth year in a row, we received the green level for the PROPER ranking from the Ministry of the Environment.

I am happy we remain the largest supplier to the domestic market. We are the largest in terms of tonnage. In 2011, we sold 12 million tonnes to the domestic market, which amounts to just under 25% of our total volume. While we have always had to prioritize the domestic market as part of the terms of our Contract of Work, just recently Indonesia introduced a regulation called the Domestic Market Obligation, which requires coal miners provide a certain percentage of their production to the local market. They first enforced the DMO in 2011 and I am delighted that we not only met our obligation, we exceeded it.

What are you most excited about?

On a personal level, I am excited about my role here at Adaro Energy. I feel it goes beyond just a job. This is the opportunity of a lifetime for me. I am helping to take a non-renewable resource and turn it into a renewable resource by way of the benefits in terms of higher education, employment, etc. for those that work and live around our mines. This might sound a bit philosophical, but I believe Adaro is and will continue to be a channel of blessing for the tens of thousands of people that live in the communities that surround our operations. We provide, amongst other things, job security, which allows them to dream and grow and prosper. From coal to people: we are helping to develop the next generation and provide future prosperity for all.

envirocoal™

adaro
PT ADARO INDONESIA

Menara Karya 22nd Floor
Jl. H R Rasuna Said Blok X-5, Kav 1-2, Jakarta 12950, Indonesia
Phone: 6221-5211265 Fax: 6221-5211266
Email: marketing@ptadaro.com Website: www.adaro.com

Our Subsidiaries

2005

100% Adaro

100% Alam Tri Abadi

100% Makmur Sejahtera Wisesa

100% Saptaindra Sejati

LBO of Adaro

2007

100% Indonesia Bulk Terminal

100% Jasapower Indonesia

2008

100% Coaltrade Services International

51.2% Sarana Daya Mandiri

"While we expect their share of Adaro Indonesia's volumes to grow, each subsidiary is kept in a competitive environment and will be rewarded with additional volumes only if their performance beats or exceeds competition.

When the time is right and if it will create value and further improve performance, we will publicly list the subsidiaries."

Chia Ah Hoo, Director & Chief Operations Officer

2009

100% adaro POWER

100% Maritim Barito Perkasa

2010

25% **IndoMet Coal Project**

2011

51% **Adaro Eksplorasi Indonesia**

61.04% **Bukit Enim Energi**

85% **Indonesia Multi-Purpose Terminal**

75% **Mustika Indah Permai**

35% **Servo Meda Sejahtera**

34% bhimasena POWER

PT Saptaindra Sejati

Anis Sulistiadi
President Director SIS

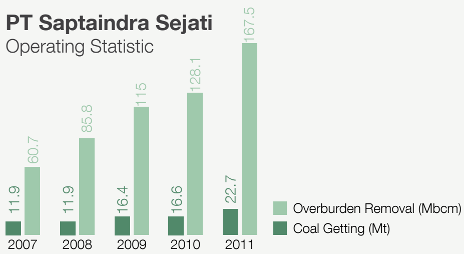
Anis Sulistiadi joined SIS in January 2008 and has been the CEO since October 2008. Prior to this he held various Senior Executive positions with United Tractors for 26 years. He was also a member of the Astra Quality Committee and Astra Bina Ilmu. He holds a degree in Agricultural Mechanization and Technology from the Bogor Agriculture Institute.

SIS's Board of Directors

PT Saptaindra Sejati (SIS) is the third largest mining contractor in Indonesia and has been delivering industry leading contract mining services for almost ten years. We provide a broad range of services of contract mining, civil and infrastructure, as well as logistical supports to seven valued customers including PT Adaro Indonesia. All these contracts require the provision of all labor, equipment and materials for overburden removal, coal extraction, and coal hauling.

In 2011, we received two new projects from Balangan Coal. These two projects are located side by side at Balangan, South Kalimantan. The total production target for both contracts for the next five years will be 20 million tonnes of coal and 88.6 Mbcm overburden removal. As part of the scope of works, we will also be responsible to construct an 11 kilometers coal haul road to support Balangan's mining activities.

The combination of expected weather conditions and the arrival of new and larger sized heavy equipment allowed us to deliver a 30% increase year over year in overburden removal to 167.2 Mbcm in 2011, of which 57% is Adaro's portion or 95.9 Mbcm. Coal hauling also delivered a 33% increase year over year to 22.6 million tonnes, of which 35% is Adaro's portion or 14.9 million tonnes.



We own and operate advanced, large and well maintained heavy equipment. For instance, we operate 400 tonnes class hydraulic excavators and 200 tonnes capacity off-highway dump trucks for overburden hauling at Adaro's operations. We decided to use larger equipment to maximize productivity, increase utilization and improve efficiency.

The safety and health of our employees are our main priority and it is our goal to achieve an incident and injury free workplace. We are committed to meet this goal through internationally standard management systems OHSAS 18001 and ISO 14001. Our high standard in occupational health and safety has been recognized as we received "Utama Award" from the Ministry of Energy and Mineral Resources for our best safety practices at Berau operations in 2011. We are always committed to deliver projects on time, within budget, incident free and in an environmentally sustainable manner that is in harmony with the local community.

PT Saptaindra Sejati	2007	2008	2009	2010	2011
Key Financial Highlight (in US$)					
Total Assets	315,411,170	438,550,024	460,949,438	482,816,959	564,288,407
Total Liabilities	263,110,532	357,922,570	362,759,068	381,851,787	449,370,635
Interest Bearing Debt	233,161,277	328,122,495	311,530,925	309,277,419	362,055,123
Total Equity	52,300,426	80,627,228	98,190,106	100,964,909	114,917,772
Revenue	149,368,298	189,407,537	264,334,683	304,457,243	424,743,115
Operating Statistics					
Overburden Removal (Mbcm)	60.7	85.8	115.0	128.1	167.5
Coal Getting (million tonnes)	11.9	11.9	16.4	16.6	22.7

Map of SIS's Operational Locations

SIS is the third largest coal mining contractor in Indonesia and provides a broad range of services such as exploration, drilling, contract mining and logistical support to Indonesia's coal mining industry.

Graha Saptaindra Sejati
JL. Letjen TB Simatupang
Kav. 18, Jakarta 12430
Phone: +6221-769-3378

PT Maritim Barito Perkasa

Alan Yim
President Director MBP

Alan joined MBP in 2009 after being with the Chuan Hup Group of companies for 27 years in a variety senior positions ending as CEO of CH Logistics from 2002-2008. He holds a Chief Engineer's certificate.

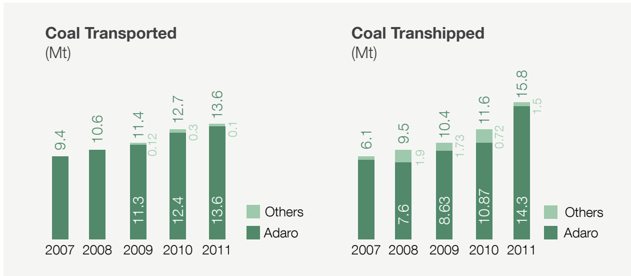
Personnel of Maritim Barito Perkasa (MBP) at Family Gathering Event

PT Maritim Barito Perkasa is a key barging contractor to Adaro Indonesia, providing a modern fleet of tugs, barges and self-propelled barges carrying coal from Kelanis to Taboneo anchorage and IBT terminal for ship-loading and direct to domestic customers on Java Island. In addition, the company is the largest ship-loading contractor through a fleet of four large, modern floating cranes.

Singapore based Orchard Maritime Logistics Pte Ltd. (OML) now provides a logistical support role and holds the porfolio on fleet expansion planning, purchase and new construction on vessels for its sister companies Maritim Barito Perkasa (MBP) and Harapan Bahtera Internusa (HBI), after selling off all its marine assets to MBP and HBI in 2009 to comply with Indonesia's cabotage laws.

During 2011, the combined MBP and HBI Fleet, together with chartered in third party vessels, transported 15.8 million tonnes, which was a 36% rise over 2010's tonnage of 11.6 million tonnes. Adaro Indonesia remained as the largest customer with Indonesia's third largest coal producer, Kideco Jaya Agung, utilizing our vessels to transport coal to PT Newmont Nusa Tenggara, PT Semen Gresik (Persero) Tbk, and PT Cirebon Electric Power.

Transshipment tonnage through the floating cranes rose to 13.6 million tonnes, which was a 7% increase over 2010. This increase was achieved even though two out of the four floating cranes underwent mandatory repairs and surveys during the year, significantly reducing their operational availability.



MBP's modern fleet of marine transportation equipment continued to grow in 2011 with the barge fleet growing to 16 units and tugs increasing to 19 units. In addition, the self-propelled barge fleet increased from three to four units with the latest vessel being 25% larger at 15,000 deadweight tonnage (dwt).

In 2011, MBP also signed a Sale and Purchase Agreement to acquire another two tugs of 3,200 bhp and two barges of 13,200 dwt scheduled to be delivered in the first quarter of 2012, and a shipbuilding contract for a floating transfer unit for offshore loading scheduled to be delivered in the second quarter of 2013. This will give a ship-loading capacity of at least 21 million tonnes per year.

MBP will continue its new building program in 2012 and will be committing to construct another five units of 3,200 bhp tugs, five units of 15,000 dwt barges and another accomodation barge for use at the Taboneo anchorage which will be able to accommodate up to 100 personnel. All are scheduled to be delivered in 2011.These new fleet additions will ensure that MBP will be able to meet Adaro Indonesia's expanding transport requirements as its coal production continues to increase in coming years.

Barging (OML, MBP, HBI)	2007*	2008*	2009*	2010**	2011**
Key Financial Highlights (in US$)					
Total Assets	171,192,842	176,916,038	189,241,920	130,558,898	157,782,970
Total Liabilities	155,907,304	157,684,794	162,732,466	140,796,300	140,174,863
Interest Bearing Debt	130, 485,170	147,738,400	111,541	95,064	131,002,944
Total Equity	15,285,538	19,231,244	26,509,453	(10,237,404)	17,608,107
Revenue	47,163,789	69,955,163	71,299,980	60,249,459	92,186,117
Operating Statistics					
Coal Transported (million tonnes)	6.8	9.5	10.4	11.6	15.8
Coal Transhipped (million tonnes)	9.4	10.6	11.4	12.7	13.6

* Combined figures of OML, MBP and HBI, translated using rate Rp. 9,400/US$ for convenience purposes only.
** Figures of PT Adaro Logistics and subsidiaries, a holding company to PT Maritim Barito Perkasa and PT Harapan Bahtera Internusa. In October 2009 , the assets of OML were restructured to PT Maritim Barito Perkasa and PT Harapan Bahtera Internusa in order to comply with Indonesia's cabotage law and by the beginning of 2010 the entire fleet was under Indonesia flag.

Map of MBP's operations

PT Maritim Barito Perkasa provides a modern fleet of tugs, barges and self-propelled barges carrying coal from Kelanis to Taboneo anchorage and IBT terminal for ship-loading and direct to domestic customers on Java Island.

PT Maritim Barito Perkasa

Jl. Kinibalu 45 Banjarmasin
Indonesia
Phone : (051) 144 15124
Fax : (051) 144 15179

Perceptions on the Shipping Market in 2011

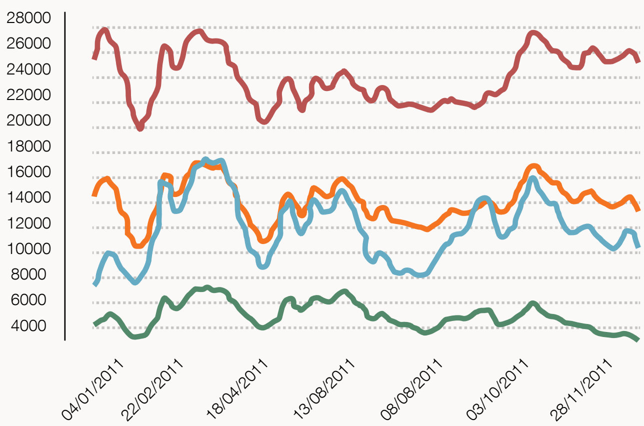
Alex Harkess
Shipping Consultant attached to Adaro Logistic (Director of Clarkson Asia)

All internationally traded commodities are commercially impacted by one form of freight or another over a period of time. As in the case of Indonesian steam coal, it is primarily marine freight and its components that have a direct impact on the delivered cost of the commodity.

Before reviewing the marine freight market for 2011, it is important to take a step back to mid year 2010 and look at the then perceived sentiment that was in the wings for the year ahead. In fact it was a time of perceived optimism for many shipowners. It was correctly believed that there would be dry bulk world trade growth from 3,490 billion metric tons in 2010 and this we now know grew some 4.5 percent during the year. The supply of bulk carriers was also known to be growing, although it was not completely understood at the time how much of the forward order book on new building deliveries would actually materialise. With the benefit of hindsight, we note that the good growth figures in dry bulk world trade were spoiled, from a freight earning perspective, by the supply of new building bulk carriers, which increased some 14 percent during 2011 despite the scrapping of older bulk carriers increasing some 246 percent during the same period.

The impact following the expansion in supply of dry bulk tonnage resulted in daily average earnings severely droping during the period of 2010 and 2011, as Cape sizes experienced some 53% drop year over year (y-o-y) to end 2011 at an annual average of US$14,433 per day. Panamaxs' lost some 44%, averaging an annual daily return for 2011 at US$11,340 per day and Supramaxs' lost some 37%, averaging US$12,005 over the same period.

The graph opposite, provided by the Baltic Exchange in London, reflects four primary indices for the year 2011 on the industry work horse (the Panamax). The Red line represents the daily average earnings in US$ per day for the front haul route Atlantic to Far East, while the pale Blue line reflects an inter-pacific round voyage. The dark Blue line reflects back haul or Pacific / Atlantic trading and the Green line reflects a Time Charter average. What becomes clearly evident when looking at this graph is the dependency that time charter daily rates have on trade routes eminating from the West and heading to the East. This analogy being further supported when one considers Australian coal exports, which diminished some 9.5% from 2010 figures to close at around 272 million tonnes of exports while the USA ramped up exports during the same period some 42% to end 2011 with about 90 million tonnes of coal exports.



As we have seen through this short take on 2011, dry bulk growth in demand was spoiled primarily by too much supply of dry bulk tonnages. At the end of 2011, the dry bulk fleet in the three main segments is reflected by about 1,352 Capes available with a further 36% of this figure on the forward order book – Panamaxs' stand at around 2,026 units with a further 758 units on order representing about 40% additions to come and Supramaxs' ended the year with a fleet of 2,463 vessels and 649 further units to come or a 28% fleet growth forecast – all fleet growth forecasts are primarily due for delivery during 2012 and 2013.

Current dry bulk "Spot" average daily earings at early January 2012 in all three main dry bulk segments return, between US$9,000 and US$9,500 per day irrespective of the size of the vessel. These reduced earnings may be reflective in part by concerns of the fleet size and anticipated further deliveries as well as rising oil prices, the culmination of numerous year end / start holidays, numerous financial economic forecasts from around the world and the political challenges that face us all in 2012.

Fakhrol Azmi Bin Harun
President Director SDM; Director MSW

Fakhrol Azmi holds a BA (Hons) in Accountancy from Northern University Malaysia. Prior to joining Adaro he worked with Tenaga Nasional Berhad for 12 years, and was President Director of TNB's coal operations in Indonesia.

PT Sarana Daya Mandiri (SDM) is a South Kalimantan based company responsible for management and maintenance of the new Barito River channel. SDM manages marine traffic in the new channel and conducts routine maintenance of the 15 kilometers channel through regular dredging. In 2008, SDM undertook the initial capital dredging of the new channel as a contractor to PT Ambang Barito Nusapersada, a company owned by the South Kalimantan Government. SDM was appointed to dredge the new channel as well as manage traffic operations and works in cooperation with the Government to collect channel usage fees. This partnership allows SDM to recoup the cost of the initial capital dredging and fund its ongoing expenditures in maintaining the guaranteed channel depth to allow 24-hour movement of loaded coal barges, upkeep of navigational aids, and continuously upgrading of traffic management systems to ensure navigational safety in the channel.

Dredging of the new channel effectively tripled the Barito River channel transport capacity to an estimated 200 million tonnes per year as it removed the tidal constraint that had been limiting vessel movements and also allowed transits of large vessels due to the increased depth and width of the new channel.

In 2011, the marine traffic through the channel continued to increase both in terms of numbers and tonnage with the coal industry being the main user. Coal tonnage transported through the channel increased to 79.2 million tonnes as compared to 68.35 million tonnes in 2010, while the total number of vessels transiting through the channel rose from 8,807 in 2009 to 9,837 in 2011. The increase in the number of vessel transits was noteworthy as the actual number of general cargo and container vessels has been reducing since larger vessels are now replacing the smaller vessels, which used to operate in the channel before the new Barito River channel with its greater depth was constructed.

While shipping safety remains the responsibility of the port authorities, we take a leading role in providing advice to upgrade the standard operating procedures for navigational safety. It is particularly notable that despite the increased usage in 2011, there were no recorded or reported accidents in the channel.

To further upgrade the monitoring and control of traffic and to assist with navigational safety, in 2011, we improved and upgraded our radar equipment. This improvement enabled us to extend our monitoring area from Taboneo anchorage through Trisakti port in Banjarmasin.

Personnel of Sarana Daya Mandiri (SDM)

In order to build a winning team for a bigger and better Adaro, SDM continued its staff upgrading program and sent a number of employees to attend various special training programs throughout the year to ensure that they have the skills relevant to their jobs. SDM now has seven employees with the Hidropo Survey Certificate, five employees with Terra Model Certificate, and five employees with Radar Operators Certificate.

In March 2011, the shareholders approved a change in the senior management with Mr. Terry Ng becoming Director of Operations to replace Mr. Sonny Sidjaja.

In 2012, besides conducting maintenance of the channel to ensure the acceptable depth, the company will also put more focus on the traffic safety and control, not only at the Barito River channel, but also along the main navigational lane from Banjarmasin port to Taboneo port.

The company will also collaborate with the Port Authorities in ensuring the development of a combined and comprehensive traffic safety and traffic control standard operating procedure will be put in place as soon as possible.

PT Sarana Daya Mandiri	**2008**	**2009**	**2010**	**2011**
Key Financial Highlights (in US$)				
Total Assets	44,976,666	55,514,024	47,738,369	44,454,950
Total Liabilities	43,304,745	49,415,792	41,930,766	35,278,426
Interest Bearing Debt	42,823,966	46,141,572	40,248,892	33,998,897
Total Equity	1,671,921	6,098,232	5,807,603	9,176,524
Operating Statistics				
Volume tonnage (million tonnes)	-	58.3	68.4	79.2

PT Indonesia Bulk Terminal

Sonny Sidjaja
IBT GM,
Director IMPT

Sonny joined Adaro Group in 2008. Prior to this, he was Head of Logistics Business for Surabaya Area with AKR Corporindo Group, and then General Manager of HRD and Production at PT Aiwa Indonesia. He holds a Mechanical Engineering Degree from Trisakti University.

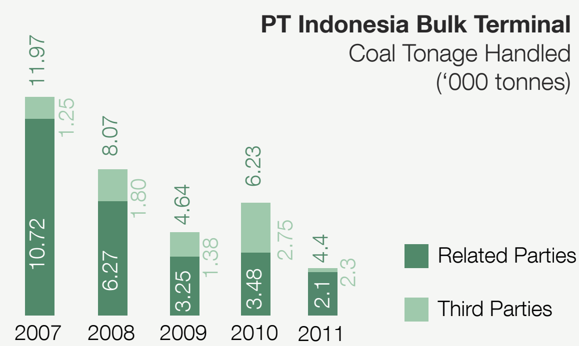
Personnel of Indonesia Bulk Terminal (IBT).

PT Indonesia Bulk Terminal (IBT) operates the South Pulau Laut coal terminal which has been operating since 1998 and is one of only two terminals in Indonesia authorized to provide common user coal handling and shiploading services to the coal industry. We can load up to large Panamax bulk carriers and have a nominal annual capacity of 12 million tonnes. Since commencement of operations, we have shipped more than 90 million tonnes of coal around the world.

In 2011, our coal tonnage throughput was 4.39 million tonnes, a 29% drop in tonnage compared with 2010. Of this total, 2.10 million tonnes was related tonnage from Adaro Indonesia while 2.29 million tonnes was from third party users of the terminal. A total of 65 vessels were loaded, a 31% drop from 2010.

The reduction in tonnage throughput for the year was primarily due to new regulatory requirements from the Government, which affected coal trader operations in the first half of the year, followed by slowing market demand in Japan, due to the outage of many of the country's coal fired power stations after the tsunami in March, and in India and the increased use of the more economical Taboneo anchorage by Adaro.

In order to reduce the tonnage volatility of spot trader contracts, we focus our marketing efforts on developing longer term relationships directly with Central and South Kalimantan coal producers from the Barito River area who can benefit from the use of IBT's stockpiles as a buffer against transportation constraints due to low water levels in the river. A term contract is already in place with a Central Kalimantan producer and we will develop more in the future.



To extend the operating life of our cranes and to ensure a high level of availability as well as reliability, in 2011 we undertook major overhauls on our four cranes discharging cranes and will replace these barges with new units scheduled to be installed by the end of 2013.

The Shell managed fuel terminal continued in its prime role as a fuel storage and distribution center in support of PT Adaro Indonesia's operations. This terminal has an 80,000 kiloliter tank capacity and an annual throughput capacity of 720,000 kiloliters. During the year a total of 293,796 kiloliters was transshipped to Adaro's receival facilities at Kelanis on the Barito River.

Future development for the fuel terminal will see a new fuel jetty to load fuel barges constructed through 2012 and scheduled for operation by 2013. The availability of this new fuel barge loading wharf will further reduce possible weather disruptions to barge loading operations. From January 2012, we will introduce our new logo which will define our team spirit in striving for operations excellence in building a bigger and better Adaro.

PT Indonesia Bulk Terminal	2007	2008	2009	2010	2011
Key Financial Highlights (in US$)					
Total Assets	176,110,220	176,673,960	179,031,335	94,313,307	94,421,834
Total Liabilities	38,135,673	29,563,933	29,065,251	28,809,445	28,709,552
Interest Bearing Debt	30,165,353	1,871,045	1,934,905	-	-
Total Equity	137,974,547	147,110,029	149,966,084	65,503,862	65,712,282
Revenue	50,366,881	34,266,097	19,256,206	26,983,282	22,041,246
Operating Statistics					
Related Parties (million tonnes)	10.7	6.3	3.3	3.5	2.1
Third Parties (million tonnes)	1.3	1.8	1.4	2.8	2.3
Coal Tonnage Handled (million tonnes)	12.0	8.1	4.6	6.2	4.4
Vessels Loaded	185	125	72	95	65

A premium international bulk port and handling center

INDONESIA BULK TERMINAL

Head Office:
Menara Karya, 22nd Floor
Jl. H.R. Rasuna Said, Blok X-5,
Kav 1-2
Jakarta 12950, Indonesia
Tel : (6221) 5229250
Fax : (6221) 5224341
Email : Marketing@ibt.co.id
Web : www.ptIBT.com

Terminal:
Desa Mekar Putih
Kec. Pulau Laut Barat, Kab. Kotabaru
Kotak Pos 118
Kalimantan Selatan, Indonesia
Tel : (62518) 38800
Fax. : (62518) 38822

COALTRADE SERVICES INTERNATIONAL

Edwin Tsang
Marketing Director AI
President Director Coaltrade

Edwin joined Adaro in 2006. He has over 30 years of experience within the coal industry the latest being with Total Energy Hong Kong. He holds a Bachelor Degree in mechanical engineering and an MBA from the Chinese University of Hong Kong.

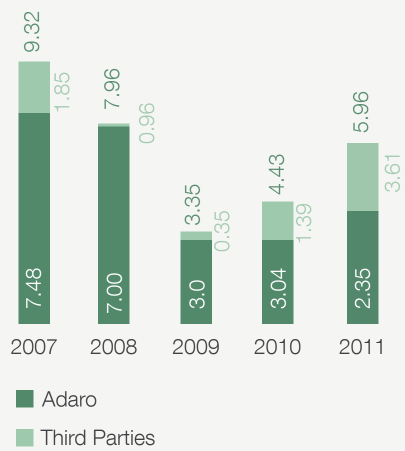
Personnel of Coaltrade Services International.

Coaltrade is based in Singapore and acts as a commissioned head agent to Adaro Indonesia for export sales in specific countries and geographic areas. We are also engaged in the services of sub-agents to market the coal supply to power companies and industrial end-users in Italy, India, Malaysia, Japan, Korea, Taiwan, Hong Kong, Philippines, and the Americas. In addition to this, we also trade in the third party coal business when opportunity arises and price it for onward sales or direct sales to end users. We are established with a solid team of legal and finance personnel to help support and strengthen our continued growth.

Overall, we have enjoyed a good year in 2011. While we reflect on what have been achieved, we need to be mindful of the continuing effects of the European debt crisis and slowing demands in China and India. In the face of these challenges, we constantly monitor the market situation and identify market niches and opportunities to capitalize on.

The 2011, results showed a significant rise over 2010 with total coal sales of 5.96 million tonnes for the year compared to 4.43 million tonnes in 2010 – a rise of 35%. These achievements were made possible due to the rise in third party sales from 1.39 million tonnes in 2010 to 3.61 million tonnes in 2011. The increase highlighted the efforts that Coaltrade has put in to develop third party trading to ensure continuous growth in existing relationships and strives to forge new ones in the region and around the world.

Coaltrade Service International Pte. Ltd.
Coal Sales ('000 tonnes)



Coaltrade Services International	2007	2008	2009	2010	2011
Key Financial Highlights (in US$)					
Total Assets	244,427,695	231,541,248	228,265,709	168,237,203	**207,393,810**
Total Liabilities	226,178,428	185,814,397	175,172,110	146,255,041	**142,135,462**
Interest Bearing Debt	200,000,000	157,654,590	144,690,590	127,964,351	**101,327,642**
Total Equity	18,249,267	45,726,851	53,093,599	21,982,162	**65,258,348**
Revenue	315,647,939	383,664,769	211,691,085	292,161,076	**542,348,866**
Operating Statistics					
Total Coal Sales (million tonnes)	9.3	8.0	3.4	4.4	**6.0**
Adaro (million tonnes)	7.5	7.0	3.0	3.0	**2.4**
Third Parties (million tonnes)	1.9	1.0	0.4	1.4	**3.6**

PT Adaro Power

Andre J Mamuaya
Director, Corporate Affairs AE
President Director Adaro Power

Andre is the Director of Corporate Affairs of PT Adaro Energy, President Director of PT Jasapower Indonesia, PT Adaro Logistics, PT Adaro Power, PT Adaro Mining Technologies, and Orchard Maritime Logistics. He also serves as a Director at PT Alam Tri Abadi, PT Adaro Indonesia, PT Mustika Indah Permai, PT Adaro Strategic Investments, PT Dianlia Setyamukti, and PT Persada Capital Investama.

He is also the President Commissioner of PT Bhimasena Power Indonesia – a consortium of JPower-Adaro-Itochu, PT Indonesia Multi-Purpose Terminal, and Commissioner of PT Saptaindra Sejati, PT Makmur Sejahtera Wisesa, PT Harapan Bahtera Internusa, PT Pandu Alam Persada, PT Adaro Persada Mandiri and PT Tri Nur Cakrawala. He served as a Director of PT Anugrahtimur Sejatiperdana from 1997 to 2000.

He completed his engineering education at the department of Industrial Mechanical Engineering of Tokyo Denki University (Japan) in 1994 and graduated from the American College, Los Angeles (USA) in Business Administration in 1996.

PT Adaro Power's (AP) vision is to become a major contributor to the electric power generation sector in Indonesia. Our mission is to support the community and national development efforts of the Indonesian government, to complement the Adaro Group's coal mining activities and to maximize shareholder value. Our business focus is the development of coal fired steam power projects and selective development of renewable energy projects such as geothermal power.

Our subsidiary, PT Makmur Sejahtera Wisesa (MSW) is developing our first power generation project, a 2x30 MW coal fired mine-mouth power plant in Tanjung, South Kalimantan. This mine mouth power station will be fuelled by Wara coal from Adaro Indonesia's nearby mine and is estimated to cost US$160 million. We will use the electricity generated from this power station for our mining operations, including our in-construction overburden crusher and conveyor, to reduce diesel fuel consumption. Construction of the plant has been underway since mid-2009 with commercial operation currently scheduled for the third quarter of 2012.

We are also involved in the development of a major base load coal-fired steam power plant, which will be located in Batang Regency, Central Java. With a capacity of 2x1,000 MW, the project is one of the first and largest power plant projects in South East Asia that will

Adaro Power's Board of Directors, from left to right: Mr. Ernest Kee, Mr. Joseph Chong, Mr. Andre Mamuaya, Mr. Adrian Lembong and Mr. Mohammad Effendi.

utilize the Ultra Super Critical Boiler technology. For this project, we established PT Bhimasena Power Indonesia (BPI), a special purpose company owned by a consortium comprising of JPower (34% ownership) and Itochu (32%) of Japan together with Adaro Power (34%).

Adaro Power formed a partnership with Korea East West Power, a subsidiary of South Korea based Kepco to build a 2x100 MW power plant project in Souh Kalimantan. Adaro Power holds 65% share of the consortium with the remaining 35% is held by Korea East West Power.

Richard Tampi
Business Development GM Adaro Power

Richard has over 14 years of experience working in mining industry with various exposures. Prior joining Adaro in 2007, he worked for PT Freeport Indonesia and Sinarmas Mining and Energy with the last position being responsible for the Marketing and Trading. He holds a degree in Financial Economics from University of Minnesota.

Additionally, we are in the first phase of acquiring an equity stake in Sejahtera Alam Energy (SAE) that holds the right to develop a geothermal project in Baturaden, Central Java. The acquisition will be done in three phases. This project is now undergoing a feasibility study. The geothermal resource is estimated to support a power output of around 80MW to 300MW.

Our involvement in these projects, totaling up to 2,560 MW, will make us the largest private power producer in Indonesia and help achieve our vision of becoming a bigger and better Adaro through sustainable growth and diversification.

In this Chapter

Occupational Health and Safety

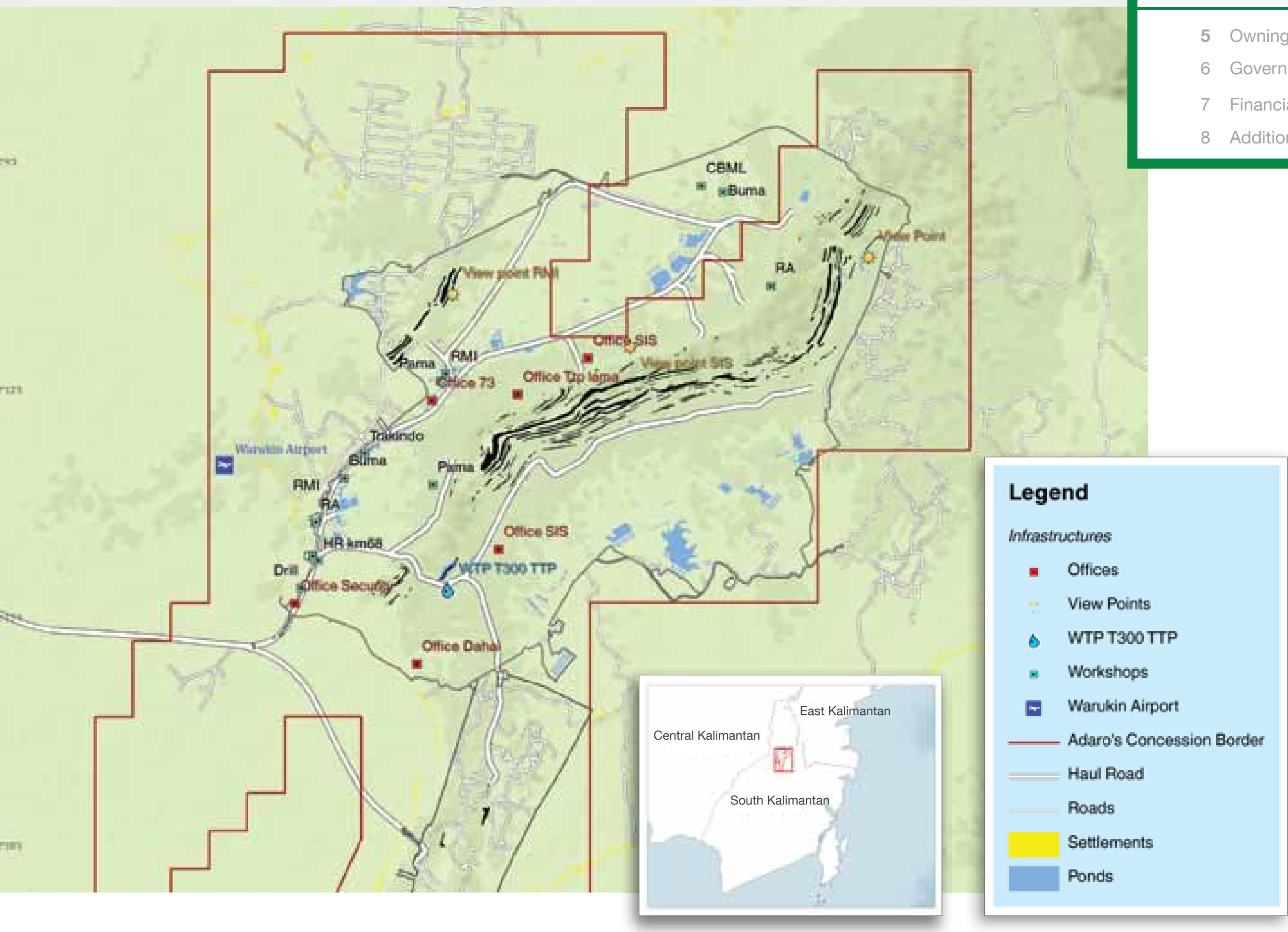
Safety

Adaro Energy is committed to maximizing workplace safety in all its operations to achieve its vision of being a leading Indonesian mining and energy group. We strive to create a safe working environment so that our employees can go home safe and healthy at the end of each day. We require our employees and contractors to have the knowledge, skills and desire to comply with national and international standards of occupational health and safety to minimize risk of accidents and injuries occurring from operations. We also have a number of initiatives to help achieve our goals of eliminating work place accidents.

We continue to implement our integrated safety, environmental and production management system, known as Adaro Safety, Environment and Production (A-SEP) which is aligned to the ISO 14001 and OHSAS 18000 international standards. This integrated system is an important element in ensuring high levels of worker productivity and overall production. In addition, it incorporates

Our integrated safety, environmental and production management system – Adaro Safety, Environment and Production (A-SEP) is align to the ISO 14001 and OHSAS 18000 international standards.

Our Lost Time Injury Frequency Rate (LTIFR) in 2011 is 0.42.



Map of Adaro's Operational Site

Wisnu Susetyo
Corporate Health, Safety & Environment GM

Wisnu Susetyo joined Adaro in 2011, and has 35 years of experience. Prior to joining Adaro he worked with Freeport Indonesia, and the National Nuclear Energy Agency. He obtained a PhD in Chemistry from the University of Georgia and MSc and Drs Degree from Gadjah Mada University.

environmental management and follows Government regulations for occupational health and safety and environmental regulations.

All new employees are required to attend intensive safety induction activities to understand the basic concept of occupational safety and equipment, as well as applicable rules and regulations. As part of the evaluation program, we require our employees to attend regular safety training sessions to assess their safety performance. We also monitor the safety performance of the contractor workforce on a daily basis, with their performance and work hours included in reported safety related statistics. On a quarterly basis, we conduct Safety Awareness meetings with the senior management of each contractor as part of our commitment to improve our safety performance by providing a forum for open communication to learn and share. In addition, safety induction sessions are also conducted for all guests entering our operations site and mining areas.

To improve employee awareness on safety, health and environmental issues, as well as to create a safe working environment culture, we employed a Group General Manager of SHE in 2011 to create policies, which will be implemented by all level within the Company's business units and operating subsidiaries.

We use the Lost Time Injury Frequency Rate (LTIFR) as one measure of safety performance. This is an internationally recognized standard and measures

We strive to create a safe working environment so that our employees can go home safe and healthy at the end of each day

the number of Lost Time Injuries per million man-hours worked.

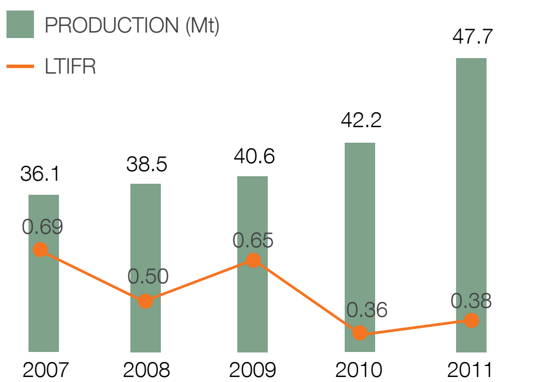
In 2011, the number of Lost Time Injuries (LTI) increased to 21 from the previous year's LTI of 15. This resulted in an increase in the LTIFR from 0.36 in 2010 to 0.42 in 2011.

As with 2010, there were two fatalities during the year and the management teams of Adaro Indonesia and all of the contractors' organizations will continue working diligently to eliminate fatalities from our operations.

Our high standards in occupational health and safety have been recognized by the Ministry of Mines and Energy Resources and were awarded the Pratama Award for mine safety from 2001-2005 before this award was discontinued.

	2011		2010
	Actual	**Plan**	**Actual**
LTI	21	15	15
LTIFR	0.38	0.3	0.36

Production vs Injury 2007 - 2011



Health

The health and well-being of our employees, contractors and also the local communities, in which we operate, are important component, of our safety, health and environmental policies. We are committed to provide the highest standards of health programs for our employees and provide on-site medical facilities for the treatment of both injuries and illnesses.

Periodic health maintenance checks on all employees are carried out and outpatient and inpatient allowances for medical treatment in clinics and hospitals are also being provided. We also encourage our mining contracting partners to provide similar standards in their health programs. We enroll our employees in the Government Jamsostek Social Security scheme to provide adequate pension benefits to our employees. In addition, we organize various health related activities such as counseling, preventive actions and sports activities, as we believe that a healthy lifestyle can reduce stress, fatigue and health related risks resulting in an improvement in safety performance and productivity.

We are committed to helping the communities within our area of operation improve existing public health schemes and develop new ones. Through our community development projects, we have introduced programs for the treatment of cataract blindness, neo-natal health care and have undertaken surveys throughout our operation areas to determine the most prevalent diseases and formulate long term public health plans for their treatment.

Responding to Emergencies

Fadjar Widijanta,
External Relations Manager

Fadjar joined Adaro in 2003. Prior to this this he was the Scientific Assistant to the Executive Director of the Indonesian Coal Mining Association and from 1995 to 2001 held geological posts with Ivanhoe Mines Ltd and the South East Java Project. He has a degree in Geological Engineering from UPN Veteran, Yogyakarta.

In 2007, Adaro established an Emergency Response Team as an extension of its Safety, Health and Environmental program. It was recognised that a specially trained group within the mining area was needed to provide an immediate response to any type of emergency.

To date, the Emergency Response Team has grown to 85 members drawn from Adaro and its contractors. All members of the Emergency Response Team have undergone specialized training in open cut mine rescue, structural collapses, firefighting, and rescue from height and water. Much of the training has been provided by the Indonesian National Search and Rescue Body.

Besides undertaking emergency response activities throughout the Company's mining area, the Team is involved in a program of disaster emergency management under the Ministry of Energy and Mineral Resources that is in charge of providing aid and assistance in the case of national disasters. Adaro's ERT has been assigned to be directly in charge of providing emergency relief in a number of locations where national disasters that occurred, including the flood emergency in Jakarta in 2009, a major earthquake in Padang, West Sumatra in 2010 and the volcanic eruption of Mount Merapi in Central Java in 2011.

The team has also been involved in providing emergency response aid in the area surrounding the mining location, including the search for victims of a boat capsize accident in Rantau and the search for drowned victims in Tabalong, Balangan and Hulu Sungai Selatan. The Team also provides various forms of emergency response training activities to local government authorities and NGOs including District Military Commands, the Disaster and Fire Management Units in Tabalong, Balangan and Hulu Sungai Selatan regencies and the joint emergency disaster drill in Balangan and Tabalong.

Every year since its formation in 2007, the Team has participated in the Indonesian Fire and Rescue Challenge, which is an annual event organized by the Ministry of Energy and Mineral Resources where participants from the mining, oil and gas, power and cement industries share particular emergency response techniques and take part in various competitions. Adaro's team has also been particularly successful in the competitions receiving a total of seven awards in such areas as water rescue, warehouse fire and rescue and motor vehicle rescue.

In this Chapter

During 2011, our reclamation of mined land continued to accelerate with 197 hectares being seeded through hydro seeding and 2.7 million trees being planted.

A close shot of leaf from reclamation activity at Paringin

Environmental Management

Iswan Sujarwo
Health, Safety & Environment and Corporate Social Responsibility Deputy GM

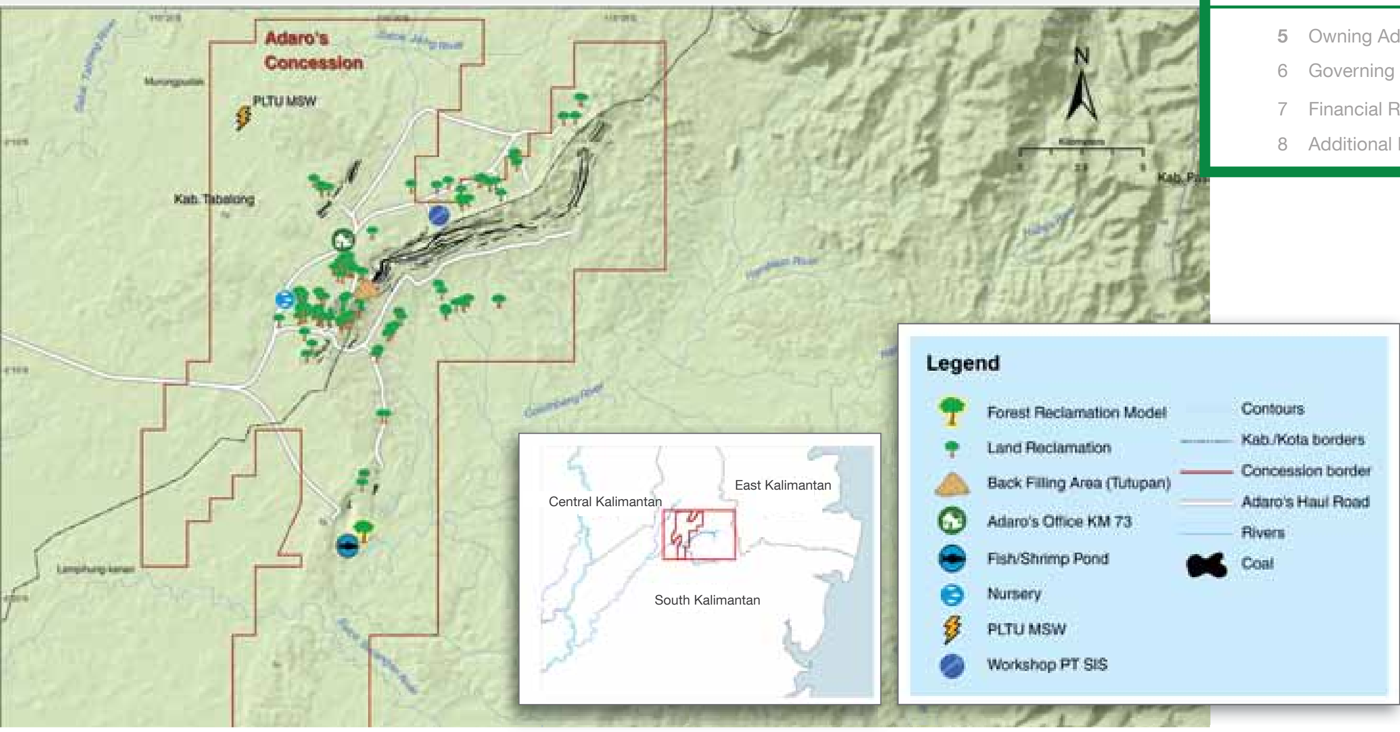
Iswan holds a Degree in Mining from from UPN Yogyakarta and has 25 years experience in coal mining and safety, health, and environment. Prior to joining Adaro in 1991, he worked with Kaltim Prima Coal.

As a company that manages natural resources, we understand that our operations have an impact on our surrounding environment. Hence, since the beginning of our operations, we have strongly committed to implement our mining principles to internationally recognized standards.

Our environmental performance is strictly regulated and controlled by the use of an Environmental Management System aligned with ISO 14001 standards. In addition, various other programs for environmental management, monitoring, and

We received the Green rating of PROPER award from Ministry of Environment for four consecutive years.

We set up Research & Development program in 2011 to further support our environmental management program.



Map of Adaro's Enviromental Management Programs

conservation, as well as the efficient use of natural resources and energy have been implemented. Through these codes, we strive to maintain the highest standards of environmental compliance in order to minimize the impact of operational activities on the surrounding environment.

The activities under our environmental programs include the management of water run-off quality ,especially from the mines, air, vibration and noise quality control. We also focus on the management of flora and fauna, soil quality, land reclamation as well as the handling of hazardous and non-hazardous waste.

We treat all mine and process water through substantial networks of settling ponds for removal of solid particles before being processed through a primary chemical treatment system. This treatment improves water quality to higher than required standards so that it is safe to be released into the general water courses. During 2011, we constructed an additional six settling ponds, and through the year a total of 315.6 million cubic meters of water was treated by the system.

Due to our commitment to natural resources conservation and the communities' need for clean water, we have initiated a principle of Reduce, Reuse and Recycle (3R) that has been translated into treatment of some of the mine water through an additional secondary process plant to produce clean water that is safe for human consumption. Our Clean Water Treatment Plant is capable of producing 72,000 liters of clean water per hour and has two water storage tanks with a combined capacity of 520,000 liters. Through this process system, we help the communities of two villages,– Padang Panjang and Dahai, by supplying and distributing clean water using a 10-km pipeline. Besides the surrounding communities, our employees and partners also use the water produced by this water treatment unit.

Dust and noise around the hauling road caused by coal hauling operations have now been minimized by paving our 80 km haul road using chipseal. Paving of the haul road has also brought other benefits, including elimination of the tanker truck fleet that was used for water spraying, reduction in the use of water for spraying the road surface and reduction in fuel consumption of the coal hauling trucks through improved operational efficiency. Coal dust is strictly controlled at Kelanis through the use of covered dumping stations over crusher hoppers and use of water spray systems with dust suppression chemicals when required for coal stockpiles and conveyor transfer points.

For reclamation activities, a nursery with the capacity of accommodating 130,000 seedlings has been built on an area of 2 hectares, which produces 30,000 seedlings per month on average. During the

A dragonfly at our South Paringin reclamation site

year, our reclamation of mined land continued to accelerate with 197 hectares being seeded through hydro seeding and 2.7 million trees being planted.

We are proud of our achievement in improving environmental performance. In 2011, our environmental management and supervision initiatives were recognized by various governmental institutions with a number of prestigious awards. We received the Gold rank of Aditama Award from the Ministry of Energy and Mineral Resources, as a coal company with the highest grade for all evaluation criteria of environmental activities. We have received this award for two consecutive years. We also received the Green rating of PROPER award from the Ministry of Environment for four consecutive years. Furthermore, we received an award presented by the Ministry of Forestry to appreciate our participation in the government program of planting 1 billion trees.

Paringin:

Our Responsibillity to Environment and Communities

Christopher Pitch
Marketing Consultant

Chris has been working with Adaro and its previous shareholders in Indonesia since 1984. He was involved in the development of Adaro and IBT and other Group operations in marine logistics and ship chartering.

Paringin, located in Balangan regency of South Kalimantan and approximately five kilometers south of the current Tutupan operations, is where our ultra clean “Envirocoal” was first produced from 1992 until 1997 through two pits known as North and South Paringin.

Our reclamation activities at Paringin commenced from 1996 in the disposal area and in 1997-1998 we expanded the activities to the inpit backfill area. The objective was to utilize the land and create ecological and economic benefits with reclamation phases, including land layout, erosion and sedimentation control, re-vegetation, and plant maintenance. After mining activities moved to Tutupan, reclamation focused on the South Paringin area as there were known to be additional coal resources in North Paringin.

South Paringin has now been returned to an original state through reclamation, and this successful project now benefits not only the local communities, but also the ecosystem, and South Paringin has become a model location for successful reclamation.

Wildlife has slowly been returning to the area and a group of wild pigs, bekantan, a long-nosed ape native to Kalimantan, as well as eagles are seen here, a sign that the ecosystem is recovering

Aquaculture has been successful in the South Paringin Lake where mine water has been proved safe for the cultivation of shrimps and tilapia fish under collaboration with LIPI Limnologi since 2009. This program has also become the basis for commercial community projects under our Community Development Programs.

An aerial shot of South Paringin - a model location for successful reclamation

We have also developed a recreational area and a camping ground by the lake in Paringin, which is used for recreational activities by schools and communities from the surrounding area.

We are collaborating with the Forestry Research Center of Banjar Baru, South Kalimantan in developing a 1.5 hectare model reclamation forest within the South Paringin area. In this location, we carry out plant research and enrichment to collect native Kalimantan plants. To date, this program has collected 16,000 seedlings of various types of native Kalimantan forest plants which are being grown as part of the Paringin model forest.

In the future, Paringin will become a bio laboratory for the development of native Kalimantan plants for future generations with a number of native species such as Ulin, Keruing, Tengkawang, Biwan, Bayur, Kapur and Keminting Rantau having been planted there already.

Research & Development Program

In 2011, we set up a special unit in charge of Research & Development under the umbrella of the Health, Safety & Environment (HSE) Department. The research and development activities being conducted are not only for our internal purposes, but also for the benefits of the environment and the communities.

We have carried out a number of R&D programs as follow:

a. Model Forest on Ex-Mined Land
In collaboration with the Forestry Research Center of Banjar Baru – South Kalimantan, we created a model reclamation forest on the ex-mined land of Paringin. The activities under this program include research, collection, and enrichment of native Kalimantan plants, which will be developed for the model reclamation forest. To date, this program has collected 16,000 seedlings of various types of forest plants.

b. Utilization of Cattle Waste for Fertlizer
Bioculture and biourine are made using cows' waste and urine produced by an animal husbandry unit built by Adaro, which has raised and bred 600 cows. Other than fulfilling the need for fertilizer for re-vegetation, the husbandry is integrated with the CSR program for developing nucleus / plasma system. Bioculture and biourine are liquid organic fertilizers containing macro nutrients and micro essentials and are used for re-vegetation of ex-mined land with cultivated plants, pioneer forest plants, primary plants, vegetables, and cover crops.

c. Development of Online Monitoring and Control System for Settling Ponds
To enhance the effectiveness and efficiency of environmental monitoring, we have collaborated with the Indonesian Institute of Sciences' Limnology Science Development since 2010 in developing an online monitoring and control system for water quality and volume in mine settling ponds, which is expected to make water management more effective and efficient.

d. Management of organic compost
Our canteens provide daily meals for more than 16,000 employees and produce a large amount of organic waste. Since 2007, we have collaborated with Hokkaido University of Japan and Lambung Mangkurat University (UNLAM) of South Kalimantan to develop a process to turn this waste into compost. The compost produced assists in improving the fertility of disposal soil, ex-mined land, and the growth of the plants on with minimal or no top soil cover.

e. Utilization of mine water for the cultivation of fresh water shrimps and tilapia fish
In collaboration with the Indonesian Institute of Sciences' Limnology Science Department, we have conducted research since 2009 to investigate the potential use of mine water in the reclaimed Paringin mine for fishery activities, specifically for tilapia fish and fresh water shrimp cultivation. The research showed that the mine water was safe for aquaculture and that the fresh water shrimp and tilapia fish bred during the research, meeting Indonesian National Standards.

Going forward, this area will be made a center for fresh water shrimp and tilapia fish cultivation and will be integrated with the CSR programs. Adaro will also provide technical training on the cultivation and build a fish feed factory using local raw materials. The business created will benefit the communities by becoming a community empowerment program and part of the post mining plan.

f. River Current Monitoring Station
Due to the need for accurate, continuous and reliable data for monitoring of water resources, we built a River Current Monitoring Station in 2010 located in an area of the Tutupan and Jaing rivers in Tabalong regency. This station is equipped with an Automatic Rain Recorder River current meter and a tool for sedimentation sampling to provide relevant hydrologic, hydrometric, rain, and sedimentation data continuously or periodically as required to support operational activities and the formulation of a post mining program.

Update on Biodiesel Fuel Pilot Project

Dwi Yuli Hastuti
Statutory Planning and Statistic

Dwi Yuli Hastuti joined Adaro in 1996 and has over 16 years experience in coal operations. She is Dayak native and began her career in Adaro after getting her Mining Engineering Degree from the National Academy of Development Engineering.

Our support to the government program of using environmentally friendly alternative energy sources has been packaged in an initiative to make a breakthrough in energy conservation. In 2009, we started collaboration with Komatsu and United Tractors to build a pilot biodiesel processing factory with the capacity of 1.1 tonne per day launched on May 31st, 2011.

The Opening Ceremony was attended by the Minister of Energy and Mineral Resources, Darwin Zahedy Saleh and witnessed by the Director General of Mineral and Coal, Thamrin Sihite, Deputy of Environmental Pollution Control of the Ministry of Environment, Karliansyah, the Governor of South Kalimantan, Rudy Arifin, a number of regional officials and the directors of PT Adaro Energy Tbk, Komatsu and United Tractors.

This pilot project positions us as the first coal company to engage in the production of biodiesel, reflecting our commitment to support the use of alternative energy.

Jatropha is considered as one of the ideal feedstock plants that produces oil from its inedible seeds and grows even on dry and less fertile soil.

In March 2010, Adaro, Komatsu, and UT started the Project to produce Bio Diesel Fuel (BDF) from Jatropha and other feedstock plants to operate Komatsu mining dump trucks (payload: 90-tonnes).

The ultimate aim of the program is to replace 20% of the diesel fuel consumed in 100 Komatsu dump trucks with bio-diesel which will not only reduce diesel fuel consumption but will also reduce CO2 emissions by up to 20,000 tons per year.

Komatsu mining dump truck operated by Bio Diesel Fuel (BDF)

Biodiesel is an eco-friendly fuel produced from the Jatropha Curcas plant and other types of feedstock such as palm oil and will be used in dump trucks operating in the mine.

A feasibility study will be made in 2012 to develop the project further. This study will investigate loading performance, engine performance, the cost of producing biodiesel in comparison with the price of conventional diesel, factory productivity, labor skills, the supply of raw material especially Jatropha and the cultivation of Jatropha on the communities' land under CSR program and on our reclaimed land. Going forward, this will support the production of locally supplied raw material for our local consumption.

The ultimate aim of the program is to replace 20% of the diesel fuel consumed in 100 Komatsu dump trucks with bio-diesel which will not only reduce diesel fuel consumption but will also reduce CO2 emissions by up to 20,000 tons per year.

A snapshot of mining activity

from land clearing to revegetation activity

The Tutupan coal deposit is found over a strike length of 20 km with the thickest coal of 50 meter of width

Exploration and Reserves

Rommel Cruz
Production Deputy GM

Rommel joined Adaro in June 1991. He oversees long and short term mine planning, pit civil works, waste water management, land reclamation and mining operations of Tutupan, Wara and Paringin mines. He holds a degree in Geodetic Engineering from the University of The Phillippines

As a resource based company, Adaro Energy recognises that continued growth in exploration and expansion of our coal reserve and resources base are critical components of our strategy to achieve long term growth from Indonesian coal. While we will continue to undertake programs

Map of Adaro's Recources and Reserves

that will upgrade the extensive resources at Adaro Indonesia's Kalimantan operations to reserves diversification from a single site operation through acquisition of other coal resources, which meet the Company's criteria of resource size, location and quality, will allow for rapid expansion of production to meet our growing output targets.

Through 2011, Adaro had an active business development program of assessing the coal potential of Indonesia and selection of specific areas for evaluation which identified a number of properties that met the Group's criteria. This culminated in the acquisition in August 2011 of a 75% equity interest in PT Mustika Indah Permai which has an IUP over a coal property in the Lahat Regency of South Sumatra and which has added significantly to the Group's JORC resources and reserves.

In 2012 the Group will continue to evaluate quality coal deposits in the country as part of its strategy of diversification into multiple locations and multiple product ranges.

PT Adaro Indonesia Regional Geology

The Adaro coal deposit is located on the north-eastern margin of the Barito basin, a broad cratonic depression up to 250 km wide of Eocene to Pliocene age. The Barito basin is one of four eastern Kalimantan tertiary basins. The Barito basin was subjected to a period of compression and thrust faulting during the upper middle Miocene. Within the Adaro area this tectonic episode resulted in the development of a series of north-easterly trending fold structures and thrust faults. The folds commonly occur in the form of overthrust anticlines characterized by a steep western limb and a more gently dipping eastern limb. To date exploration and mining has focused on the eastern limbs.

The Miocene aged Warukin formation is the principal coal bearing sequence in the Adaro area with a total thickness of about 2,300m. It is divided into three sub-units with the principal coal horizons occurring in the uppermost sub-unit. Up to 13 major seams may be found within a single deposit. The seams vary in thickness due to merging and splitting. Individual seams may be up to 50m thick. Although the coals are characteristically low in ash (generally <2%) and sulphur, there is regional and stratigraphic variation in rank and therefore in calorific value. The coals with the higher cv (+ 5000 kcal as received) occur in the Tutupan and Paringin areas with highest values occurring in the lower seams in the sequence. The coals in the Wara deposits to the west and south west have higher moisture (+40% arb) and consequently lower calorific values.

Geotechnical core drilling was conducted in Wara 1, North Paringin and Tutupan pits.

Joseph A. Crisostomo
Geology Department Head

Joseph joined Adaro in 1994 and has over 26 years in coal geology and exploration. Prior to joining Adaro, he worked with Semirara Coal Corporation. He has a Bachelor Degree in Geology from the University of the Philippines, National Institute of Geological Sciences. He is also a member of AUSIMM since 2002.

Coal Deposits

Tutupan

The Tutupan coal deposit is found over a strike length of 20 km along a prominent topographic ridge in the north-eastern part of the Adaro area and is comprised of thirteen individual seams with the majority of the coal occurring in the T100, T200 and T300 seam groups. The thickest coal (50m) occurs in the T100 seam in the south, while the T200 seam is the principal seam in the north where it is also up to 50m thick.

Wara

The Wara 1 coal deposit is located 5 km west of the Tutupan mine with the seams lying in a northeasterly direction extending over a distance of 12 km. There are 3 major seams divided into 13 individual seams and 6 compound seams ranging in thickness from 3 m to 35 m. The Wara seams are characteristically low in ash (<3%) but with Total Moisture contents of around 40% and CV of 4,000 kcal arb.

The Wara 2 coal deposit is located 1 km to the west of Wara 1. Coal seams in this deposit have been traced in a north-easterly direction for 10 km and maintain a south-easterly dip of about 100. There are six individual seams and 2 compound seams, which range in thickness from 3m to 25m. Coal in the Wara 2 deposit is classified as lignite with the average calorific value at 3,600 kcal/kg arb and the average Total Moisture at 44.0 %.

Paringin

North Paringin is the southern extension of the Tutupan deposit offset to the east by a transverse fault and is a multi seam deposit with thicknesses ranging from 1m to over 20m. The average calorific value is 4,800 kcal/kg arb and the average Total Moisture is 28%.

The South Paringin deposit lies approximately 5 km south of the old Paringin Mine located near the village of Gampa in Balangan Regency. The coal seams are generally trending northeast and dipping from 15° to 40° southeast. The seams have been traced over 4 km along strike. Over 20 individual seams are found ranging in thickness from 1m to 15m. The average calorific value is 4,500 kcal/kg arb and the average Total Moisture is 32%.

Exploration Activities In 2011

Exploration drilling activities were conducted in 5 areas in 2011: Wara 1, Tutupan Pit, South Tutupan, North Paringin and South Paringin.

Exploration drilling was conducted in Wara 1. The main Wara seams were traced north of the Pertamina road where the dips are low. Cored holes were drilled to augment the quality database especially down dip.

At Tutupan Mine, in-fill drilling was conducted to refine the coal model and update the quality database. In South Tutupan, drilling was conducted to trace the coal seams' southern extension and to collect samples for coal quality analysis.

At North Paringin, the exploration program focused on the low dipping eastern limb defining the structure and stratigraphy. Core samples were collected for coal quality. Inclined holes were also drilled into the steeply dipping western limb. The western limb will be the focus of drilling in 2012.

At South Paringin, reconnaissance drilling was continued at 1 kilometer sections and 200 meter spacing to define the structure and stratigraphy. Core samples were also collected for coal quality analysis.

During the year, geotechnical core drilling was conducted in Wara 1, North Paringin and Tutupan pits. The results will be used for slope stability analyses in these areas. Piezometers, inclinometers and water wells were also drilled as part of the slope monitoring and groundwater depressurization programs. Core samples were also taken for mine drainage properties. The results will be used to build a lithological model that will enable identification and handling of certain waste intervals.

Setiawan
Coal Exploration DGM,
Director Adaro Eksplorasi Indonesia

Setiawan is a geologist graduated from the Bandung Institute of Technology. He had 18 years experience in coal exploration in Indonesia. Prior to joining Adaro in 2011, he held a position as an exploration manager and Director of the companies within BHP Billiton - IndoMet Coal project performing coal exploration program in Central Kalimantan.

Exploration and geotechnical drilling activities are outsourced to PT Asia Drill Bara Utama and PT Trikarya Intidrill Persada under close supervision and monitoring by Adaro Indonesia's Geology Department.

During 2011, the total cost of exploration activities was US$2.3 million. In 2012, exploration drilling will focus on North Tutupan and Northwest Paringin. The northern extension of the syncline/anticline structure in North Tutupan will be drilled. The fold structures in this area are interpreted to be tight, with steeper dips due to the convergence of 2 major thrust faults. This creates the potential for thick seams close to the surface resulting in low strip ratio coal.

At Northwest Paringin, the program for inclined drilling into the steeply dipping western limb will continue to model the seams' extension in this area. In-fill core drilling will be conducted at Tutupan, Wara and North Paringin mines to update the coal quality database and collect samples for drainage properties of the waste rocks.

Related Information
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Reserves And Resources

Below is an excerpt from the Independent Statement on the Coal Reserves and Resources by Terence Willsteed & Associates:

Terence Willsteed & Associates (TWA) has been requested by PT Adaro Indonesia to provide an Independent Statement of Coal Reserves and Resource as at 31 December 2010, located at the Adaro Coal Operations in Kalimantan to be submitted to the Jakarta Stock Exchange (JSX).

TWA has previously reported on the Adaro operations and coal assets in the Independent Technical Report on the Coal Assets of PT Adaro Indonesia dated 29 February 2008, in the Independent Technical Review of the Coal Assets of New Hope Corporation, 31 July 2003 and in the Independent Statement on the Coal Reserves and Resources of PT Adaro Indonesia, December 2008 dated 13 March 2009.

The Statement has been prepared independently and in accordance with the Code for reporting Mineral Resources and Ore Reserves (JORC Code 2004) of the Australasian Institute of Mining and Metallurgy (AusIMM). This Code sets out the principles and guidelines, which should be followed in the preparation of an expert report concerning mineral resources and reserves. We believe all material facts are presented and that our analysis is sufficient to meet the transparency requirements of the Code.

The Statement is required to assess that sufficient Reserves exist to meet the long-term production plans and to confirm the overall resource estimates by Adaro and determine that the mines have geological and structural condition and can be operated successfully.

PT Mustika Indah Permai Geology

Agus Subandrio
Operations Deputy GM MIP

Agus has over 20 years experience in coal mining and health, safety, and environment. He has a degree in Mining from UPN Veteran Yogyakarta. Prior to joining Adaro in 1997, he worked in several mining companies in operation and production.

Regional Geology
MIP is located in the southern part of the South Sumatra basin. This sedimentary basin is Tertiary in age and is bounded by ranges of volcanic rocks to the west and south which separate it from the Bengkulu basin. The strata within the South Sumatra basin comprise the Telisa and Palembang groups. The Telisa Group is older and consists of mostly marine sediments. The Palembang Group sediments have eroded into and unconformably overly the Telisa group. The coal measures within the South Sumatra basin are within the Palembang Group and are known as the Muara Enim Formation. The Airbenekat formation underlies the Muara Enim formation while the Kasai formation overlies it.

Local Geology
The Muara Enim formation outcrops over the majority of the IUP. The strata are folded into an east- west trending open syncline which plunges to the east. The north limb of the syncline is steeply dipping 40 degrees while the eastern closure and southern limb dip at 10 to 15 degrees. No faults are observed.

Coal Seam Stratigraphy
Eight coal seams have been intersected through drilling at MIP. These are in descending stratigraphic seams A1, A2, B,C1, C2, D, E and E2. A minor seam occurs above the A1 in a limited number of holes, The economic seams that form the MIP JORC Coal Resources and Reserves are A1,A2, B, C1 and C2. The remaining seams do not outcrop sufficiently for open cut mining. The seams A1,A2,B and C1 range in thickness from 7.4 – 17.5 m with seam B being the thickest. Seam C1 is thinner averaging 1.1 m and is a minor component of the total coal Resources and Reserves.

The structure, thickness and continuity of the seams appear consistent throughout the coal deposit and no faulting is evident.

There is a possibility that other seams higher in the stratigraphic sequence above A1 may be found in the north west of the IUP.

Exploration

During 2007 and 2008, MIP undertook three drilling programs with the initial phase totaling 60 holes to broadly explore the prospective mining area. These were drilled along section lines perpendicular to dip with drill lines being spaced at about 800m along strike and the drill holes spaced about 400m apart, down dip. In 2008, two supplementary in-fill drilling programs were carried out with 6 holes drilled in the north-east section of the property and 12 holes in the eastern area. All drill holes in these three programs were geophysically logged with the 18 in-fill holes being surveyed with total stations.

In addition, during the first drilling program, fully cored holes were also drilled for a geotechnical investigation program as part of the project environmental analysis.

In 2010, the IUP was explored by Adaro as part of the acquisition due diligence. A total of nine open holes and six partially cored quality holes were completed, and the data incorporated into the geological model. Drill holes were twinned and redrilled as needed to fully sample the lithology.

This was followed in 2011 with an infill JORC drilling program to bring all coal within the previously developed pit shell into Indicated or Measured Resource status. This drilling program began in September 2011, and as of December 15, 2011, 42 drill holes, comprising 7 open holes and 35 cored holes, had been completed with 35 being used in the geological model. Of the 35 drill holes used in the model, 28 contained quality data for at least one seam intercept.

To date, 161 holes totaling 15,517.92 meters have been drilled within the property.

Quality

The coal within the MIP IUP is similar to coal currently mined from the Wara deposit in South Kalimantan but with a higher calorific value.

Arli Rahman
Production Planning Manager

Arli is the Production Planning Manager for Adaro Indonesia. He started his career in mining with Adaro Indonesia in 2001. He has a Bachelor in Mining Engineering from Trisakti University, Jakarta

Reserves And Resources

In late 2011, Marston an international mining consultant based in St Louis, USA and a subsidiary of Golder Associates was engaged by Adaro to produce an Australasian Joint Ore Reserves Committee (JORC) compliant Coal Resources and Reserves report for its subsidiary, PT Mustika Indah Permai's property in Lahat, South Sumatra as at 15th December 2011.

The information in the report relating to Exploration Results, Coal Resources and Coal Reserves is based on information compiled by Mr John W. Devon, who is a Marston employee and a registered founding member of the Society for mining, Metallurgy and Exploration which is a Recognised Overseas Professional Organization (ROPO) as defined by the Australian Stock Exchange (ASX)

Mr Devon has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity, which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves". Mr Devon consents to the inclusion in this statement of the matters based on his information in the form and context in which it appears.

Adaro Energy Coal Resources and Reserves

Adaro Energy JORC Compliant Coal Resources 2011

Operating Company	Locality	Calculated as at December 31 2011 Using Adjusted 2011 Mine Production & the December 2010 PT Adaro Indonesia JORC Statement						As at December 31 2010[4]						Calculated Changes to Adaro Energy's Coal Resources 2011 vs 2010			
		Total Measured, Indicated & Inferred Coal Resources (Mt)	Measured Coal Resources (Mt)	Indicated Coal Resources (Mt)	Inferred Coal Resources (Mt)	Adaro Energy Ownership Equity (%)	Adaro Energy Attributable Total Measured Indicated & Inferred Coal Resources (Mt)	Total Measured, Indicated & Inferred Coal Resources (Mt)	Measured Coal Resources (Mt)	Indicated Coal Resources (Mt)	Inferred Coal Resources (Mt)	Adaro Energy Ownership Equity (%)	Adaro Energy Attributable Total Measured Indicated & Inferred Coal Resources (Mt)	Changes to Operating Company Total Measured, Indicated & Inferred Coal Resources 2011 vs 2010 (Mt)	Changes to Operating Company Total Measured Indicated & Inferred Coal Resources 2011 vs 2010(%)	Changes to Adaro Energy Attributable Total Measured ,Indicated & Inferred Coal Resources 2011 vs 2010 (Mt)	Changes to Adaro Energy Attributable Total Measured ,Indicated & Inferred Coal Resources 2011 vs 2010 (%)
PT. Adaro Indonesia[1]	Tutupan	2,408	729	814	865		2,408	2,454	775	814	865		2,454	(46)	-1.9%	(46)	-1.9%
	North Paringin[3]	297	116	96	85		297	298	117	96	85		298	(1)	-0.4%	(1)	-0.4%
	Wara I	1,301	486	366	449	100	1,301	1,307	492	366	449	100	1,307	(6)	-0.4%	(6)	-0.4%
	Wara II	367	133	134	100		367	367	133	134	100		367	-	-	-	-
	Total South Kalimantan	4,373	1,464	1,410	1,499		4,373	4,426	1,517	1,410	1,499		4,426	(53)	-1.2%	(53)	-1.2%
PT. Mustika Indah Permai[2]	South Sumatra	286	250	36	0.4	75	215	-	-	-	-	-	-	286	100%	215	100%
Total Adaro Energy Coal Resources	Including Kalimantan & Sumatra	4,659	1,714	1,446	1,499	98.4	4,588	4,426	1,517	1,410	1,499	100	4,426	233.3	5.3%	162	3.7%

1 Based on Adaro Indonesia's 2010 JORC Coal Resource and Reserve Statement adjusted by subtracting 53 Mt of in-situ coal produced during 2011
2 Based on the JORC Report of PT. Mustika Indah Permai (MIP) dated January 2012
3 No JORC Coal Resources were declared for North Paringin in 2010 however 1 Mt of coal was mined in 2011
4 Small differences between 2010 Resource tonnages in this table and the 2010 Adaro Energy Annual Report based on cumulative rounding errors

Adaro Energy (Equity Adjusted) JORC Compliant Coal Resource Quality (Gross As Received Basis) 2011

Operating Company	Locality	Calculated as at December 31 2011					As at December 31 2010					Calculated Coal Quality Changes to Adaro Energy's Coal Resources 2011 vs 2010				
		Total Moisture %	Ash % (gar)	Volatile Matter % (gar)	Total Sulphur % (gar)	Calorific Value Kcal/kg (gar)	Total Moisture %	Ash % (gar)	Volatile Matter % (gar)	Total Sulphur % (gar)	Calorific Value Kcal/kg (gar)	Total Moisture %	Ash % (gar)	Volatile Matter % (gar)	Total Sulphur % (gar)	Calorific Value Kcal/kg (gar)
PT. Adaro Indonesia[1,2]	Tutupan	27.1	1.9	36.5	0.10	4,922	27.1	1.9	36.5	0.10	4,922					
	North Paringin	29.1	2.8	35.0	0.20	4,948	29.1	2.8	35.0	0.20	4,948	Quality was not estimated during 2011 and does not account for the 53 Mt of in-situ coal mined in 2011. Its is reasonable to assume the remaining qualities are almost identical to those estimated in 2010				
	Wara I	38.9	2.9	30.4	0.21	3,986	38.9	2.9	30.4	0.21	3,986					
	Wara II	43.4	2.8	29.0	0.20	3,658	43.4	2.8	29.0	0.20	3,658					
	Total South Kalimantan	32.2	2.3	33.9	0.15	4,525	32.2	2.3	33.9	0.15	4,525					
PT. Mustika Indah Permai[3,4]	South Sumatra	33.9	5.5	31.1	0.42	4,345	PT. Mustika Indah Permai not acquired until 2011					PT. Mustika Indah Permai not acquired until 2011				
Total Adaro Energy Coal Resources[5]	Including Kalimantan & Sumatra	32.3	2.5	33.8	0.16	4,517	32.2	2.3	33.9	0.15	4,525	0.1	0.1	(0.1)	0.01	(8)

1 PT. Adaro Indonesia Coal quality estimates are restatements of the 2010 JORC Coal Resource and Reserve study and do not consider the quality effect of 53 Mt of in-situ coal mined in 2011
2 PT. Adaro Indonesia's coal quality samples have been analysed to ASTM standards
3 PT. Mustika Indah Permai's coal quality samples have been analysed to ISO standards
4 Elevated sodium in ash levels averaging 3.0% and varying on annual production schedule average from 2% to 4% were estimated in the PT MIP 2012 JORC statement
5 The Adaro Energy coal quality was derived by combining the coal quality parameters of the coal resources of the component operating companies using weight averaging.

Adaro Energy (Equity Adjusted) JORC Compliant Coal Resource Quality (Air Dried Basis) 2011

Operating Company	Locality	Calculated as at December 31 20111					As at December 31 2010					Calculated Coal Quality Changes to Adaro Energy's Coal Resources 2011 vs 2010				
		Moisture in the Analysis Sample % (adb)	Ash % (adb)	Volatile Matter % (adb)	Total Sulphur % (adb)	Calorific Value Kcal/kg (adb)	Moisture in the Analysis Sample % (adb)	Ash % (adb)	Volatile Matter % (adb)	Total Sulphur % (adb)	Calorific Value Kcal/kg (adb)	Moisture in the Analysis Sample % (adb)	Ash % (adb)	Volatile Matter % (adb)	Total Sulphur % (adb)	Calorific Value Kcal/kg (adb)
PT. Adaro Indonesia	Tutupan	17.6	2.1	41.2	0.11	5,563	17.6	2.1	41.2	0.11	5,563					
	North Paringin	16.9	3.3	41.0	0.23	5,799	16.9	3.3	41.0	0.23	5,799	Quality was not estimated during 2011 and does not account for the 53 Mt of in-situ coal mined in 2011. Its is reasonable to assume the remaining qualities are almost identical to those estimated in 2010				
	Wara I	19.1	3.8	40.3	0.28	5,278	19.1	3.8	40.3	0.28	5,278					
	Wara II	19.3	4.0	41.4	0.28	5,215	19.3	4.0	41.4	0.28	5,215					
	Total South Kalimantan	18.1	2.8	41.0	0.18	5,466	18.1	2.8	41.0	0.18	5,466					
PT. Mustika Indah Permai	South Sumatra	22.2	6.5	36.6	0.49	5,114	PT. Mustika Indah Permai not acquired until 2011					PT. Mustika Indah Permai not acquired until 2011				
Total Adaro Energy Coal Resources	Including Kalimantan & Sumatra	18.3	3.0	40.8	0.19	5,450	18.1	2.8	41.0	0.18	5,466	0.2	0.2	(0.2)	0.01	(17)

Adaro Energy JORC Compliant Coal Reserves 2011

Operating Company	Locality	Calculated as at December 31 2011 Using Adjusted 2011 Mine Production & the December 2010 PT Adaro Indonesia JORC Statement					As at December 31 2010[4]					Calculated Changes to Adaro Energy's Coal Reserves 2011 vs 2010			
		Total Proved & Probable Coal Reserves (Mt)	Proved Coal Reserves (Mt)	Probable Coal Reserves (Mt)	Adaro Energy Ownership Equity (%)	Adaro Energy Attributable Total Proved & Probable Coal Reserves (Mt)	Total Proved & Probable Coal Reserves (Mt)	Proved Coal Reserves (Mt)	Probable Coal Reserves (Mt)	Adaro Energy Equity (%)	Adaro Ene gy Attributable Total Proved & Probable Coal Reserves (Mt)	Changes to Operating Company Total Proved & Probable Coal Reserves 2011 vs 2010 (Mt)	Changes to Operating Company Total Proved & Probable Coal Reserves 2011 vs 2010 (%)	Changes to Adaro Energy Attributable Total Proved & Probable Coal Reserves 2011 vs 2010 (Mt)	Changes to Adaro Energy Attributable Total Proved & Probable Coal Reserves 2011 vs 2010 (%)
PT. Adaro Indonesia[1]	Tutupan	510	369	141		510	552	410	141		552	(42)	-7.6%	(42)	-7.6%
	North Paringin[3]														
	Wara I	381	283	98	100	381	386	289	98	100	386	(5)	-1.4%	(5)	-1.4%
	Wara II					-						-	-	-	-
	Total South Kalimantan	891	652	239		891	938	699	239		938	(47)	-5.0%	(47)	-5.0%
PT. Mustika Indah Permai[2]	South Sumatra	273	238	35	75	204	-	-	-	-	-	273	100%	204	100%
Total Adaro Energy Coal Reserves	Including Kalimantan & Sumatra	1,163	890	274	98.4	1,095	938	699	239	100	938	226	24.0%	157	16.8%

1 Based on Adaro Indonesia's 2010 JORC Coal Resource and Reserve Statement adjusted by subtracting 47 Mt of coal produced during 2011
2 Based on the JORC Report of PT. Mustika Indah Permai (MIP) dated January 2012
3 No JORC Coal Reserves were declared for North Paringin in 2010 however 1 Mt of coal was mined in 2011
4 Small differences between 2010 Resource tonnages in this table and the 2010 Adaro Energy Annual Report based on cumulative rounding errors

Adaro Energy (Equity Adjusted) JORC Compliant Coal Reserve Quality (Gross As Received Basis) 2011

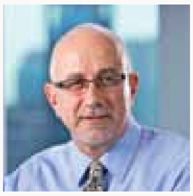
Operating Company	Locality	Calculated as at December 31 2011					As at December 31 2010					Calculated Coal Quality Changes to PT Adaro Energy's Coal Reserves				
		Total Moisture %	Ash % (gar)	Volatile Matter % (gar)	Total Sulphur % (gar)	Calorific Value Kcal/kg (gar)	Total Moisture %	Ash % (gar)	Volatile Matter % (gar)	Total Sulphur % (gar)	Calorific Value Kcal/kg (gar)	Total Moisture %	Ash % (gar)	Volatile Matter % (gar)	Total Sulphur % (gar)	Calorific Value Kcal/kg (gar)
PT. Adaro Indonesia[1,2]	Tutupan	26.3	2.0	36.5	0.10	5,013	26.3	2.0	36.5	0.10	5,013	Coal quality was not estimated during 2011 to account for the 47 Mt of coal mined in 2011. It is reasonable to assume the remaining qualities are almost identical to those estimated in 2010				
	North Paringin															
	Wara I	39.2	3.0	30.3	0.20	3,983	39.2	3.0	30.3	0.20	3,983					
	Wara II															
	Total South Kalimantan	31.6	2.5	33.9	0.14	4,588	31.6	2.5	33.9	0.14	4,588					
PT. Mustika Indah Permai[3,4]	South Sumatra	34.1	5.9	31.1	0.40	4,281	PT. Mustika Indah Permai not acquired until 2011					PT. Mustika Indah Permai not acquired until 2011				
Total Adaro Energy Coal Reserves[5]	Inc. Kalimantan & Sumatra	32.1	3.1	33.4	0.19	4,531	31.6	2.5	33.9	0.14	4,588	0.5	0.6	(0.5)	0.05	(57)

1 PT. Adaro Indonesia Coal quality estimates are restatements of the 2010 JORC Coal Resource and Reserve study and do not consider the quality effect of 47 Mt of coal produced in 2011
2 PT. Adaro Indonesia's coal quality samples have been analysed to ASTM standards
3 PT. Mustika Indah Permai's coal quality samples have been analysed to ISO standards
4 Elevated sodium in ash levels averaging 3.0% and varying on annual production schedule average from 2% to 4% were estimated in the PT MIP 2012 JORC statement
5 The Adaro Energy coal quality was derived by combining the coal quality parameters of the coal reserves of the component operating companies using weight averaging.

Adaro Energy (Equity Adjusted) JORC Compliant Coal Reserve Quality (Air Dried Basis) 2011

Operating Company	Locality	Calculated as at December 31 2011					As at December 31 2010					Calculated Coal Quality Changes to PT Adaro Energy's Coal Reserves				
		Moisture in the Analysis Sample % (adb)	Ash % (adb)	Volatile Matter % (adb)	Total Sulphur % (adb)	Calorific Value Kcal/kg (adb)	Moisture in the Analysis Sample % (adb)	Ash % (adb)	Volatile Matter % (adb)	Total Sulphur % (adb)	Calorific Value Kcal/kg (adb)	Moisture in the Analysis Sample % (adb)	Ash % (adb)	Volatile Matter % (adb)	Total Sulphur % (adb)	Calorific Value Kcal/kg (adb)
PT. Adaro Indonesia	Tutupan	17.0	2.3	41.1	0.11	5,638	17.0	2.3	41.1	0.11	5,638	Coal quality was not estimated during 2011 to account for the 47 Mt of coal mined in 2011. It is reasonable to assume the remaining qualities are almost identical to those estimated in 2010				
	North Paringin															
	Wara I	19.4	4.0	40.2	0.25	5,261	19.4	4.0	40.2	0.25	5,261					
	Wara II															
	Total South Kalimantan	18.0	3.0	40.7	0.17	5,483	18.0	3.0	40.7	0.17	5,483					
PT. Mustika Indah Permai	South Sumatra	22.2	7.0	36.7	0.47	5,054	PT. Mustika Indah Permai not acquired until 2011					PT. Mustika Indah Permai not acquired until 2011				
Total Adaro Energy Coal Reserves	Inc. Kalimantan & Sumatra	18.8	3.7	40.0	0.23	5,403	18.0	3.0	40.7	0.17	5,483	0.8	0.7	(0.7)	0.06	(80)

Developing an Exploration Division



Peter Mucalo
Exploration GM

Peter joined Adaro in 2011, and has over 25 years of experience in coal exploration geology. Prior to joining Adaro Peter was with Marston Inc an American mining consulting firm and worked on worldwide exploration programs. Peter graduated from the University of Auckland, New Zealand with a science degree majoring in geology.

Management Team of Adaro Eksplorasi Indonesia discuss new exploration project.

My name is Peter Mucalo and I am a coal exploration geologist. Coal exploration in Indonesia is amazing! As a young man I could not believe that companies paid me to have adventures in the wilds of Kalimantan, trek through the jungle, explore rivers by canoe or fly to distant islands by helicopter. Indonesia, its geology and its people, intrigue me. Coal exploration has been a major part of my life as has Indonesia for the past 29 years. I have never been to a place where there is so much accessible coal. I would liken Kalimantan to a kind of coal El Dorado where coal outcrops abound in the rivers and streams, and discoveries were available to committed companies prepared to send geologists to spend time in the jungle looking.

That's how it's been for the last 30 years; coal exploration in Indonesia was easy! and now GPS technology and the proliferation of free earth data sets and the increasing price of coal has democratized coal exploration. Finding coal is no longer the domain of the geologist as many entrepreneurial prospectors took to the field in their hundreds and together they have located many of Indonesia's visible accessible coal deposits leading to a boom in small to medium sized coal discoveries. Although the obvious deposits may have been found, Adaro Energy (AE) feels that much coal remains undiscovered. Coal masked by sediment, not outcropping, hidden in plain sight, coal in more remote areas, and lower rank coal.

The focus of Adaro has been on creating maximum sustainable value and building winning teams for a bigger and better Adaro. As it is getting more challenging to find new deposits of coal in Indonesia, AE formed a coal exploration division, PT Adaro Eksplorasi Indonesia (AEI) in 2011. The challenge of finding new deposits of coal means taking another look at the geology of Indonesia. Now, we must think about our exploration targets much more carefully because the quantity of our new discoveries will reflect the quality of our thinking and our financial power to test that thinking.

AEI is a new coal exploration company built on the framework of an existing drilling company. We are busy populating the ranks with seasoned industry professionals as well as innovative graduates. We are transforming AEI's exploration capacity to help AE drills new coal plays at a faster rate. While the existing mine is still the focus of PT Adaro Indonesia (AI), AE is looking outward across Indonesia for sustainable growth and diversification. AEI's main task is to evaluate new coal deposits either through merger and acquisition or grass roots exploration.

In the Indonesian coal industry, things are changing fast and exploration is not immune to this. Investors want results and assurance faster than ever before, AEI will have to use its own and external resources to achieve the results AE is looking for. AE's vision for the utilization of coal is not restricted purely to the physical mining. Accordingly AEI will work closely with Adaro Coal Technology while they search for higher and better uses for coal. Adaro Coal Technology will identify new ways to utilize coal while AEI will match coal deposits to the new technology.

Coal exploration is about connecting the dots, coal outcrops, drill holes, geophysical logs, and coal analysis. Without an interdependent team of people, data collected from field work remains just an assemblage of unrelated pieces. At AEI, we are working to build a first class team of people to transform that data into interpretative information that can be used to guide AE's investment decisions.

Setiawan is a Director of AEI and is in charge of building our data acquisition capability. Setiawan's 18 years of Indonesia coal exploration experience since graduating as a geologist from the prestigious Institute of Teknologi Bandung (ITB) are a great benefit to AEI as he is a true coal exploration geologist. He has managed some of the biggest and most daring coal exploration projects in Indonesia. With his strong coking coal background Setiawan has management focus on coal exploration in Kalimantan as well as maintaining an overall view of AEI activities as a Director.

Joseph Crisostomo has functioned at the core of AE's key asset PT Adaro Indonesia since 1993. As a Chief Geologist, Joseph has built up AI's coal reserves and has been key to AI's ability to deliver a consistent product through a systematic implementation of mine geology, exploration and coal quality assessment. Joseph will head up AEI's technical evaluation team where the geological models and databases used as the foundation of new prospect evaluation will be created and maintained. Joseph will maintain groupwide coal resources and reserves while shepherding the mine geology at AE's new mines such as Mustika Indah Permai in South Sumatra as well as orchestrating AE's group wide coal quality standards.

Sigid Eko Suprijanto, another ITB graduate is both an experienced exploration geologist and a qualified and experienced Head of Mining Engineering. Sigid has spanned the industry from exploration to mine management. Sigid has been assigned a management focus on Sumatra coal exploration and to assess any existing coal mine operations Indonesia as part of our merger and acquisition strategy.

Building a winning team is a foundation to build a bigger and better Adaro. Our growing team at AEI turns data into geological models; models into estimates of coal resources, and with the help of our valued external mining consultants turn coal resources into impartial estimates of coal reserves within mine plans. The Business Development Group of Adaro Energy takes mine plans and creates financial models, and with AE's internal mining experience, the skill of our marketing people plus AE's power to raise funds, financial models lead to deals and deals become coal mines. Collaboratively AEI's exploration activities and AE's investments lead to new infrastructure, growth, jobs creation, incomes, distributed prosperity and hope.

A Discussion with Mr. Sandiaga S. Uno

Director,
General Affairs

It is the 10th anniversary from when you first started investing in the group of companies that became Adaro Energy. How do you feel?

It gives me goose bumps to think about it. I remember when I first visited the site and I never imagined at that time just how big Adaro would become. The seam was only about half of today's length of 17 kilometers. Reserves were around 250 million tonnes and today we have more than four times that amount.

What is the number one issue facing Adaro Energy?

I believe there are two issues. One is building the team, that we find and retain the right talent. The second issue is that we have grown so much and are so much larger that we have a responsibility to contribute more. Part of the goal of creating maximum sustainable value from Indonesian coal, means that we have to make sure that we create maximum benefits for the provinces where we operate.

What gives you encouragement?

I am happy to be part of the winning team here at Adaro and, as a shareholder, I am encouraged with our prospects for long term value creation. I am encouraged and proud to be part of a leading Indonesian company, which will one day be amongst Indonesia's first members of Fortune magazine's Global 500. Indonesia is a great place to be right now, and I believe we are just getting started. Indonesia's GDP growth will one day rival and then surpass that of our larger, faster growing regional neighbors such as India and China.

What are you most proud about in terms of 2011?

Overall, I am really excited as I see we are on the right track to building not only a bigger, but better Adaro Energy. I am delighted with our move into South Sumatra and also happy to represent Adaro in that region. I believe the implementation of our business model there will bring tremendous value to Adaro, the province and the country.

Investments for Future Performance

In this Chapter

On October 2011, PT Bhimasena Power Indonesia (BPI) signed a 25-year Power Purchase Agreement (PPA) with PLN for a 2,000 MW Central Java Power Plant (CJPP) project.

The 2x30MW mine-mouth power plant will power the overburden crushing and conveying system as part of our goal to reduce dependency on oil.

We view South Sumatra as a strategic growth area due to its large coal resources and proximity to large power market of Java and we plan to replicate our successful business model we have used in South Kalimantan.

Overburden crushing and conveying system is aimed to improve operational efficiency as well as improve safety standards in handling the overburden.

Growth Strategy

1. Organic growth from current reserve base
2. Focus on improving efficiency of coal supply chain and cost contol
3. Increase reserves, diversify product, locations and licenses
4. Continue to deepen integration

Action Plan

Production ramp up and mine planning	Majority of organic growth will come from Wara mine
Implementation of OPCC, mine mouth power plant and control of barge cycle time	Chip sealing of hauling road, dredging of channel etc have been initiatives in past that brought down costs substantially
Acquisition of large coal deposits at different locations in Kalimantan and Sumatra islands	Acquired concessions in South Sumatra, more in due diligence. Partnering with BHP Billiton on coking coal
Investment into IPPs	First Indonesian company to participate in IPPs in a significant way. Partnering with reputable global players in IPP sector

1

Organic Growth from Current Reserve Base

Adaro Energy continued to focus on creating maximum value from Indonesia coal through four key main strategies; organic growth from the current reserve base, improving the efficiency of our coal supply chain, increasing and diversifying reserves, products and locations and lastly deepening integration.

As we progress towards our medium term production goal of 80 million tonnes per year, our E4000 coal, which has become well accepted in the market, will play the major role in organic growth. Our investments in a number of infrastructure development projects are on track and progressing well, further improving efficiency and lowering costs. We acquired interests in two coal deposits and one logistic company in South Sumatra to diversify our operations and increase reserves. We continued our move further downstream into power by establishing a consortium with J-Power and Itochu and were selected to build a 2,000 MW coal-fired, ultra-supercritical power station in Central Java, which will be one of the largest in Asia.

Ari Hariadi
Project Development GM

Prior to joining Adaro in 2008, Ari was involved in performance improvement projects within the automotive industry and other senior management positions for over 10 years. He holds a degree in Mechanical Engineering from Institut Teknologi Sepuluh November, Surabaya

Members of Project Development Department

We recorded our twentieth straight year of organic production growth and delivered on our guidance of 46-48 million tonnes in 2011, as coal production increased 13% to 47.67 million tonnes. In the future, the majority of our organic growth will come from our low cost Wara mine, which we started producing from in 2010 and possesses attractive geology with thick, near surface seams and low stripping ratios. The E4000 coal from the Wara pit continues to be well accepted in the Asian market with an increase in sales volume of 167% in 2011 as we sold E4000 coal to India, China, South Korea, Thailand, Hong Kong and Indonesia. We plan to ramp up Wara production to 8 to 10 million tonnes in 2012 with medium term target of up to 25 million tonnes. We also made strategic investments in infrastructure development projects at our Tutupan mine to further improve efficiency and reliability, lower cost, improve safety and create long-term sustainable value from this mine.

2

Overburden Crushing and Conveying System

Andris Pauls Svilans
Strategic Planning Deputy GM

After joining Adaro in 2004, Andris has held various senior management operational positions since then. He has over 30 years of experience in open cut mining and currently holds the position of DGM Strategic Planning. He has a Degree in Mining Engineering from the University of Melbourne.

Alec Sharland
OPCC GM

Alec has more than 30 years experience in Maintenance Management and had worked in seven different countries prior to joining Adaro in 2005. Alec has a Diploma in Maintenance Management and completed two apprenticeships.

Engineering works at the site of the overburden conveyor

Our Tutupan mine has developed into one of the largest coal mines in the world. A major challenge faced by mine management has become handling the enormous volumes of overburden that are being stripped and hauled from the mine, as the pit becomes deeper and hauling distances progressively further and more expensive.

In order to combat rising haulage costs, we made the decision in 2010 to commence mechanization of the mine by the installation of the first of a planned series of overburden crushing and conveying systems that will crush, transport and spread overburden to those outlying dumping areas, which are not practically accessible for overburden trucks.

Design and construction of the system, which was awarded to FLSmidth through an international tender process, will consist of two 7,000 tonnes per hour (tph) crushing stations and a 12,000 tph 7.7 kilometer transport conveying system, including a 2.4 kilometer relocateable conveyor and mobile stacking and spreading conveyor. This will be one of the first mechanized systems of its type in operation worldwide and has been specially designed to suit our operating parameters.

Power for the overburden crusher and conveyor system will be supplied from our 2 x 30 MW coal fired mine mouth power station currently being constructed near Tanjung by our subsidiary MSW. The plant is scheduled for commercial operation in late 2012. The use of coal fired power will reduce diesel fuel consumption and contribute to cost savings of approximately US$1.00-US$1.20 per bank cubic metre compared to the existing use of trucking.

The OPCC works, which will cost in excess of US$212 million, are well advanced with site civil works and steel fabrication for structures underway as well as manufacturing of major equipment in progress. By December 31st 2011, the project had reached 38% completion with handover by the contractor to Adaro scheduled in 2013.

When the system is in full operation, it will convey up to 34 million bank cubic meters of overburden each year, which will replace up to 100 overburden dump trucks from the hauling fleet and help maintain Adaro's position as one of the world's lowest cost coal mining operations.

2

2 x 30 Mine-mouth Power Plant

Joseph Chong
CEO MSW,
Director Adaro Power

Joseph had over thirty years working experience with Tenaga Nasional Berhad prior to joining Adaro in 2008. Joseph holds a Bachelor's degree in Mechanical Engineering from Liverpool University, UK and an MBA from Oregon State University, USA.

Personnel at MSW's site.

The US$160 million, 2 x 30 MW coal fired mine-mouth power plant is owned and will be operated by our subsidiary PT Makmur Sejahtera Wisesa (MSW). The plant will reduce our dependency on oil by powering the overburden crushing and conveying system and also support Adaro Indonesia's mining operations by providing reliable electrical power as a captive power plant. The net power output is guaranteed at 52.5 MW and up to 5 MW of the power plant's output will be set aside to supply the local communities.

Equipment manufacturing and construction has been underway since 2009 and is on track for completion in 2012. The project progress had reached 82% with an expenditure of US$112 million by the end of 2011. The plant will be fuelled by approximately 300,000 tonnes of E4000 coal per year.

The main equipment used in this project is supplied by reputable manufacturers. Siemens is the source of the steam turbine generators and BHEL of India for the boilers, which will use circulating fluidized bed (CFB) technology that was selected due to its suitability for use with high moisture low rank coals like Adaro's Wara coal.

Environmental considerations were other key factors in the design of the plant. With CFB technology, emissions of sulphurous gases can

Makmur Sejahtera Wisesa (MSW) 2x30 MW Power Plant, located in Tanjung, South Kalimantan.

2

Expanding Capacity at Kelanis River Terminal

L. Y. Chan
Engineering Manager

L. Y joined the previous shareholders of Adaro in the late 1980's. He was responsible for the construction of the first Adaro crushing line at Kelanis in 1991. He has worked on several coal handling and processing facilities in East and South Kalimantan since then. He now heads the Engineering Division which provides in-house engineering and project management services to the Adaro Energy Group companies.

Members of the Engineering Department

Our Kelanis crushing, stockpiling and barge loading facility is located on the Barito River and has a throughput capacity of approximately 55 million tonnes per year; however, to meet future targets, this throughput has to be increased. We had already begun this next key expansion step with the installation of an additional three-stage crushing facility to six of the existing seven systems, which when completed, will increase the Kelanis in-loading capacity to 10,500 tonnes per hour.

We will also expand our barge loading capacity by upgrading each barge-loading system to increase total barge-loading capacity to 14,000 tonnes per hour. In addition, a major overhaul and upgrade of the Kelanis terminal's power plant and electrical systems is also underway, which will increase the total installed power to 25 MW. Other infrastructural developments as part of the terminal upgrade include installation of a modern three story operations and control building, replacement of coal sampling equipment to enhance quality control, and replacement and additions to the coal reclaim bulldozer fleet.

When the terminal's upgrading and modernization program is completed by the end of 2012, throughput capacity will increase to around 70 million tonnes per annum, further enhancing Kelanis terminal's status as one of the world's largest bulk handling river ports. The expected project cost is around US$55 million with total spending of US$20.6 million as at the end of 2011.

Kelanis upgrading project in underway to increase it's capacity to over 70 million tonnes by the end of 2012

3

IndoMet Coal

Map of IndoMet Coal

On March 31st, 2010, BHP Billiton announced it had entered into binding agreements to create a new joint venture for its IndoMet Coal project with PT Alam Tri Abadi, a wholly owned subsidiary of PT Adaro Energy. Adaro agreed to acquire a 25% interest in this joint venture for US$350 million inclusive of tax, while BHP Billiton holds the remaining 75%. The IndoMet Coal project covers seven Coal Contracts of Work (CCoWs) located in East and Central Kalimantan in Indonesia. The undeveloped metallurgical and thermal coal resources are estimated at 774 million tonnes (JORC Compliant 2008). The formation of this new joint venture was approved by the Indonesian Government in May 2010.

Further studies to identify development options across the seven CCoWs continued during 2011. A phased approach to development is planned, commencing in early 2012, with construction of a road and associated infrastructure in support of future mine development.

3

Establishing Our Foothold in South Sumatra

Alastair Grant
Senior Advisor Business Development

Alastair joined Adaro in 1990 as General Manager and became a Director after the Group's IPO in 2008. He is currently in charge of business development. He has over 45 years of experience working in the energy and minerals industries. He has a B.E. (Mining) and M.E. (Mineral Engineering) from Otago University, New Zealand and a B.A. (Economics) from the University of New England, Australia.

Personnel at Mustika Indah Permai (MIP).

Adaro Energy views South Sumatra as a highly strategic growth area owing to the province's proximity to the large power market of Java and its large coal resources and reserves. Adaro Energy's plan in South Sumatra is to replicate the successful business model it has used in South Kalimantan, by owning high quality coal assets and developing a vertically integrated coal supply chain.

In August 19th 2011, Adaro Energy announced it had acquired a 75% equity interest in PT Mustika Indah Permai (MIP), which has a coal concession under an IUP near Lahat in South Sumatra for US$222.5 million. This concession has total JORC Compliant Coal Resources and Reserves estimated at 286 million tonnes and 273 million tonnes, respectively. This reserve base is sufficient to sustain a production level of up to 10 million tonnes per annum for 26 years. The JORC Coal Reserve Report was prepared by Marston, an internationally recognized American mining consultant. The MIP concession area contains three main coal seams and two minor seams, which range up to 17 meters in thickness and is suitable for open cut mining with a very low strip ratio of 2.8 bank cubic meters per tonne (bcm/t).

Prior to acquiring MIP, Adaro Energy conducted legal due diligence of MIP's tenure and found MIP's IUP was obtained through a lawful process. Since the time of the

Map of Adaro's Assets in South Sumatra

MIP acquisition, the Supreme Court of the Republic of Indonesia has completed Judicial Reviews of the claim filed by the plaintiff, who contested the legality of the MIP IUP through state administrative and civil court proceedings. The Judicial Reviews of the Supreme Court were granted on October 10, 2011 and November 10, 2011 respectively and found against the plaintiff. The Judicial Reviews are final and binding, thereby confirming that MIP's IUP was obtained through a lawful process.

MIP has completed a detailed mine plan and set up offices in Lahat in 2011 and plans to produce coal by the end of 2012. Coal production is expected to ramp up to ten million tonnes per annum five years from the time operations commence and will be undertaken by Adaro Energy's mining and hauling contractor, PT Saptaindra Sejati (SIS) to mine and transport the coal. The coal will be trucked along a dedicated 141 kilometer private coal haul road to a barge loader on the Musi River. Both pieces of infrastructure are operated by PT Servo Meda Sejahtera's (SMS), in which we hold a 35% interest. The coal will be barged 185 kilometers down the Musi River to the Palembang anchorage for transshipment on to offshore vessels or barged direct to customers in the region. Development work, including pre-stripping and mine development, continues at the site and along the transportation corridor in conjunction with environmental and social studies. Capital expenditures at MIP, excluding heavy equipment, are estimated at approximately US$50 million, split almost evenly over 2012 and 2013, and will be funded by Adaro Energy.

Reynard Hanoppo
Coal Marketing and Business Development GM

Reynard recently re-joined Adaro after leaving OML in 2008. He has 15 years experience in coal marketing with previous work experience in Peabody Coaltrade Indonesia, Peabody Energy, and Kideco. He graduated from London School of Economics and Political Science, UK.

Pre-marketing of the coal has commenced and the coal is branded as "Ultima" to aid in these campaigns. E4000 from Adaro's Kalimantan operations, which is similar in energy value and moisture, has already been well received by end-users and we expect that Ultima will be accepted by these utilities due to Adaro's reputation for high standards of reliability and quality. MIP is continuing to build orders for Ultima for 2012 and beyond and is in discussions with end users in Indonesia, China, India, Taiwan, Thailand, The Philippines and Vietnam.

MIP was the first of three investments Adaro Energy successfully completed during the second half of 2011, which together form the backbone of Adaro's strategy to create long term value in South Sumatra. This is part of the broader strategy to diversify location, license maturities, and products. In addition to the 35% acquisition in PT Servo Meda Sejahtera (SMS) for Rp200 billion in October 2011, we also acquired a 61.04% interest in PT Bukit Enim Energi (BEE) for US$67 million. BEE is a coal mining company developing a greenfield project in the Muara Enim regency, South Sumatra. BEE holds an IUP granted in March 2011 for a period of twenty years that covers an area of approximately 11,130 hectares. These South Sumatran coal and infrastructure projects are investments that, together with organic growth, will help Adaro Energy achieve 80 million tonnes of coal production per year in the medium term.

3

Continue in the Lookout for Potential Coal Deposits in Indonesia to Support Growth

Craig Vogel
Combustion and Fuels Consultant

Craig Vogel has been a consultant for Adaro for the past eight years. He has over 40 years of experience in the field of electrical power generation and industrial boilers. He has worked for engineering firms and for coal suppliers where he provided technical assistance for fuel switching and test burns.

Worldwide energy demand is at unprecedented high levels and demand is expected to continue to grow for the foreseeable future. In order to fuel this appetite, all potential energy sources will be needed, including some that may not have been considered practical in the past. Development of coal resources, the most abundant fossil fuel in the world, underscores these events taking place.

High quality coal sources are becoming more expensive and many of the reserves are being rapidly depleted. However, there are a large number of low rank coal resources that are available to contribute to the burgeoning worldwide coal markets. These low rank coals can present challenges in terms of marketing and acceptance by the end-users; however, the abundance, relatively low cost, and certain favorable environmental characteristics ensure that they will play an important role in coal's future. Many of the low rank coals exhibit quality characteristics of low ash, low sulfur, and low nitrogen content.

We encourage new power plants to be designed for a range of coal qualities, including low rank coals, as this provides utilities with flexibility in coal sources and lowers the risk of future high fuel costs. Existing power plants that were designed for higher quality coals may require some plant modifications, operational changes or blending with other coals to successfully utilize low rank coals. In many cases, power plant operators are recognizing the value of lower rank coals as part of their fuel portfolio diversity. Initial reluctance can turn into enthusiasm with familiarity and recognition of benefits. While economics drive most business decisions, in many cases technical solutions are required to ultimately allow an effective result.

Adaro has been a leader in working with power plant operators to assist them in the utilization of low rank coals. When the first Indonesian subbituminous coals were introduced to the world markets, Adaro led the way with lending technical guidance and expertise to gain acceptance with our customers. Numerous seminars, customer visits, combustion tests and test burns were conducted. The initial concerns with Envirocoal have been all but erased, resulting in a continually increasing demand for this product. The success of Envirocoal has paved the way for increasing interest in the recently introduced E4000 product.

As we move forward, we expect to see some customer concerns with the lower rank coals. Adaro is showing leadership by providing personalized service to our customers by using our extensive experience with a diverse worldwide customer base. Coal is a heterogeneous product and is not manufactured to specific quality standards. Areas of concern include handling, storage, combustion, boiler performance, emissions, and safety.

Along with the increased use of low rank coals, new technologies are being developed to allow a wider range of applications for these coals. The greatest challenge for the low rank coals is to reduce the inherently high moisture. Producing a stable product after drying the coal has proved to be elusive. The use of briquetting for upgrading appears to be very promising and Adaro has been pursuing this technology on several fronts.

Adaro's reputation as a reliable supplier has been in no small part due to its emphasis on customer service. Mining is only one link in the coal supply chain. The coal also has to be transported and successfully burned at the customer facility. As the industry faces challenges utilizing lower rank coals, Adaro will continue to form strong relationships with our customers to help them produce low cost reliable power.

3

Boosting Energy through Coal Technology

Leonard Lembong
Chief of Coal Technology

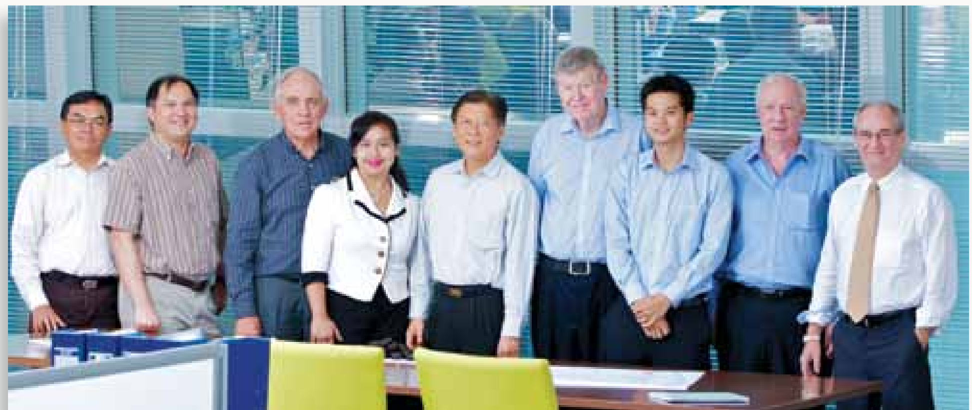
Leonard had a distinguished business career with the Astra Group, including being Executive Vice President of PT. Astra Otoparts Tbk. He joined Adaro's coal mining contractor company in May 2010, and has accepted the appointment to head up Adaro's coal technology business program since January 2011.

In 2011, Adaro Coal Technology put more attention to research and development of coal upgrading techniques. We continued our partnership with various domestic as well as foreign parties and conducted important test and trial activities.

Our process development team managed to complete a number of tryouts in coal upgrading process development and verification, as well as handling test and stock piling test to observe spontaneous combustion and weathering phenomena from the upgraded coal. Our process development initiatives have been going on intensively since three years ago in the United States and entering the final stage. We are now in the preparation phase to build a Demonstration Plant in Indonesia, planned to start construction at the end of 2012. In addition, our collaboration with another technology developer in the United States has completed a "bulk sample test" with satisfactory results from both processing and the quality of upgraded coal.

In 2011, we also started to research advanced processing of coal such as coal gasification and coal liquefaction. Partnerships with various domestic and foreign institutions are currently underway to research on the utilization of Clean Coal Technology and utilization of low-rank coal for coking coal.In order to build a winning team for a bigger and better Adaro, in 2011, we sent a number of staff members to attend relevant training programs in the United States and Japan.

In 2012, the Coal Technology Group plans to continue the preparation of construction and operation of the Demonstration Plant, complete engineering study for the Commercial Plant, and continue with study programs, research, and development of other coal processing technologies. We also plan to improve our cooperation with leading domestic and foreign institutions in the development of Coal Technology. Hence, the Coal Technology Group will need to recruit a number of talented engineers to support the implementation of abovementioned programs.



Members of Business Development and Coal Technology Department.

4

2,000 MW Central Java Power Plant (CJPP) Project

Map of Central Java Power Plant Project

In June 2011, PT Bhimasena Power Indonesia (BPI), which is a joint venture company established by a consortium of Adaro, Itochu and J-Power received a Letter of Intent from PLN to build, own and operate a 2,000 MW coal-fired power station known as the Central Java Power Plant (CJPP) project which will generate electricity to supply the Java-Bali grid spanning across the islands of Java and Bali and will be one of the largest of its type in Asia. The plant, which will be fuelled by domestic sub-bituminous coal, will be the first in Indonesia to use advanced environmentally friendly, ultra-supercritical (USC) technology and will serve as a model of high-efficiency power generation.

In October 2011, BPI signed a 25-year Power Purchase Agreement (PPA) with PLN as well as a Guarantee Agreement with the Government of the Republic of Indonesia and Indonesia Infrastructure Guarantee Fund to guarantee PLN's payment obligation for the CJPP project under the PPA. This is the first formalized public-private partnership (PPP) in Indonesia under a guarantee provided by the IIGF and part of the Master Plan for Acceleration and Expansion of Indonesian Economic Development (MP3EI).

The CJPP project is estimated to cost approximately US$4 billion and will be utilising advanced Japanese technology. The project is now at the development stage and commercial operations is scheduled for 2016 to 2017.

4

Evaluating Other Independent Power Producer Projects to Create Significant Base Demand for Our Coals

Chong Swee Choon
Operations GM

Chong graduated in electrical engineering from University of Malaya and obtained his MBA from Ohio University. He served more than 30 years with Tenaga Nasional Berhad, Malaysia's leading utility company in various positions including general manager of the 2100 MW coal fired power plant at Manjung before joining PT. MSW in 2010.

We continue to carefully evaluate other Independent Power Producer (IPP) projects in Indonesia that offer commercially reasonable value as well as strategic benefits for our long-term business plan. Our investment in power generation does not divert our focus in coal but rather will complement our core business by providing good returns, more stability than coal and creating demand for our low rank coals. Additionally, our power business will also diversify our cash flows, boost our Domestic Market Obligation and improve our bargaining power with boiler manufacturers. Our intention is to form partnerships with reputable blue chip power utilities to build efficient and environmentally friendly power plants to burn our subbituminous low rank coals. Our main role in these partnerships will be to underpin long term fuel supply through coal procurement as we aim to be the base tonnage supplier in conjunction with other coal producers.

Tongchai Iemkanitchat
Technical GM

Tongchai holds a Master Degree in Engineering Business Management from University of Warwick, UK. Prior to joining Adaro in 2010, he worked with Electricity Generating Authority of Thailand for 16 years and with GDF Suez Energy International for 2 years.

A Discussion with

Mr. Andre J. Mamuaya,

Director,
Corporate Affairs

You are also the President Director of Adaro Power. Why should Adaro Energy move into the power generation business?

We will continue to focus on our core business in South Kalimantan, while also developing our new projects in order to create maximum value. While we are looking to create long term value, boost reserves and help achieve our medium term volume target through the organic and acquisitive investments in Indonesian coal, our move into the power sector is also very strategic.

Have you had much success in implementing this business strategy?

In October 2011, our international consortium, which includes J-Power and Itochu, signed a power purchase agreement with PLN, the state power utility, to construct and operate a US$4 billion 2,000 MW IPP project to be built in Batang Regency, Central Java.

While there is still much work to be done, I believe our business model to develop coal assets and to deepen our downstream integration into domestic power generation from "pit-to-port" to become "pit-to-power" is one of the best ways to create long term sustainable value from Indonesian coal. This will be enjoyed, not only by our shareholders, but also by multiple stakeholders. While we grow and become more profitable, we have to also help ensure that everyone in society is benefiting and that the income gap is not widening.

How will the IPP business contribute?

In the long term, we see power as an important minority part of our revenues, providing good returns and more stability than coal as well as creating demand for low rank coals. We will consider the power projects, which are commercially and politically make sense for us. We are being selective and will likely only choose the projects that allow us to use our own low rank coal as a fuel.

Shareholders Information

IPO Proceeds Realization

The net IPO proceeds (after deducting total IPO cost) of Rp11,846,595,741,289 were entirely spent as of May 29th, 2009. This was reported to the Shareholders by the Management in the Annual General Meeting of Shareholders (AGMS) conducted on June 3rd, 2009.

IPO Highlights

Effective date	4 July 2008
IPO Date	16 July 2008
IPO Price	Rp1,100
End of First Day Price	Rp1,730
% Increase of First Day	57.27%
Number of Listed Shares	31,985,962,000
New Shares Issued	11,139,331,000
% of IPO Shares	34.83%

Proceeds from Public Offering	**Rp12,253,264,100,000**
Public Offering Fees	Rp406,668,358,711
Net Proceeds	Rp11,846,595,741,289

Projected Use of IPO Proceeds

Additional Investments in ATA	10,852,298,400,000	91.61%
Share Purchase of ATA	356,000,124,700	3.01%
Share Purchase of SIS	158,775,676,000	1.34%
Additional Investments in SIS	365,940,000,000	3.09%
Working Capital	113,581,540,589	0.96%
Total	11,846,595,741,289	100.00%

IPO Proceeds Realization

Additional Investments in ATA	10,852,298,400,000	91.61%
Share Purchase of ATA	356,000,124,700	3.01%
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Additional Investments in SIS	365,940,000,000	3.09%
Working Capital	113,581,540,589	0.96%
Total	11,846,595,741,289	100.00%
Remaining Proceeds from Public Offering	-	-

Shareholders as of 30 December 2011

Investors	Number of Investors	Number of Shares
Domestic		
• Retail	15,628	6,134,208,446
• Corporation	337	17,094,755,616
• Pension Fund	145	214,596,000
• Others	14	11,639,000
Sub-Total	16,124	23,465,199,062
Foreign		
• Retail	120	19,352,900
• Corporation	737	8,501,410,038
• Pension Fund	0	0
• Others	0	0
Sub-Total	857	8,520,762,938
TOTAL	16,981	31,985,962,000

Shareholders Holding > 5% as of 30 December 2011

Shareholder	Number of Shares
PT Adaro Strategic Investments	14,045,425,500
Garibaldi Thohir	1,967,600,654
Sub-Total	16,013,026,154
Public	15,972,935,846
Total	31,985,962,000

Note:
* includes the remaining ownership held by key shareholders

INDONESIA STOCK EXCHANGE, ADRO SHARE PERFORMANCE, AND SENIOR NOTES

Indonesia Stock Exchange

Despite the global economic uncertainty in 2011, the Jakarta Composite Index (JCI) of the Indonesia Stock Exchange (IDX) still recorded a slight increase of 3.20% year over year (y-o-y). This return was the second best in Asia after the Philippines', which increased 4.07%. The JCI closed at 3,822 in its last trading day in 2011.

In 2011, the JCI peaked at 4,193 on August 1st with the lowest level at 3,269 on October 4th. The Dow Jones Industrial Average (DJIA) of the New York Stock Exchange (NYSE) recorded the highest global growth at 9.82% to 12,218.

As of December 30th, 2011, the JCI market capitalization had risen to Rp3,537 trillion from Rp3,247 trillion a year earlier an increase of 8.93%, while the average daily transaction value, which was Rp4.80 trillion in 2010, grew 3.36% to Rp4.96 trillion. The average daily shares transaction frequency in 2011 reached 113,614 times, up 7.40% from 105,790 times in 2010. In addition, the average daily shares transaction volume in 2011 decreased 10.32% to 4.87 billion shares from 5.43 billion shares in 2010 due to the increase in share prices.

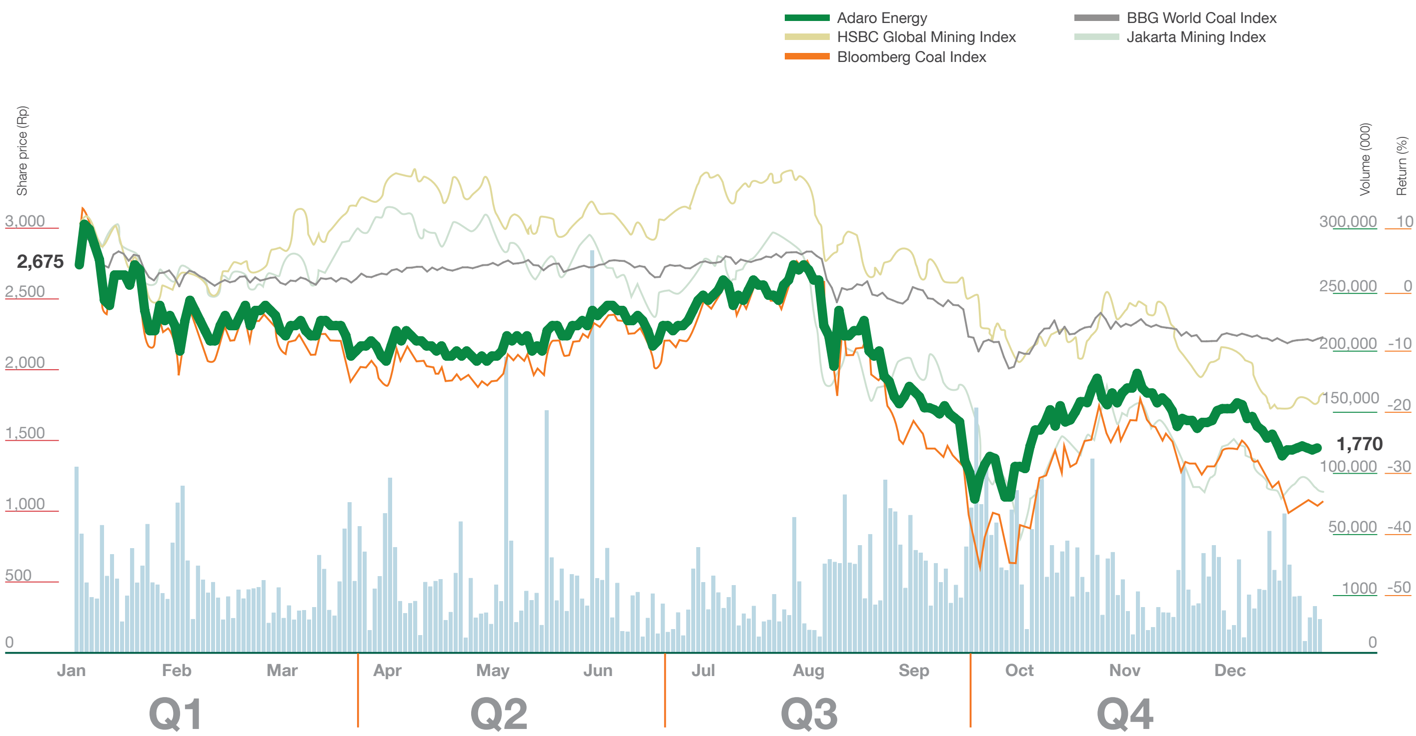
In 2011, Rp62.3 trillion was raised through the IDX, consisting of:

- Rp19.59 trillion from IPOs (25 companies);
- Rp42.14 trillion from Rights Issues; and
- Rp0.57 trillion from Warrants.

ADRO Share Performance

In 2011, ADRO shares closed at Rp1,770, down 30.59% year over year. Our shares reached the highest level at Rp2,875 on July 4th and the lowest level at Rp1,520 on September 26th. As a result, Adaro's market capitalization was down 30.59% y-o-y to Rp56.62 trillion as of December 30th 2011. However, the average market capitalization of ADRO shares remained the best in the mining industry and ranked 12th overall in the IDX. The average market capitalization of ADRO shares weighted 1.68% and 13.98% to the Jakarta Composite Index and the Mining Sector Index, respectively.

In addition, ADRO shares are also included in several IDX indices, namely Main Board Index, Mining, Jakarta Islamic Index, LQ45, Kompas100, Bisnis-27, and SRI-Kehati.



Senior Notes

In 2009, Adaro Indonesia, a wholly-owned subsidiary of Adaro Energy, issued US dollar denominated 10-year senior notes guaranteed by Adaro Energy in the amount of US$800 million, with fixed interest rate of 7.625% per annum paid semi annually (April and October) and non-callable for 5-years. Credit Suisse, DBS Bank Ltd, and UBS AG were appointed as joint bookrunners. The senior notes were offered under Rule 144A/Reg S and are listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

Devindra Ratzarwin
Corporate Secretary

Devindra has more than 10 years experience in the financial industry prior to joining Adaro in 2008. He previously worked in Darma Henwa as Corporate Secretary, Perusahaan Pengelola Aset (Persero) as Deputy General Manager, Indonesian Bank Restructuring Agency as Assistant Vice President and Bank Bali as Manager. He holds a Bachelor of Science in Business Administration degree from the University of Louisiana at Lafayette and MBA from McNeese State University.

Table Senior Notes Listing

Rating Moody's Investors Service Ba1 (stable) and Fitch Ratings BB+ (stable)

Description	Listing Date	Amount (USD)	Interest / Period
USD Secured Senior Notes	22 October 2009	800,000,000	7.625 p.a. / 10 years

Table Interest Payment for Bonds

No.	Description	Payment Period	Amount (USD)
1.	1st Interest Payment	April 2010	30,500,000
2.	2nd Interest Payment	October 2010	30,500,000
3.	3rd Interest Payment	April 2011	30,500,000
4.	4th Interest Payment	October 2011	30,500,000
Total Bonds Interest Payment from 2010 to 31 December 2011			122,000,000

Share Price Per Quarter For the Last 4 Years

Description	2008				2009				2010				2011			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Open	-	-	1,100	1,400	490	900	1,190	1,430	1,730	1,960	1,990	2,025	2,550	2,200	2,450	1,720
Highest	-	-	1,730	1,210	1,000	1,450	1,520	1,780	2,075	2,250	2,150	2,650	2,900	2,500	2,700	2,150
Lowest	-	-	1,320	470	485	880	1,070	1,370	1,730	1,700	1,760	2,000	2,175	2,200	1,430	1,500
Close	-	-	1,400	485	880	1,200	1,430	1,730	1,960	1,990	2,025	2,550	2,200	2,450	1,720	1,770

International Indices

Description	ADRO	IDX Composite	DJIA	S&P 500	FTSE 100	NIKEI
Open - July 16 2008	1,100	2,215	10,963	1,245	5,172	12,755
Close - Dec 31 2009	1,730	2,534	10,428	1,115	5,413	10,546
Close - Dec 31 2010	2,550	3,703	11,125	1,258	5,900	10,229
Close - Dec 31 2011	1,770	3,822	12,218	1,258	5,572	8,455
% Change	-30.59%	3.21%	9.82%	0.00%	-5.55%	-17.34%

Description	ADRO	IDX Mining	Bloomberg Mining	Bloomberg Coal	HSBC Mining	HSBC Coal
Open - July 16 2008	1,100	2,215	405	903	5,172	12,755
Close - Dec 31 2009	1,730	2,203	338	485	1,267	1,329
Close - Dec 31 2010	2,550	3,274	429	498	1,620	1,688
Close - Dec 31 2011	1,770	2,532	297	393	1,154	1,162
% Change	-30.59%	-22.65%	-30.62%	-21.04%	-28.79%	-31.17%

Dividend Payment and Policy

Dividend Payment

The 2011 Annual General Meeting of Shareholders approved the use of 43.98% net profit for the fiscal year 2010 final dividend payment of Rp970,773,946,700 or Rp30.35 per share. This amount includes an interim dividend of Rp315,061,725,700, which was paid on December 10th 2010. On November 8th, 2011, the BOC and BOD approved a fiscal year 2011 interim dividend distribution in the amount of USD75,167,010.70 or USD0.00235 per share based on the un-audited financial statements as of September 2011. The dividend was paid in Rupiah using the Indonesia Central Bank middle rate as of recording date (December 1st, 2011) as a conversion rate from USD to Rupiah of Rp9,085/USD. Therefore, the amount of interim dividend paid in Rupiah was Rp682,892,292,209.50 or Rp21.35 per share. The following table exhibits the detail of the dividend distributions:

Dividend Policy

Based on the provisions of Adaro Energy's Articles of Association, if the company books a net profit then Adaro Energy may distribute dividends to its shareholders based on the Board of Directors' recommendation after obtaining approval from the General Meeting of Shareholders.
Adaro Energy will declare dividends with respect to:

(i) operating income, cash flow, capital adequacy and the financial condition of Adaro Energy and its subsidiaries as regards reaching optimum growth in the future;
(ii) the required fulfillment of reserve funds;
(iii) Adaro Energy and its subsidiaries' obligations based on agreements with third parties (including creditors); and
(iv) Compliance to the prevailing laws and regulations and GMS approval.
The terms of the lending agreements allow Adaro Energy's operating companies to distribute dividends of up to 50% of the aggregate net profit of the borrowers. The interim dividend can be paid based on the BOD decision after having obtained the approval of the BOC.

No.	Type Of Dividend	Fiscal Year	Net Income	Dates			
				Announcement	Media Placement	Cum	
						Reguler & Negotiated Market	Cash Market
1	Final Dividend	2008	IDR 887,198,605,378	5-Aug-09	BI & Republika	25-Aug-09	28-Aug-09
2	Interim Dividend	2009	IDR 3,514,636,491,535	23-Nov-09	BI & Republika	11-Dec-09	16-Dec-09
	Final Dividend		IDR 4,367,251,806,020	12-May-10	IDI & Republika	2-Jun-10	7-Jun-10
3	Interim Dividend	2010	IDR 1,696,265,109,013	8-Nov-10	BI & Republika	26-Nov-10	1-Dec-10
	Final Dividend		IDR 2,207,312,362,331	27-Apr-11	IDI & Republika	27-May-11	1-Jun-11
4	Interim Dividend	2011	USD 376,046,242	9-Nov-11	IDI & Republika	28-Nov-11	1-Dec-11

No.	Fiscal Year	Dates		Recording Date (Dps)	Distribution	Dividend Per Share	Number Of Shares	Total Dividend	Dividend Payout Ratio
		Ex							
		Reguler & Negotiated Market	Cash Market						
1	2008	26-Aug-09	31-Aug-09	28-Aug-09	11-Sep-09	IDR 11.80	31,985,962,000	IDR 377,434,351,600	42.54%
2	2009	14-Dec-09	17-Dec-09	16-Dec-09	30-Dec-09	IDR 12.00	31,985,962,000	IDR 383,831,544,000	21.24%
		3-Jun-10	8-Jun-10	7-Jun-10	18-Jun-10	IDR 17.00	31,985,962,000	IDR 543,761,354,000	
3	2010	29-Nov-10	2-Dec-10	1-Dec-10	10-Dec-10	IDR 9.85	31,985,962,000	IDR 315,061,725,700	43.98%
		30-May-11	3-Jun-11	1-Jun-11	9-Jun-11	IDR 20.50	31,985,962,000	IDR 655,712,221,000	
4	2011	29-Nov-11	2-Dec-11	1-Dec-11	9-Dec-11	USD 0.00235 IDR 21.35	31,985,962,000	USD 75,167,010.70 IDR 682,892,292,210	

Investor Relations

Cameron Tough
Head of Investor Relations

Cameron has 13 years experience working in finance and investor relations in the Indonesian mining sector. He joined Adaro in 2008 at the time of the IPO. Cameron has a bachelor degree in Pacific and Asian Studies and Economics from the University of Victoria and a Post-Graduate Diploma in International Management (Asian Studies, Finance, Business, Marketing, Law, Mandarin) from the APMCP at McRae Institute at Capilano University. The APMCP is Canada's award winning two year MBA level cooperative education program focusing on Asia.

Adaro Energy has an active global Investor Relations (IR) program, whose goal is to help lower the cost of capital through timely, symmetrical and balanced disclosures as well as building understanding and trust with shareholders, analysts and financial

Director and Chief Finance Officer, David Tendian gives a podium presentation at a CLSA Forum in Hong Kong, September 2011

Members of the IR Team (Investor Relations and Corporate Finance), from left to right: Heri Gunawan, Andrew Kandolha, Jessie Wahab, Cameron Tough, Danuta Komar and Rama Suparta

media. We seek to engage in ongoing dialogues with long-term focused institutional investors about the Company's latest developments, strategic vision, and our plan to deliver sustainable value to shareholders. Our team is growing and consists of six IR practitioners at the end of 2011.

The IR division is part of corporate finance and reports directly to the CFO. The team is in regular contact with all members of the Board of Directors as well as other parts of the company to be fully informed on the latest developments. IR has active support of the Corporate Secretary, Finance, Legal, Marketing, Operations, Project Development and Business Development to ensure that the non-confidential information is being communicated timely, accurately and consistently.

Adaro's IR broadens awareness and interest through international roadshows, meetings, mine site visits, conference calls and media. In 2011, we had an average of 52 investor and analyst meetings per month, conducted twenty one conferences and six non-deal roadshows. We initiated for the first time non-deal roadshows to Mumbai, India and Seoul, South Korea to broaden our investor base. We also hosted five mine site visits for our investors and analysts. On July 13-14th 2011, we invited all our sell-side equity analysts to our newly inaugurated Adaro Institute for a series of presentations and dialogue with management and other senior personnel. There were 24 domestic and international analysts who attended the presentation, which was then continued with a mine site tour of Adaro's operations and community development programs. In addition, we started to engage in a media campaign by placing five advertisements in financial media such as Institutional Investor, Finance Asia and Bloomberg to increase market recognition of the Company.

We issued detailed Quarterly Activities Reports, which are not required by the compliance rules, and made regular press releases. All information once lodged to the Stock Exchange, is put onto Adaro Energy's website at www.Adaro.com and then distributed to a recipient list by email. We continue to institutionalize the IR task in order to keep the market informed in a timely and balanced manner.

As of year-end 2011, there were thirty four analysts covering Adaro Energy with 20 buy, 6 outperform, 6 hold and 2 sell recommendations and a Bloomberg consensus rating of 4.394 (5.0 is the highest). A total of seven new domestic and international brokers picked up coverage of Adaro in 2011, increasing our transparency in the capital market.

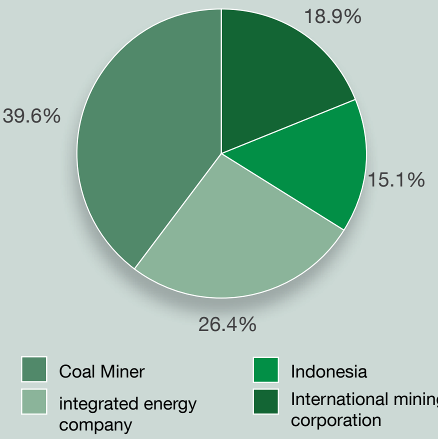
Disclosure Policy

The disclosure policy was developed in 2008 and subsequently a disclosure team was formed, comprising of senior level managers from Investor Relations, Corporate Secretary, Legal, Operations, External Relations and Marketing. The execution of the disclosure policy is imperative to ensure compliance with prevailing rules and regulatory requirements as well as to help reduce volatility, improve market valuations, increase liquidity, improve Adaro's credibility and enhance shareholder value. The disclosure policy had been put to use since Adaro's listing in mid-2008, which was then formalized in 2009 to provide clear guidance on the disclosure of material information and regular disclosure activities. The launching of the disclosure policy reaffirmed our commitment to provide timely, orderly, consistent and credible information in making all required disclosures on a broadly disseminated basis.

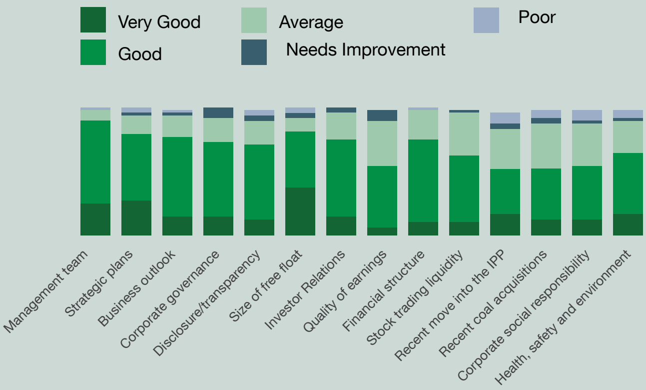
We believe that our disclosure activities in support of corporate governance went beyond what is required by market regulations in 2011. Examples of progress made include a regular Adaro Energy Quarterly Activities Report, presentations and meetings during non-deal roadshows and investor forums, and the disclosure of fair and balanced information to the capital market.

Annual Perception Survey 2011

Words that best described Adaro

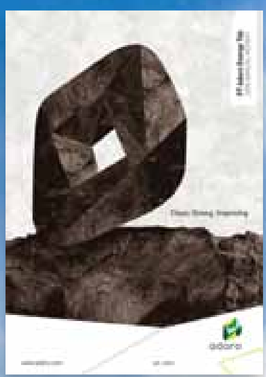


Select One to Describe Adaro



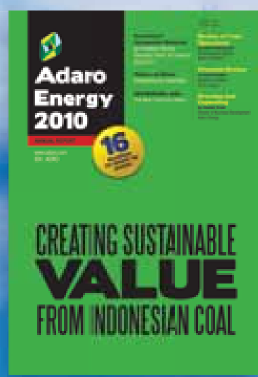
- 49% consider Fundamentals as the most important factor in making investment decision.
- 33.3% state that Adaro's solid fundamentals are their top consideration in investing in Adaro.
- 69% feel that the demand for low-CV coal below 4,000 kcal / kg (GAR) will continue to increase.
- 55.6% believe that the era of cheap coal is over.
- Almost 84% think that Adaro is better than its peers in the industry.

- On buying greenfield asset:
  - o Reserve-based companies should always explore new reserves potential
  - o Prefer Adaro to buy greenfield asset and develop it, as it offers better value.
- On Adaro's competitive advantage:
  - o Long term management strategic through integrating the whole supply chain shows that Adaro's management always plans for the long run.
  - o Integrated business model from pit to port, and soon to power generation.
  - o Strong fundamentals.



2008

2009



2010

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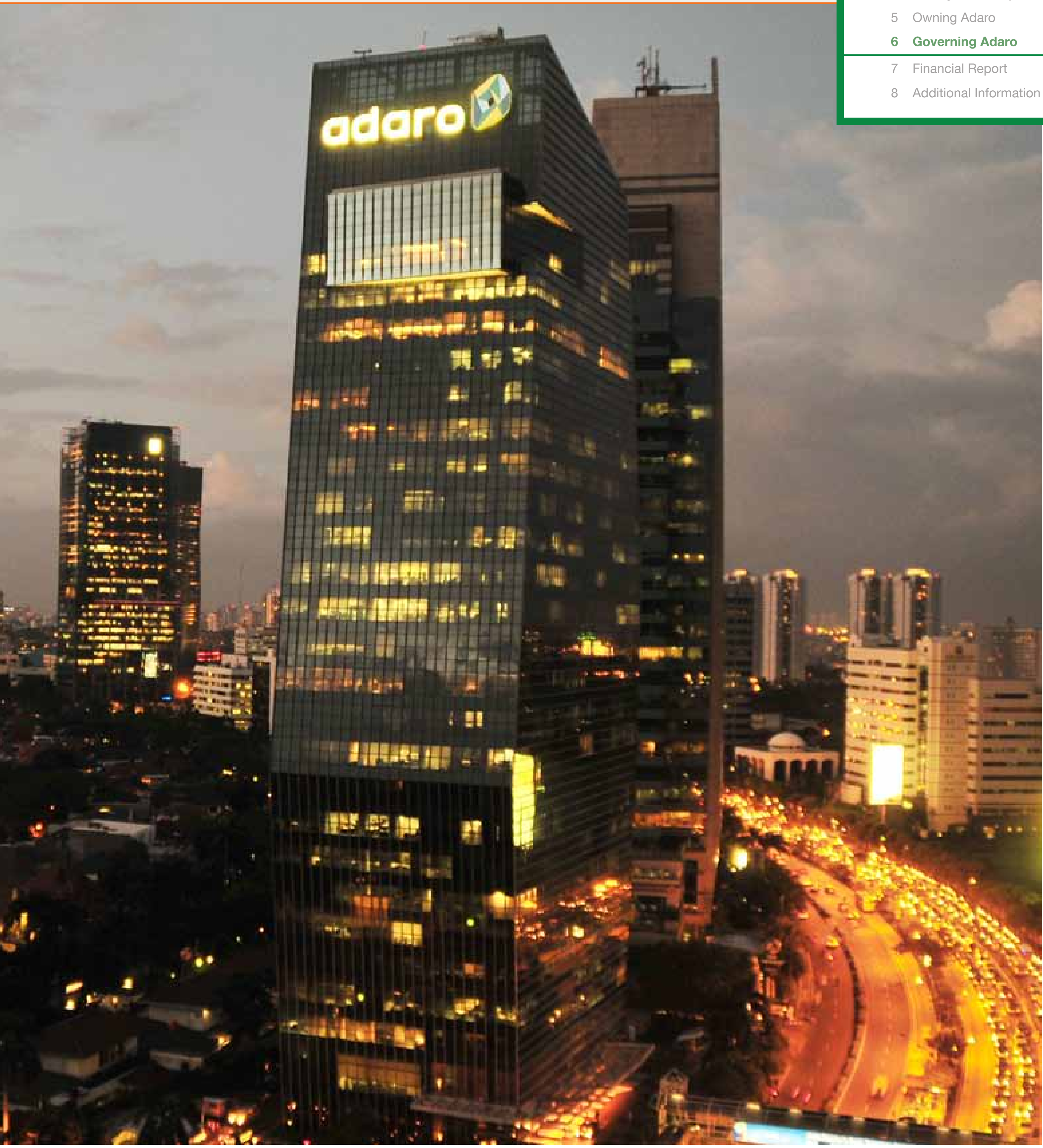
Status of Corporate Governance Practices

In this Chapter

Our Office in Jakarta

Our Corporate Governance Structure is In-line with International Best Practices

- 1/3 of Board of Commissioners are independent commissioners
- Audit Committee consists of three independent members
- Conduct regular internal audit of operations
- Disclosure meets or exceeds with international standards



Good Corporate Governance Principles	We have implemented the GCG principles of transparency, accountability, independence and justice since our IPO in 2008 to comply with the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) regulations for public company. Our majority shareholders and management have put tremendous efforts to instill a strong company culture emphasizing the importance of sustainable good governance application. The followings show concrete initiatives we took in implementation of GCG principles in 2011: • Development of BOC and BOD Charters. • Development of Audit Committee Charters. • Fulfilled the disclosure requirements vis-à-vis disclosure on operational activities and corporate actions to Bapepam and the Indonesia Stock Exchange ("IDX") through the Disclosure Committee. • Improved the procurement system.
Business Ethics and Rules of Leadership	To achieve our vision of becoming a leading Indonesian Mining and Energy group, the principles of GCG act as the cornerstone of our corporate values and are applied in the rules of leadership. The following are some of our corporate values portraying the expected behaviour from both management and employees: - Customer focus. Attentive to the aspects of "Quality, Cost, Delivery and Safety (" QCDS ") – through establishing a strong supply chain system with integrated production process which accommodates our operations as well as our subsidiaries, from mining, logistics, transportation, infrastructures to port operations. - Mutual respect and synergistic collaboration between all individuals within Adaro Group, abbreviated Adaro IBT, as follow: • Attitude • Determined • Adaptive • Responsive • Open minded • Integrity • Balanced • Team Spirit - Plan, Do, Check, Action ("PDCA"). - Simplicity in working and problem-solving termed as KISS (Keep it Simple Spirit).
Organs of the Organization	The General Meeting of Shareholders (GMS), Board of Commissioners (BOC) and Board of Directors (BOD) serve important roles in effective implementation of GCG by executing their respective functions under the principle of independence in carrying out duties, functions and responsibilities within the company. As determined by the company's articles of association, the General Meeting of Shareholders consists of an Annual General Meeting of Shareholders (AGMS) and an Extraordinary General Meeting of Shareholders (EGMS). AGMS shall be held within a period of no later than 6 (six) months after the end of a fiscal year. In 2011 we conducted the AGMS for the 2010 fiscal year together with the EGMS on April 20, 2011. The decisions made in the AGMS and EGMS were published in 2 (two) national media, the company's website and IDX's website. In organizing the GMS, we invited our shareholders through announcement in two national media. Collective decisions were made in the Meeting through consensus for deliberation and voting, with the quorum of more than half of the attendees. We have 6 (six) commissioners consisting of 4 (four) members representing the shareholders and 2 (two) Independent Commissioners, one of whom also serves as the Chairman of Audit Committee.

We are currently led by 7 (seven) directors who are professionals with diverse experience and backgrounds. The BOD oversees Adaro and its subsidiaries, and carries out their duties and functions referring to the assignment of responsibilities stipulated in the Articles of Association. The directors will also refer to Board of Directors' Charter, which was still being finalized as of the end of 2011.
Diverse backgrounds of our BOC and BOD contributes positively on the decision making process which is based on reasonable and prudential principles without being rigid.

The management has set out the company's Vision, Mission and Values promulgated to the entire Adaro Group through the company's book titled "The Family" and through training sessions at Adaro Institute.

The Rights and Obligations of the Core Shareholders

As capital owners, the shareholders possess certain rights and responsibilities with regards to the company, which must be executed in accordance with the prevailing laws, regulations and articles of association.

Adaro's Articles of Association, adjusted from Law No. 40 of 2007 on Limited Corporation and in accordance with Bapepam-LK's regulation, states that the core shareholders must comply with the provisions of the Articles of Association, all decisions made in the GMS, and the applicable regulatory requirements.

The core shareholders are entitled to place their representatives in the company's management, to receive the company's annual dividend, to attend the GMS, to exercise voting rights in the GMS, and to obtain information and periodical reports from the management.

Our core shareholders highly support us and our growth plans to achieve our vision to be a leading Indonesian mining and energy group. Composed of 4 (four) groups of family, with combined ownership of 63% and in which no single group dominates the others with larger holding, our core shareholders regard themselves not as owners, but instead as partners in the implementation of our strategies to create maximum sustainable value from Indonesian coal.

Another key aspect regulated by the Articles of Association is regarding material transactions which may incur conflicts of interest. Such transactions must obtain the approval of GMS wherein the core shareholders who may be involved in the conflicts of interest must collect the supporting votes from other shareholders. The agreed quorum for this matter is half of the total other shareholders and the voting is only valid if the quorum of more than half of the other shareholders in attendance is achieved.

The Rights and Obligations of Stakeholders and Other Shareholders

Our stakeholders consist of employees, personnel, and community groups within the company, with interests in the company as well as those directly affected by the company's strategic decisions and operations. Therefore, we manage a fair and equitable relationship with all stakeholders in compliance with the applicable laws and regulations, and based on two-way rules applicable to all parties.

In addition to the core shareholders, Adaro Energy is 35% owned by public shareholders, who also hold various roles in both AGMS and EGMS. We maintain the list of shareholders through a Securities Administration Agency (PT Ficomindo Buana Registar), according to the provisions of applicable laws and regulations as well as the Articles of Association. We regularly conduct information disclosure to update our stakeholders with reports and press releases published on the company's website, the websites of IDX and Bapepam, and in national media.

To build a winning team for a bigger and better Adaro, we continue to enhance the quality of our human resources in a sustainable manner. Our focus lies on creating competent human resources through relevant training programs and develop proper career paths for each employee along with the company's rapid growth.

To enable us in creating a maximum sustainable value from Indonesian coal, in 2009, we established a unit to manage the group's corporate social responsibility (CSR) programs and community development named "Adaro Bangun Negeri". This unit makes significant contribution to the key aspects of economic development, enhancement on the quality of education, health enhancement and socio-cultural development. With regards to our community development programs, in 2011 we successfully achieved several prestigious awards from domestic as well as international institution.

Written statements regarding GCG implementation

Written statements with regards to GCG implementation and relevant reports are included as part of the company's annual report. On areas without full implementation of GCG principles, the company must disclose the discrepancies and the reasons of such discrepancies. The written statements shall consist of the structure and work mechanism of the BOC and BOD, as well as other information relevant to GCG implementation.

Being a public company, we have implemented the principles of GCG in our business operations compliant with Bapepam-LK's regulations and involves all elements of the company, led directly by the management and applied by each department and employee according to the existing corporate values.

In performing their roles under the determined mechanism, the BOC and BOD are assisted by Audit Committee and Disclosure Committee. In addition, the company also carries out risk management function as well as remuneration and nomination function to support the Boards. The committees and functions hold strong commitment to continuously develop and enhance the principles of GCG to support the company in ensuring sustainable growth.

Internalization of GCG Practices

To enable systematic and sustainable implementation of GCG, practical guidelines to serve as reference need to be put in place. Adaro implements GCG principles by referring to general regulations of Bapepam-LK, IDX and Law No. 40 of 2007 on Limited Corporation.

In addition, the management, together with an independent team formulated Adaro's corporate values as outlined in the company's book, "The Family," which supports the effective implementation of GCG principles.

Our success in implementation of GCG principles in our business operations have gained various recognitions from a number of independent institutions and received several awards and recognitions from domestic as well as international institutions in 2011.

Corporate Governance Structure

1. General Meeting of Shareholders (GMS)
According to the Articles of Association, GMS is a company organ which facilitates the shareholders in decision making and facilitates the Management in obtaining strategic approvals from the Shareholders. GMS also provides Shareholders with the opportunity to obtain information on company's performance from the management.

In 2011, Adaro conducted both AGMS and EGMS on 20th April 2011 with the following details:

Annual General Meeting of Shareholders:
Agenda 1:
The AGMS approved the company's annual report for the fiscal year ending December 31st, 2010 and ratified the company's Balance Sheet and Profit & Loss for the fiscal year ending December 31st, 2010 which was audited by Public Accountant, Tanudiredja, Wibisana dan Rekan (a member firm of PricewaterhouseCoopers), as stipulated in the Independent Auditor Report dated March 15th, 2011, No.A110315009/DC2/YAN/I/2011 with unqualified opinion and explanation paragraphs.

Upon approval of the Management Report, as well as the ratification of the company's Balance Sheet and Profit and Loss for the fiscal year ending December 31st, 2010, acquit et de charge was granted to the Board of Directors and the Board of Commissioners over their management and supervision of the company during 2010.

Agenda 2:
The use of company's Net Profit for the fiscal year 2010 of Rp2,207,312,362,331 with the following appropriations was agreed:
A total of Rp110,365,618,117 to be set aside for general reserve fund stipulated in article 70 of Company Law No. 40 Year 2007.

a) A total of Rp970,773,946,700 or 43.98% of the company's Net Profit in 2010 to be paid as cash dividend, in which the company would incorporate the interim dividend of Rp315.061.725.700 distributed on December 10th 2010, while the remaining of Rp655.712.221.000 would be appropriated as final dividend payment. The Board of Director is authorized with substitution rights:
   - to determine the list of shareholders for dividend payment eligibility;
   - to determine the dividend payment method;
   - to carry out all necessary actions related to such issue including setting the dividend payment schedule. The dividend payment schedule will be published in 2 (two) nationally circulated publications taking into account prevailing laws and regulations.

b A total of Rp1,126,172,797,514 will be appropriated for Retained Earnings.

Agenda 3:
The AGMS authorized the company's Board of Commissioners to appoint a Public Accountant registered with Bapepam-LK to audit the company's financial statements for the current on-going fiscal year and the fiscal year ending December 31st, 2011 and also authorized the Board of Commissioners to determine the honorarium of such Public Accountant Firm as well as other requirements.

Agenda 4:
The AGMS has authorized the Board of Commissioners to determine the composition of salaries and other allowances for the members of the Boards of Directors and Commissioners excluding incentives in the form of MSOP (Management Stock Option Plan).

Extraordinary General Meeting of Shareholders
Sole Agenda
The EGMS respectfully terminated all members of the Board of Directors from the closure of the Meeting and given Acquit et de Charge over the management during their term of appointment.

The EGMS approved the appointment of the company's Board of Directors, with the effective term of office commencing from the closure of the General Meeting of Shareholders until the end of the company's General Meeting of Shareholders for 2016 fiscal year to be held at the latest on April 19th, 2016.

Therefore, the company's Board of Directors consists of:

President Director	: GARIBALDI THOHIR
Vice President Director	: CHRISTIAN ARIANO RACHMAT
Director	: ANDRE J. MAMUAYA
Director	: SANDIAGA S. UNO
Director	: DAVID TENDIAN
Director	: CHIA AH HOO
Director	: M. SYAH INDRA AMAN

2. Board of Commissioners and Board of Directors
Members of the BOC and the BOD are appointed during the GMS. The BOC and BOD each has clear authority and responsibilities based on their respective functions, as mandated by the Articles of Association. Both of the Boards are responsible to operate the company to be sustainable in the

long term. Accordingly, the Boards must have the same perception regarding the company's vision, mission and values.

Board of Commissioners
The BOC is a company organ that is responsible for overseeing the company's business in accordance with GCG principles, regulatory provisions, and the Articles of Association. BOC members are appointed and terminated by the GMS.

Duties and Responsibilities of the BOC
The BOC is responsible for overseeing the company's management, i.e. the BOD, and for carrying out other duties as mandated by the GMS or applicable laws and regulations. In performing its duties, BOC oversees and advises BOD and examines certain actions as requested by BOD in accordance with the applicable regulatory provisions as well as the GMS in the manner approved by the shareholders.

All BOC members must undertake their duties by acting in good faith, prudently and responsibly, and in compliance with the Article of Association, laws and regulatory provisions, and by prioritizing the company's best interest over other interests. Members of BOC must also monitor the effectiveness of GCG practices implemented by the company and make necessary adjustments accordingly.

BOC Membership
1. Qualifications of competency
   a. Each BOC member shall demonstrate good behavior, relevant experience and expertise in undertaking their duties and fulfilling other criteria in accordance with the prevailing regulatory provisions and the Article of Association;
   b. Selection criteria for BOC members are determined by the Meeting of BOC.
2. Requirement of Independence
   a. BOC members must not hold double positions that may create conflicts of interests within the company either directly or indirectly, except with the approval of GMS.
   b. BOC members must disclose all existing and potential conflicts of interest or any matter that may prevent them from acting in an independent manner;
   c. Disclosure on the abovementioned conflicts of interests must be conducted periodically in the company's annual report and in the declaration of conflicts of interest in a predetermined format;
   d. Any party shall not prevent the members of BOC from performing their duties in an independent manner.

Each BOC member holds their position for a term of office according to the decision of GMS and may be re-elected.

Meetings of the Board of Commissioners
Throughout 2011, the BOC of Adaro Energy Tbk held four meetings to review quarterly performance as presented by the BOD.

Name	Attendance (4 Meetings)
Edwin Soeryadjaya	4
Theodore Permadi Rachmat	4
Ir Subianto	4
Lim Soon Huat	4
Raden Pardede	4
Ir Palgunadi Tatit Setyawan	3

Board Of Directors

The BOD is an executive body of the company responsible for managing daily operations for the best interest of the company according to the goals, objectives, and business activities. In carrying out its duties, BOD is overseen and receives inputs and suggestions from BOC, and for certain policies, BOD needs to obtain the approval of BOC and/or GMS.

All members of BOD must undertake their duties by acting in good faith, prudently and responsibly, and in compliance with the Article of Association, laws and regulatory provisions, and by prioritizing the company's best interest over other interests.

BOD Membership
1. Legal requirement
   Within five years prior to the appointment, BOD members must never:
   a. Be declared bankrupt;
   b. Be a member of BOD or BOC declared as being re sponsible for the bankruptcy of any company;
   c. Be punished for criminal act that incurs losses for the state and/or company and/ or any financial losses.
2. Competency requirement
   a. Each member of BOD shall demonstrate good behavior, relevant experience and expertise in undertaking their duties and fulfill other criteria in accordance with the prevailing regulatory provisions and the Article of As sociation;
   b. Each member of BOD shall be appointed based on the consideration of expertise, integrity, leadership, experience, honesty,

good behavior, and high dedication to enhancing and developing the company.

3. Requirement of Independence
   a. BOD members must not hold double positions that may inflict conflicts of interests within the company either directly or indirectly, or violate the applicable regulatory provisions.
   b. BOD members must disclose all existing and potential conflicts of interest or any matter that may prevent them from acting in an independent manner;
   c. Disclosure on the abovementioned conflicts of interests must be conducted periodically in the company's annual report and in the declaration of conflicts of interest in a predetermined format;

Any party shall not prevent the members of BOD from performing their duties in an independent manner.

Meetings of the Board of Directors
BOD Meetings are conducted periodically as well as when required. Based on the Article of Association, a director may request for BOD Meetings to discuss particular matters. BOD Meetings discuss operational and financial performance, project progress, as well as other matters that need special attention or decision making by BOD.

Throughout 2011, the BOD of Adaro Energy Tbk held seven meetings to review quarterly performance as presented by the BOD, as follow:

Name	Attendance (7 Meetings)
Garibaldi Thohir	7
Christian Ariano Rachmat	7
Sandiaga S. Uno	5
Andre J. Mamuaya	7
A.H. Chia	7
M. S. Indra Aman	7
David Tendian	6
Alastair B. Grant*	1

* Prior to the change of management as decided by the EGMS held on April 20th, 2011

BOD's term of office is held for a period of five years. BOD's membership can also be terminated in the case of:
1) Resignation;
2) Non-compliance with the applicable regulatory provisions;
3) Death;
4) Being terminated by the decision of GMS.

Joint Meetings of BOC and BOD

BOC and BOD hold joint meetings to facilitate the submission of BOD's reports to BOC concerning the operational and financial matters as well as other particular matters and to accommodate strategic decision making that requires BOC's approvals.

Throughout 2011, the joint meetings of the BOC and BOD of Adaro Energy Tbk were held every three months or combined with BOC Meetings, as follow:

Name	Attendance (4 Meetings)
BOC	
Edwin Soeryadjaya	4
Theodore Permadi Rachmat	4
Ir Subianto	4
Lim Soon Huat	4
Raden Pardede	4
Ir Palgunadi Tatit Setyawan	3
BOD	
Garibaldi Thohir	4
Christian Ariano Rachmat	4
Sandiaga S. Uno	4
Andre J. Mamuaya	2
A.H. Chia	3
M. S. Indra Aman	4
David Tendian	4
Alastair B. Grant	1

Nomination of Members of the Boards
Candidacy for membership on either of the Boards (BOC and BOD) is based on proposals and nominations from shareholders who own at least 10% of the total shares outstanding with valid voting rights. Proposals and nominations must be received by the existing BOD at least seven days before the date of any GMS.

3. Remuneration of the Boards
Our company's policy requires that remuneration is based on merits, which ensures objective performance assessment based on achievement. The remuneration / compensation for BOD and BOC must be approved by the GMS.

The BOC and BOD of Adaro Energy received remuneration with a total amount of US$4,701,000 for the year ended December 31st, 2011 and a total amount of US$2,314,000 for the year ended December 31st, 2010.

Share ownership of the Boards in 2011

Board of Commissioners	Number of Shares	Percentage of Ownership
Edwin Soeryadjaya	1,359,777,646	4.25%
Theodore Permadi Rachmat	707,420,430	2.21%
Ir. Subianto	416,932,620	1.30%
Total	**2,484,130,696**	**7.77%**
Board of Directors	**Number of Shares**	**Percentage of Ownership**
Garibaldi Thohir	1,967,600,654	6.15%
Sandiaga S. Uno	633,338,202	1.98%
Chia Ah Hoo	4,815,500	0.015%
Andre J. Mamuaya	7,545,000	0.024%
Total	**2,613,299,356**	**8.17%**

4. Audit Committee

According to the Decree of Bapepam Number 29/PM/2004 dated September 24th, 2004, Audit Committee is a committee established by Adaro's BOC to work collectively and support the BOC in carrying out its responsibilities.

The Audit Committee shall consist of minimum one Independent Commissioner and a minimum of two expert members not employed by Adaro. The Independent Commissioner takes the position as the Chairperson of the Audit Committee. The Audit Committee is responsible in providing professional and independent opinions to the BOC over the reports or other issues submitted by the BOD and discharges other related duties of the BOC.

Below are the tasks and responsibilities of the Audit Committee:

1) Review of the financials;
2) Selection, appointment, and supervision of the Independent Auditor;
3) Preapproval of non-audit services;
4) Effective internal control;
5) Compliance of the laws and regulations;
6) Risk management practices and reporting;
7) Audit BOD meetings resolutions;
8) Review third party complaints;
9) Special assignments;
10) Maintain confidentiality of documents;
11) Conduct self-assessment of the Audit Committee duties.

The scopes of work for Adaro's Audit Committee in 2011 are as follow:

1) Conduct reviews on Adaro's financial statements and other financial information issued by the Company;
2) Conduct evaluation on the effectiveness of the Internal Audit function;
3) Conduct monitoring and evaluation on the audit process carried out by Public Accountant;
4) Conduct assessments and reviews on the design of Internal Control System and its effectiveness related to the preparation of financial information;
5) Conduct monitoring and evaluation on the implementation of audit process by Internal Audit;
6) Other activities assigned by the BOC.

The followings are several programs implemented by the Audit Committee to increase Adaro's added value and to minimize corporate risk in 2011:

1) Discussion on the 2010 consolidated financial statement draft;
2) The settlement of 2011 Audit Committee Program.
3) Discussion on company's CSR programs and corporate risk;
4) Understanding The Company's work plan and budget for 2011 as well as The Company's sustainable program;
5) Settlement of Audit Committee Charter review and Audit Committee working program for 2012;
6) Discussion with Public Accountant with regards to the preparation of 2011 book;
7) Discussion on audit report, operation process and CSR;
8) Discussion on 2011 Internal Audit working programs;
9) Discussion on 2011 Audit Committee report;
10) Discussion on Audit Committee work plan for 2012;
11) Discussion on the challenges faced by Public Accountant on the audit of 2011 financial statement;
12) Discussion on the 2010 financial statement draft;
13) Discussion on the implementation of law-abiding activities by The Company.

The Audit Committee held 23 meetings in 2011 with the following details:

Name	Attendance
Ir Palgunadi Tatit Setyawan	19
Dr Ir Irwandy Arif, M Sc	23
Mamat Ma'mun, SE	21

From left to right: Dr. Irwandy Arif, MSc., Ir. Palgunadi Setyawan, Mamat Ma'mun, SE.

Profile of the Audit Committee – Excluding Member of the Board of Commissioner

Dr. Ir. Irwandy Arif, MSc – Member
Graduated from Ecole des Mines de Nancy, France with his doctoral degree and from Institut Teknologi Bandung with his mining and industrial degree. A well-known expert in the Indonesian mining industry with experience in providing advisory services to highly regarded Indonesian mining companies such as PT Berau Coal, PT Freeport Indonesia, and PT Tambang Batubara Bukit Asam. He was also the Head of Audit Committee for state mining company PT Aneka Tambang Tbk. He has published scientific journals and students handbooks on mining, geology, and geotechnical.

Mamat Ma'mun, SE – Member
Graduated from Universitas Padjadjaran Bandung with a degree in Economics. He has over thirty years working experience in the Astra group and was a trustee to the Astra Group Pension Fund. His experience as an audit committee member began in 2001. Currently, he is Commissioner in PT Duta Oto Prima, PT Daya Anugrah Mandiri, and PT Dharma Group.

5. Disclosure Committee
The Disclosure Committee is responsible in conducting information disclosure to the regulator and the public by referring to the provisions of Bapepam-LK applicable to all public companies. Such information disclosure relates to significant and strategic corporate actions deemed influential on shareholder's decision making.

Adaro's Disclosure Committee consists of the President Director, Vice President Director, Corporate Affairs Director, Finance Director, Legal Director, GM - Corporate Secretary, GM - Investor Relation, GM - Corporate Finance, and legal and marketing units.

The Disclosure Committee holds a monthly meeting to discuss upcoming corporate actions and examine the impact of such actions on shareholder's decisions in case of insignificant amount.

The information disclosure conducted by Adaro in 2011 includes:

a. Monthly report on exploration activities to be submitted by the 12th of the month following the reporting period.
b. Reports on Quarterly Operations activities to be submitted within one month following the reporting period.
c. Reports on Foreign Currency Denominated Bonds submitted as of 31 December 2010, 31 May 2011 and 30 September 2011.
d. Annual Report of 2010.
e. Consolidated Financial Statement for the period ended on 31 December 2011 (audited), 31 March 2011 (unaudited), 30 June 2011 (limited review) and 30 September 2011 (unaudited).
f. AGMS for the fiscal year of 2011 and EGMS held on 20 April 2011.
g. Final Dividend for the fiscal year of 2010 granted in April 2011 and interim Dividend for the fiscal year of 2011 granted in December 2011
h. Information disclosure submitted to Bapepam and public shareholders:
    - Change in BOD and share ownership.
    - Change of Corporate Secretary.
    - Loan Agreement with SIS totaling US$400 million.
    - Signing of the Agreement on overburden crushing and conveyor facility.
    - Estimated coal deposits and reserves.
    - Press Release: Launching of BDF Pilot Project in Indonesia between Adaro, Komatsu and United Tractor
    - Adaro Energy as a member of JPower-Adaro-Itochu consortium received Letter of Intent for coal-fired Independent Power Producer ("IPP") with the capacity of 2 x 1,000 MW.
    - The acquisition of 85% ownership on PT Indonesia Multi Purpose Terminal (IMPT).
    - Facility Agreement for Adaro Indonesia totaling USD 750 million.
    - The acquisition of 75% ownership on PT Mustika Indah Permai (MIP).
    - Signing of long-term Power Purchase Agreement for the 2 x 1,000 MW IPP in Indonesia.
    - The acquisition of 35% ownership on PT Servo Meda Sejahtera (SMS).
    - The acquisition of 46% ownership on PT Bukit Enim Energi (BEE).
    - Announcement of Currency Conversion Rate for Interim Dividend of 2011.

i. Responses to regulator (Bapepam) queries:
   - Information disclosure regarding SIS US$400 million facility.
   - Explanation regarding media coverage on the Rp 6.1 billion refinancing and acquisition plan.
   - Explanation regarding media coverage on MIP acquisition.
   - Annual report revision.

j. Response to IDX's queries regarding media coverage on MIP.

k. Public expose in Investor Summit and Capital Market Expo

6. Remuneration and Nomination Committee

Up to the end of 2011, we had not completed the constitution of Remuneration and Nomination Committee. However, the function of this Committee had been fulfilled by Adaro, particularly on managerial level.

The function of Remuneration and Nomination Committee is to carry out the company strategies on human resources development which include:

1. Learning and career path.
2. Recruitment.
3. Performance appraisal.
4. Remuneration / Reward.
5. Motivation.
6. Succession plans.
7. Talent management.

Adaro has put in place a performance review system called Performance Development System ("PDS"). PDS is a form of performance review based on the concept of Management by Love which focuses on employee development

7. Internal Control

Internal Audit

Adaro Energy's Internal Audit Unit is responsible to provide professional and independent opinions to BOD on the company's activities or operations. In performing its functions, Internal Audit carries the objective to identify the effectiveness of the mechanism formulated and implemented by the management, so that:

a. Risk is identified and properly managed;
b. The governance system with regards to the relationship with related parties is in place and managed properly;
c. Ensuring accuracy, reliability and timeliness of Adaro Energy's significant operational, managerial, and financial information;
d. Employees demonstrate the behavior that complies with the applicable policies, standards, procedures, laws, and regulations;
e. Resources are obtained economically, utilized efficiently, and protected sufficiently;
f. Programs, plans and objectives are achieved;
g. Quality control programs are implemented and sustainable improvement is endeavored under company's supervision;
h. The laws and regulations significant to the company are identified and acted upon properly.

Hendry Chandra
Internal Audit GM

Hendry has over 15 years experience working in finance and accounting. He joined Adaro in 1999 from a major public accounting firm and left in 2002 as Manager of Finance & Accounting before re-joining Adaro in 2009. He has a Bachelor Degree in Accounting from Trisakti University.

Risk Management

Mining is a risky, highly regulated, capital intensive and slow yielding industry. The objective of our risk management initiative is to assist the BOD in managing risks that may have an adverse impact on our business as we continue to create maximum sustainable value from Indonesian coal.

Risk management is carried out through mapping out the potential risks inherent in operational and non-operational activities and formulation of the most effective risk mitigation model.

The functions of risk management within Adaro Energy and its subsidiaries are carried out by all departments and subsidiaries in both operational and non-operational activities.

The operational activities herein include strict work safety programs to significantly prevent the risk of accidents, employing a number of contractors to prevent work disturbances caused by having a single operator, and strict sales procedure that prevents sales contracts from incurring significant risk against Adaro.

Meanwhile, the non-operational activities include procurement activities that prevent risk of delays and fraudulent acts. Provisions regarding gratification have also been formulated to set out the matters related to gifts and gratuity acceptance.

8. Corporate Secretary

Pursuant to Law No. 8 Year 1995 concerning Capital Market, the Chairman of Bapepam has issued Decree No. Kep-63/PM/1996 on the Appointment of Corporate Secretary. According to The Decree, Corporate Secretary has the following responsibilities:

Members of Corporate Secretary Department. From left to right: Armand Alex Siwu, Aditya Sudjono, Karina Novianti, and Devindra Ratzarwin

- Keep up with the development in Capital Market, particularly the development of Capital Market regulations.
- Provide information for the public and investors regarding the condition of issuers.
- Provide inputs to BOD regarding the compliance with Law No. 8/1995.
- Act as a mediator between the issuer and Bapepam as well as the public.

As a publicly listed entity, Adaro Energy has appointed a Corporate Secretary directly responsible to the Board of Directors. The roles and responsibilities of the Corporate Secretary are to ensure smooth and regular communications between the company and the capital market authority, stock exchange authority and the public.

In addition, the Corporate Secretary is also responsible for ensuring the company's compliance to prevailing rules and regulations, conducting General Meetings of Shareholders (GMS), and conducting Public Exposes.
In 2011, our Corporate Secretary undertook several major activities as follow:

- Carried out the AGMS on April 20, 2011 with shareholder ratification of 2010 financial report as one of the agenda.
- Carried out the EGMS on April 20, 2011 with a single agenda to release and discharge the Board of Directors and appoint new Board of Directors.
- Media Workshop on May 2011, with journalists from several media partners.
- Other routine activities with regards to the company's responsibility of submitting reports and information disclosure to regulators and IDX.

9.Public Accounting Firm (External Auditor)

Year	Public Accountant	Remarks
2009	Tanudiredja, Wibisana & Rekan	Unqualified opinion with explanatory paragraph
2010	Tanudiredja, Wibisana & Rekan	Unqualified opinion with explanatory paragraph
2011	Tanudiredja, Wibisana & Rekan	Unqualified opinion with explanatory paragraph

Financial Review

Accounting transparency and fairness are key for us to deliver quality earnings

Luckman Lie
Finance and Accounting GM Adaro Indonesia

Luckman joined Adaro in January 2003 and has nine years experience in the coal industry. Prior to joining Adaro, he worked as an auditor in Presetio, Utomo and Co, a public accounting firm. He graduated from Atma Jaya Catholic University, majoring in Accounting on October 1994.

Executive Summary

Our net income increased 124% to US$552 million and basic earnings per share 123% to US$0.01721. Net income benefited from strong production volume growth, robust average selling price ("ASP"), and continued cost control. Net revenue increased 47% year over year ("y-o-y") to US$3.99 billion while gross profit margins improved to 35.8% from 30.5% over the same period.

The average selling price for Adaro Indonesia's coal climbed 27.6% year over year (y-o-y) due to higher thermal coal prices. Total group cash cost (excluding royalty) increased 14.2% to US$41.21 per tonne because of a higher planned strip ratio, longer overburden hauling distances and rising fuel costs. We exceeded our Adaro Energy cash cost guidance of US$38 to US$40 for 2011; however, we also achieved more robust pricing and maintained strong margins.

We posted record profitability for 2011 and exceeded our guidance, following the past two years of difficult conditions due to unfavorable weather in 2010 and the global economic recession in 2009. Our EBITDA climbed 66.7% to US$1.47 billion, while maintaining amongst the best EBITDA margin in Indonesian thermal coal of 36.9%. We surpassed our full year EBITDA projection of US$1.1 to US$1.3 billion.

We incurred a record corporate income tax of US$450.5 million and the highest ever royalty expenses of US$405.4 million. We spent approximately US$10 million on our community development program in 2011, a 70% increase from US$5.8 million in 2010 – excluding environmental program.

We maintained a strong balance sheet following more than US$300 million in acquisitions and US$625 million in capital expenditures during 2011. Our net debt to EBITDA improved to 1.05x from 1.16x in 2010 and net debt to equity was a healthy 0.63x. Our liquidity remained excellent with access to cash of more than US$1.2 billion (including US$700 million of unutilized committed bank facilities).

Summary of Fiscal Year End 2011 Financial Performance (in million US$)

	YE 2011	YE 2010	% Change
Net revenue	3,987	2,718	46.7%
Cost of revenue	(2,559)	(1,889)	35.5%
Gross profit	1,428	829	72.4%
Gross profit margin	35.8%	30.5%	5.3%
Operating income	1,284	711	80.4%
Operating margin	32.2%	26.2%	6.0%
Net income	552	247	123.7%
EBITDA	1,472	883	66.7%
EBITDA margin	36.9%	32.5%	4.4%
Total assets	5,659	4,470	26.6%
Total liabilities	3,217	2,438	31.9%
Stockholders' equity	2,442	2,032	20.2%
Interest bearing debt	2,105	1,592	32.2%
Cash and cash equivalents	559	607	-8.0%
Net debt	1,546	985	56.9%
Net debt to equity (x)	0.63	0.48	-
Net debt to EBITDA (x)	1.05	1.16	-
Free Cash Flow (EBITDA - Capex)	847	638	32.8%
Cash from Operations to Capex (x)	1.1	1.2	-
Earnings Per Share (EPS) in US$	0.01721	0.00773	122.6%

We further termed out our debt maturities and refinanced SIS' existing US$300 million five-year term loan entered in 2008 with a US$400 million seven-year loan. Adaro Indonesia ("AI") also closed a US$750 million ten-year unsecured loan facility with its relationship banks.

Income Statement

Net Revenue

Adaro Energy generated strong revenue growth of 46.7% y-o-y or US$1.3 billion to US$3.99 billion for the fiscal year ended December 30, 2011 due to double-digit production growth and robust thermal coal pricing.

For FY11, we achieved record coal production and sales volume, increasing production by 13.0% to 47.67 million tonnes and sales by 15.8% to 50.78 million tonnes. We were pleased to deliver on the upper end of our production target of 46 to 48 million tonnes. Throughout the year, our sales volume benefited from increased coal trading activities at Coaltrade. Unlike 2010, when the absence of a dry season hampered production, our strong operational performance benefited from normal dry weather as well as the arrival of new and larger sized heavy equipment and our contractors' quality performance. Sales of our E4000 coal from the Wara pit reached 5.4 million tonnes, exceeding our guidance of 4 to 5 million tonnes. We continue to see solid customer demand for our Wara coal, which now has proven market acceptance, and we made our first delivery to Hong Kong in 4Q2011. Our mine Paringin (E5000), which we reopened in 2010, produced 1.0 million in 2011.

Our average selling price for Adaro Indonesia's coal in FY11 increased 27.6% y-o-y, which exceeded our annual pricing expectation. Our average selling price increased throughout the year as more contracts were priced on an index linked basis.

Coal Mining and Trading: Adaro Indonesia and Coaltrade

Our mining company division, PT Adaro Indonesia ("AI"), accounts for the majority of revenues at 93% in 2011, while our trading division, Coaltrade Services International Pte. Ltd. ("CTI"), contributed a small part to the segment. For FY11, the net revenue from coal mining and trading increased 47.8% to US$3.7 billion. Coaltrade's sales increased 34.4% to 5.96 million tonnes y-o-y.

Asia remains the largest market destination for our coal, accounting for 80% of total sales volume in 2011, predominantly to power utilities. This is in-line with our long-term sales growth plans to meet the robust demand for thermal coal in Asia. The majority of our customers are blue-chip power utilities.

In 2011, Adaro supplied 10.7 Mt or approximately 22% of our production to Indonesia, surpassing its domestic market obligation of 18.41% set by the government. We contributed nearly 20%

of Indonesia's and 16% of the domestic power industry's total coal needs. For the last ten years, Adaro has been the largest supplier to the domestic market.

Mining Services: SIS
PT Saptaindra Sejati ("SIS"), our mining services division, posted a FY11 net revenue increase of 36.1% y-o-y to US$192.2 million because of greater overburden removal and coal getting volumes. The arrival of new and larger heavy equipment helped achieve the robust growth. In FY11, overburden removal increased 31% to 167.52 million bank cubic meters and coal getting increased 37% to 22.65 million tonnes. SIS continued to prioritize AI, accounting for 57% of SIS' total overburden removal or 95.94 Mbcm and 66% of total coal getting or 14.97 Mt. SIS is the second largest contributor to our overall revenue, accounting for 5% of net revenue after eliminating sales to AI.

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Review of Coal Operations 88
Our Subsidiaries 100

In 2011, SIS successfully introduced new and larger excavators and trucks at its Adaro Indonesia operations to deal with a shortage of skilled operators and mechanics. Larger equipment means less manpower for the same level of production.

Other (Adaro Logistics): Coal terminal, Barging, Ship Loading and Dredging
Our other business segments include AE's subsidiaries PT Alam Tri Abadi ("ATA"), water toll contractor PT Sarana Daya Mandiri ("SDM"), coal port operator PT Indonesia Bulk Terminal ("IBT"), and the barging and ship loading division PT Maritim Barito Perkasa ("MBP"). Total revenue from other business segments, net eliminations, translates to net revenue of US$89.4 million, an increase of 29.2% over the same period last year.

MBP increased total coal barged 36% y-o-y to 15.82 million tonnes due to the commencement

Ernest Kee
Corporate Finance Senior VP, Director Adaro Power

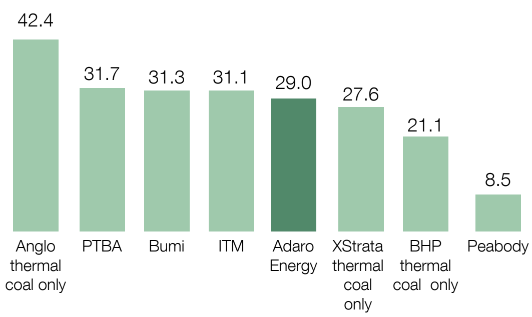
Ernest joined Adaro in 2011 after spending more than 16 years working at major international banks in the financing of various energy and infrastructure projects in South East Asia. He holds a MBA and an Engineering Degree from the National University of Singapore.

of a new third party service provider in early 2011 and reduced vessel loading times at Taboneo anchorage. Total coal loaded for FY11 increased 8% y-o-y to 13.6 million tonnes, but quarter over quarter coal loaded was boosted 65% as two floating cranes returned from maintenance.

Our coal port operator, IBT, loaded 65 vessels and 4.39 million tonnes of coal for FY11, a decrease of 32% and 30% y-o-y. However, third party coal loaded increased 26% to 2.29 million tonnes. The reason vessels loaded and total tonnage decreased, while third party coal handled increased, is because Adaro Indonesia shifted more of its transshipment activities to the closer Taboneo anchorage. As well increased handling of third party coal, IBT continued its strategic support for Adaro Indonesia as the second largest export loading port.

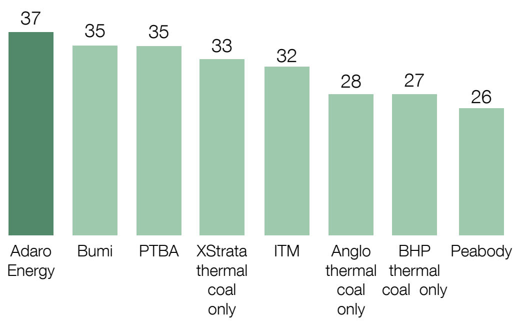
Cost of Revenue and Cash Cost
Cost of revenue for FY11 grew 35.5% y-o-y, or US$670.1 million, to US$2.6 billion, a moderate increase compared to our revenue growth of 46.7%. Total group cash cost (excluding royalty) per tonne increased 14.2% y-o-y to US$41.21. We guided our 2011 cash cost at US$38 to US$40 per tonne; however, we exceeded our expectations

2011 EBITDA per tonne* (US$)



Source: Company Filings, Research Reports
FY2011e, Except for Anglo, BHP and Xstrata as of 30 June 2011
* Calculated as EBITDA/sales tonnage, for BHP, EBITDA / production volume

2011 EBITDA* Margin (%)



Source: Company Filings, Research Reports
FY2011e, Except for Anglo, BHP and Xstrata as of 30 June 2011
* Calculated as EBITDA calculated on Op. profit + Depreciation + Amorization

mainly due to longer overburden hauling distances and higher fuel costs.

Update on Our Cash Cost Calculation

In our 9M11 financial press release, we announced a change in our cash cost calculation. Our previous cash cost per tonne represented Adaro Energy's total group cash cost; however, starting in 2012 we plan to only use Adaro Energy's coal cash cost. As we continue to execute on creating a vertically integrated business model, a larger percentage of our costs are attributed to business units other than coal mining. Our aim is to build a better understanding of and reflect the cost associated with our coal mining division, our largest source of revenue. The FY11 Adaro Energy coal cash cost (ex-royalty) per tonne was US$35.76, an increase of 12.1% y-o-y.

Coal Mining and Trading Costs: Adaro Indonesia and Coaltrade

Total cost of revenue for Coal Mining and Trading increased 35% y-o-y or US$594 million to US$2.3 billion.

Coal mining costs increased 27.0% y-o-y, or US$222.8 million, to US$1.0 billion due to higher planned stripping ratios, larger volumes, longer overburden hauling distances and rising fuel prices. The robust pricing conditions allowed us to economically mine at higher strip ratios, which measures the volume of overburden per tonne of coal. Including the lower strip ratio of Wara, the weighted average planned strip ratio was 5.9x compared to 5.5x in 2010.

The average fuel price per liter in FY11 was US$0.86 per liter compared to US$0.64 per liter in 2010, increasing 34.4% y-o-y. We manage and procure the fuel for all of our mining contractors. To mitigate risks associated with oil price fluctuations, we enter a portion of our fuel needs into hedging agreements. We locked in 80% of our second-half 2011 fuel requirements at US$0.86 per liter and 80% of first quarter 2012 fuel requirements at US$0.84 per liter. We will seek to hedge a portion of our fuel needs for the remainder of 2012; however, we forecast our fuel costs to rise in 2012. Coal mining accounted for 41.0% of our total cost of revenue.

Coal processing costs in FY11 increased 29.5% to US$146.5 million over the same period last year. Coal processing costs consist of the cost to crush the coal at the Kelanis river terminal and other costs not borne by mining contractors, including the cost for repair and maintenance of the hauling road. Coal processing accounted for 5.7% of our total cost of revenue. Coal purchases in 2011 increased to US$275.3 million from US$85.6 million in 2010.

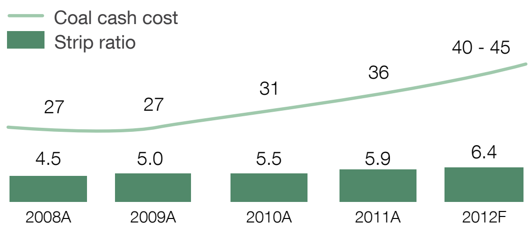
Royalties to Government

Our royalties paid to the Government of Indonesia increased 53.5% y-o-y to US$405.4 million, in-line with higher revenue. In accordance with the agreements specified in the Coal Cooperation Agreement (CCA), royalties are calculated using a rate of 13.5% levied against the net sales price at Adaro's Kelanis River Terminal. Royalties accounted for 15.8% of our total cost of revenue.

Freight and Handling

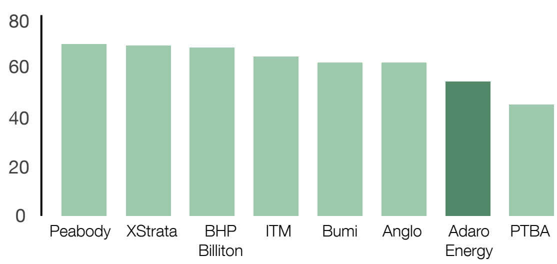
Our freight and handling cost declined 8.3% y-o-y to US$283.9 million as vessel waiting times reduced and demurrage occurred to a lesser extent than last year due to more favorable weather conditions. Additionally, we signed three long-term coal barging contracts, as announced in November 2010, which lowered freight rates for those volumes by 15%. Despatch (the opposite of demurrage) occurred in March, April, May, June, September, October, November and December 2011. Freight

Coal cash cost and strip ratio (US$/tonne, bcm/tonne)



Note: Cash cost includes mining cost, coal processing cost, freight and handling cost and marketing and G&A expenses

Cash cost (US$/tonne) - FOB vessel



Source: Wood Mackenzie

Members of Finance, Accounting and Tax Department

and handling accounted for 11.1% of our total cost of revenue compared to 16.4% in 2010.

Mining Services: SIS
Our mining services' cost is associated with our mining contractor, SIS. The cost of revenue from this segment increased 39.4% y-o-y to US$168.9 million due to the increase in SIS' third party coal getting and overburden removal activities and the associated higher consumables, employee costs, and repair and maintenance. SIS' consumables increased 44.7% to US$41.6 million and repair and maintenance increased 71% to US$42.1 million. Mining services accounted for 6.6% of our total cost of revenue.

Others (Adaro Logistics): Coal terminal, Barging, Ship Loading and Dredging
The costs associated with our other subsidiaries, which are substantially all attributed to logistics, increased 49.0% to US$85.3 million. The cost related to our other subsidiaries accounted for 3.3% of our total cost of revenue.

Operating Expenses and Operating Income
Operating expenses increased 23.5% y-o-y to US$144.8 million primarily due to higher sales commissions and employee costs. Sales commissions grew 21.3% to US$63.2 million because of the direct relationship with higher revenues. Employee costs increased 43.0% to US$40.1 million due to more employee benefits and as we enlarged our permanent workforce 19.8% to 7,476 employees to support growth. Operating income increased 80.4% to US$1.28 billion. Operating margins strengthened to 32.2% from 26.2% FY2010, as we were able to grow revenues while controlling costs.

Other Expense
Other expenses increased to US$151.5 million from US$14.9 million in 2010 as Adaro made payment on a customer claim. As we disclosed in our 1H11 financial press release, in 2008 Adaro declared force majeure and suspended deliveries to three customers in response to the Ministry of Energy and Mineral Resources ("MoEMR") request that Indonesian coal producers renegotiate existing term coal supply contracts to match then current market prices. Those Indonesian coal producers were instructed by MoEMR to suspend shipments if they failed to comply with the request. All disputes have been resolved with the US$152.8 million net payment (after tax US$85 million). It was paid in August and recorded as Other Expense on the Income Statement.

EBITDA
Our EBITDA climbed 66.7% to a record US$1.47 billion from US$883.4 million in 2010, while maintaining amongst the best EBITDA margin in Indonesian thermal coal of 36.9%. We were able to maintain our robust EBITDA margin despite an increase in production to 5.4 Mt from 2.5 Mt of our lower rank E4000 coal. We surpassed our full year EBITDA projection of US$1.1 to US$1.3 billion.

Income Tax Expense
Due to higher profits, Indonesia's 2011 income tax expense increased US$172 million, or 61%, to $451 million. Adaro Energy's management expects that Indonesia will collect a record level of tax and non-tax revenue from Adaro Energy in 2011, and this does not include those payments from our contractors.

Net Income
Our fiscal year 2011 net income increased 123.7% to US$552.1 million. The rise in net income was driven by higher production volumes combined with a robust average selling price, in addition

Ariya Somanatta
President Office,
Director IBT
Director MIP

Ariya holds a Master Degree in Accounting majoring in Taxation from the University of Indonesia. He joined Adaro in 2009, and has over 23 years experience as Tax Consultant and Accountant. He is a member of Institute of Public Accountants Australia and Associate of Taxation Institute of Australia.

to no goodwill amortization, as compared to the US$53.5 million charge for amortization incurred during the same period of last year. We adopted the Statement of Financial Accounting Standards (PSAK) No 22 (Revised 2010), in line with the changes in the accounting of goodwill amortization, which uses the impairment method of calculating any necessary charges.

Balance Sheet

Total Assets
FY11 total assets increased US$1.19 billion or 26.6% y-o-y to US$5.7 billion. The growth is mainly due to additional investments made in fixed assets, larger value attributed to our mining properties, and increased trade receivables.

Cash and Cash Equivalents
At the end of FY11, cash and cash equivalents, which represented 9.9% of our total assets, decreased 8.0% to US$558.9 million compared to FY10, as we used cash to fund working capital, capital expenditures, and acquisitions. Of our year end cash balance, US$495 million was held in US dollar in high quality banking institutions such as OCBC, Sumitomo Mitsui, DBS, and Mandiri. The majority of our remaining cash balance was held in Rupiah. We did not hold any marketable securities in our cash reserve.

Trade Receivables
Trade Receivables for FY11 increased 71.1% y-o-y to US$471.3 million. The nearly US$200 million rise was due to increase in coal sold, in-line with higher production and sales for 2011. However, substantially all customers are within 30 days due and management believes all will be collected in full.

Fixed Assets
FY11 Fixed Assets increased 48.0% y-o-y to US$1.4 billion in 2011 from US$967.8 million in 2010 and included US$276.2 million for heavy equipment purchases, US$92.8 million for crushing and handling facilities, US$204.9 million for construction in progress, largely our 2x30 MW power plant and OPCC, and US$31.0 million for leased assets.

Advances and Prepayments
Advances and Prepayments for FY11 were US$162.8 million, an increase of 36.9% year over year. The growth was primarily due to advances to suppliers for heavy equipment purchases and steam turbine generators for our 2x30 MW mine-mouth power plant.

Investments in Associates
Investments in associates increased 10.8% to US$395.8 million. October 10th 2011, we purchased a 35% interest in an integrated coal logistics services provider in South Sumatra, PT Servo Meda Sejahtera (“SMS”), for Rp 200 billion or approximately US$22 million.

Investment in Equity Securities
Investment in equity securities for FY11 was US$65.7 million. This reflects an investment of 10.22% in the Indonesian company PT Bhakti Energi Persada (“BEP”), which is developing a sub-bituminous coal deposit in Indonesia.

Deferred Stripping Costs
Adaro Indonesia’s planned stripping ratio was 5.9x in 2011, blended between the Tutupan, Wara, and Paringin pits.

The current price environment supports the increase of overburden removal. As we focus on the next phase of growth, we are preparing our operations to continue to run efficiently, reliably and safely as we further increase production to meet our customers’ needs and achieve our medium term target of 80 million tonnes. This includes moving significant volumes of overburden.

In 2011, Adaro Indonesia increased overburden removal by 32% to 299.3 million bank cubic meter (“Mbcm”). Adaro aims to have our planned stripping ratio meet our actual stripping ratio; however, we accumulated a deferred stripping cost of US$47.9 million in 2011, as our actual strip ratio was higher than our planned. Adaro may retain a deferred stripping cost as we focus on above average overburden removal at the Tutupan pit and coal prices remain favorable. We will seek to eliminate our deferred stripping cost once our investment in overburden removal is complete.

Total Liabilities
Our total liabilities increased 31.9% or US$778.8 million to US$3.2 billion y-o-y, primarily because of greater loan amounts. Current liabilities increased 20.9% to US$779.2 million, while the non-current liabilities increased 35.9% to US$2.4 billion.

Taxes Payable
Taxes payable increased to US$69.6 million in FY11 from US$15.1 million in FY10, attributed to higher income for 2011.

Current Maturities of Long-Term Borrowings
Current maturities of long-term borrowings for FY11 reduced 27.6% to US$138.2 million. The decrease is due to refinancing and a longer maturity of our debt profile.

Long-Term Borrowings

Long-term borrowings increased 40.3% y-o-y to US$1.97 billion for FY2011. We drew down US$420 million from our $500 million amortizing revolving credit facility, US$300 million from SIS' syndicated bank loan and $150 million from AI's unsecured loan facility in order to help fund acquisitions and for general corporate purposes.

On February 18th, 2011, SIS refinanced its existing US$300 million five-years term loan entered in 2008 with a US$400 million seven-year loan. The loan consists of US$300 million term loan and US$100 million step down revolving facility and is secured by Adaro's mining contract with SIS. This long-term source of funding is guaranteed by Adaro Energy and will be used for capital expenditure needs and refinancing all SIS's existing loans. The transaction was supported by 12 banks.

On July 4, 2011, AI closed a US$750 million ten-year unsecured loan facility with its relationship banks. The loan consists of US$350 million term loan and US$400 million step down revolving facility. This long-term source of funding is guaranteed by Adaro Energy and will be used for capital expenditure needs, working capital and other general corporate purposes. The transaction was supported by 5 banks.

At year-end 2011, we had access to US$700 million of undrawn facilities, which consisted of US$100 million of SIS's 7-year US$400 million facility and US$600 million of AI's US$750 million 10-year unsecured loan facility.

Cash Flows

Cash Flows from Operating Activities

Our operating cash flow for FY11 increased 142.9%, or US$419.0, y-o-y to US$712.4 million, due to higher receipts from customers. During the period, receipts from customers increased to US$3.8 billion compared with US$2.8 billion in 2010 due to higher sales volume and higher average selling price. Payments for corporate income taxes decreased to US$329.9 million compared with US$553.7 million in FY10 due to the 42% decrease of the FY10 net income, which resulted in a lower corporate income tax payment, which was paid at the beginning of 2011.

Cash Flows from Investing Activities

Our cash flows used in investing activities during 2011 increased 62.2% to US$1.1 billion. During the year, we spent US$625.0 million on fixed assets. Capital expenditures for 2011 included spending on machinery, operational equipment and vehicles, crushing and handling facilities and construction in progress.

Thomas Fasenga
Finance and Accounting Manager

Thomas is a member of the Dayak community and has been working in Adaro since 1991. Prior to this, he worked with PT Kelian Equatorial Mining and PT Jaya Sumpiles Indonesia. He has a degree in Management from Mulawarman University and has over 24 years experience in Finance & Accounting.

We made more than US$300 million in acquisitions in 2011 as part of strategy to increase reserves and diversify our location, license maturities, and product offerings. These acquisitions include a 75% stake in MIP for US$222.5 (post-tax US$234.2) million, a 35% interest in SMS for Rp 200 billion (approximately US$22 million), and a 61.04% ownership in BEE for about US$67 million. Also included in cash from investing is a 10.22% interest in BEP for US$65.7 million as a purchase of equity securities. The realization of our 2011 acquisitions further strengthens our efforts to create long term and maximum value from Indonesian coal.

Cash Flows from Financing Activities

Net cash flow from financing activities for 2011 increased to US$304.3 million from negative US$225.7 million in 2010. We withdrew US$420 million from AI's US$500 million amortizing revolving credit facility, US$300 million from SIS' US$400 million syndicated bank loan and $150 million from AI's US$750 million unsecured loan facility in order to help fund acquisitions and for general corporate purposes.

We made bank loan repayments of US$326.4 million associated with the refinancing of SIS' loan as well as AI and Coaltrade's loan installments. We also paid out US$44.7 million in finance charges, relating to new financing arranged by the group, which included AI's US$750 million 10-year unsecured loan facility and SIS' US$400 million 7-year syndicated bank loan. We pay annual cash dividends that amounted to US$150.9 million in 2011.

A Discussion with Mr. David Tendian,

Director & Chief Financial Officer

What were the greatest accomplishments in 2011?

From the perspective of the finance department, it was probably the US$750 million 10-year bank loan that we closed on July 4th, on the back of the challenges caused by the Euro crisis.

I was also very pleased with our investments in South Sumatra. They are part of the drive to diversify and increase our reserves so as to create sustainable value from Indonesian coal. By diversifying locations, coal products and license maturities, we reduce risk, improve reliability and improve sustainability. We shall grow our business organically but also through acquisitions. Our aim is to create long term value from Indonesian coal, by building a bigger and better Adaro Energy.

What are your greatest challenges?

For me, the challenge is how to manage strong growth while also maintaining a strong balance sheet. Last year we grew and made acquisitions to spur future growth, yet we also improved the balance sheet with net debt to EBITDA improving to 1.05 times.

What is one of your key success factors for Adaro Energy?

It is important to me that we all share a common objective. I think this is what makes Adaro special, that despite having multiple owners and personalities, we all share the drive to build a solid company. It is important and satisfying to me that we continue to build a winning team with shared values and goals.

With a strong team, we will build a strong company, meaning a company with a strong capital structure and a transparent company. And with a strong team we also build strong value for shareholders.

In building teams, it is important to have people focused on doing what they do best. There can be no office politics and team members must have a common goal. No office politics means no blame game, we learn from our mistakes and we help each other.

How do you maintain good decisions and how to avoid politics?

The Board members openly disagree, without taking anything personally. We trust each other, respect each other's opinions and always maintain open communication. At the end, if necessary, our CEO/Deputy CEO can override and make the final call. But in general, it is about open respectful, well-informed debate and about everyone having a passion for Adaro. We as the Board must be the example for all the other winning teams in the organization. We must set the right tone and create the right culture so that our insistence on no politics is visible and therefor better adhered to. The most valuable thing is a conducive culture. With a good culture, you cultivate productive happy teams and from that comes increased shareholder value.

We do not believe in superman or superwoman. We believe in super teams.

Awards

Two Platinum Category in Indonesian Corporate Social Responsibility Awards 2011

For free cataract eradication and clean water programs. Presented by Minister of Social Affairs of Republic of Indonesia.

Indonesian Corporate Social Responsibility Award 2008

First rank for Social and second rank for Environment and third rank for Economic. Presented by Minister of Social Affairs of Republic of Indonesia.

PROPER Green Award for the year 2006, 2008,2010 and 2011

Adaro Indonesia received the green level PROPER award for environmental rehabilitation excellence. The only Indonesian mining company to receive this award for fourth consecutive year. Presented by Minster of Environment of Republic of Indonesia.

GKPM Awards in 2011

For Ensure Environmental Sustainability (Gold), Reduce Child Mortality (Gold) and Improve Maternal Health (Silver).
Presented by Coordinating Minister for People's Welfare of Republic of Indonesia.

Platts Top 250 Global Energy Awards in 2011

No 9 in Coal and Consumables Energy in Asia and No 12 in Coal and Consumable Energy Globally.

Primaniyarta Award in 2010 and 2011

Best performing exporters from the Ministry of Trade. Presented by Indonesia's Vice President Boediono.
Adaro received similar award in 2007.

Aditama Gold Award in 2010 and 2011

For environmental excellence in the coal sector. Presented by Director General of Mineral Coal and Geothermal (ESDM).

Social Empowerment Award in 2007

Presented by Coordinating Minister for People's Welfare of the Republic of Indonesia.

One of the largest Taxpayers in 2008 and 2009

Presented by the Tax Office.

Annual Report Awards 2010

No 1 worldwide for Overall Annual Report in Mining: Ferrous & Nonferrous from MerComm Annual Report Competition (ARC Awards).
No 3 worldwide for Overall Annual Report and the most engaging from League of American Communications Professionals LLC (LACP).

Contact Information

Stock Exchange
The common stock of PT Adaro Energy Tbk (trading symbol ADRO) is listed on the Indonesia Stock Exchange (IDX)

Public Accountant
Tanudiredja, Wibisana & Rekan
(a member of PricewaterhouseCoopers global network)
Jl. H.R. Rasuna Said Kav. X-7 No.6
Jakarta 12940
Indonesia
Tel: (021) 521 2901
Fax: (021) 529 0555

Share Registrar
PT Ficomindo Buana Registrar
Mayapada Tower 10th Floor, Suite 2b
Jl. Jenderal Sudirman Kav. 28
Jakarta 12920
Indonesia
Tel: (021) 521 2316/17
Fax: (021) 521 2320

Annual General Meeting of Shareholders
AGMS to be held on Friday, 27 April 2012 at The Ritz-Carlton Jakarta, Mega Kuningan. Jl. Lingkar Mega Kuningan Kav. E.1.1 No. 1, Mega Kuningan, Jakarta 12950, Indonesia

For further information please contact:
Devindra Ratzarwin, Corporate Secretary
Cameron Tough, Head of Investor Relations
Tel.: (021) 521 1265
Fax: (021) 5794 4685
Email: corsec@ptadaro.com
cameron.tough@ptadaro.com

We want to begin an ongoing dialogue with you. For more information or to join our email distribution list, please contact us or visit our website at www.adaro.com

Investor Calendar 2012
31 January 2012 - 4Q11 Quarterly Activities Report
27 March 2011 - FY11 Financial Press Release
27 March 2011 - FY11 Audited Financial Statements
30 April 2012 - 1Q12 Quarterly Activities Report
30 April 2012 - 1Q12 Financial Press Release
30 April 2012 - 1Q12 Unaudited Financial Statements and Notes
31 July 2012 - 2Q12 Quarterly Acticites Report
31 August 2012 - 1H12 Limited Review Financial Statements and Notes
31 August 2012 - 1H12 Financial Press Release
31 October 2012 - 3Q12 Quarterly Activities Report
31 October 2012 - 9M12 Financial Press Release
31 October 2012 - 9M12 Unaudited Financial Statements & Notes

Quarterly conference calls will be held after the release of financial statements and notes, normally within a week.

The company will regularly participate in international investments conferences and conducts at least two international roadshows per year to the major global financial centers.

Disclaimer:
This report contains certain statements that may be considered “forward looking statements”, the Company’s actual results, performance or achievements could differ materially from those projected in the forward looking statements as a results, among other factors, of changes in general, national or regional economic and political conditions, changes in foreign exchange rates, changes in the prices and supply and demand on the commodity markets, changes in the size and nature of the Company’s competition, changes in legislation or regulations and accounting principles, policies and guidelines and changes in the assumptions used in making such forward looking statements.

PT ADARO ENERGY Tbk
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

DIRECTORS' STATEMENT REGARDING
THE RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

PT ADARO ENERGY Tbk AND SUBSIDIARIES

On behalf of the Board of Directors, we, the undersigned:

1. Name : Garibaldi Thohir
   Office address : Menara Karya Lt. 23, Jl. HR Rasuna Said Blok X-5 Kav. 1-2, Jakarta
   Address of domicile : GD. Peluru Blok E/139, Tebet, Jakarta Selatan
   Telephone : +62 21 5211265
   Position : President Director

2. Name : David Tendian
   Office address : Menara Karya Lt. 23, Jl. HR Rasuna Said Blok X-5 Kav. 1-2, Jakarta
   Address of domicile : Jl. Gunung Balong II/15, Lebak Bulus, Jakarta
   Telephone : +62 21 5211265
   Position : Director

declare that:

1. The Board of Directors are responsible for the preparation and presentation of the consolidated financial statements of PT Adaro Energy Tbk and its subsidiaries (the "Group");

2. The Group's consolidated financial statements have been prepared and presented in accordance with Indonesian Financial Accounting Standards;

3. a. All information has been fully and correctly disclosed in the Group's consolidated financial statements;

   b. The Group's consolidated financial statements do not contain false material information or facts, nor do they omit material information or facts; and

4. The Board of Directors are responsible for the Group's internal control systems.

This statement is made truthfully.

For and on behalf of the Board of Directors

METERAI TEMPEL
77B5EAAF837189423
ENAM RIBU RUPIAH
6000 DJP

Garibaldi Thohir
President Director

David Tendian
Director

JAKARTA
26 March 2012

PT Adaro Energy, Tbk.
Menara Karya 23rd Floor, Jl. H.R. Rasuna Said, Block X-5, Kav. 1-2, Jakarta 12950, Indonesia
T 6221 521 1265 F 6221 5794 4687
www.adaro.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

PT ADARO ENERGY Tbk

We have audited the accompanying consolidated statements of financial position of PT Adaro Energy Tbk. (the "Company") and subsidiaries (collectively herein referred to as the "Group") as at 31 December 2011, 31 December 2010, and 1 January 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2011 and 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Adaro Energy Tbk and subsidiaries as at 31 December 2011, 31 December 2010, and 1 January 2010, and the results of their operations and their cash flows for the years ended 31 December 2011 and 2010 in conformity with Indonesian Financial Accounting Standards.

As disclosed in Note 3 to the consolidated financial statements, commencing 1 January 2011, the Company changed its reporting currency from Indonesian Rupiah to United States Dollars by early adopting Statement of Financial Accounting Standard No. 10 (Revised 2010) 'The Effects of Changes in Foreign Exchange Rates". As a result, the consolidated statements of financial position as at 31 December 2010 and 1 January 2010 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2010, which had been previously presented in Indonesian Rupiah, have been re-measured to United States Dollars.

Kantor Akuntan Publik Tanudiredja, Wibisana & Rekan
Plaza 89, Jl. H.R. Rasuna Said Kav. X-7 No.6 Jakarta 12940 - INDONESIA, P.O. Box 2473 JKP 10001
T: +62 21 5212901, F:+ 62 21 52905555 / 52905050, www.pwc.com/id

Nomor Izin Usaha: KEP-151/KM.1/2010.

A120326004/ DC2/YAN /II/2012.B

As disclosed in Note 34b to the consolidated financial statements as at 31 December 2011, PT Adaro Indonesia, a 100% indirectly owned subsidiary, has receivable balances relating to Value Added Tax ("VAT") input and vehicle fuel tax ("PBBKB") amounting to US$38.9 million and US$41.6 million, respectively. Further, PT Adaro Indonesia has offset VAT input and PBBKB totalling US$550.7 million and US$17.5 million, respectively, against royalty payments due to the Government of Indonesia. However, the Government of Indonesia has not yet made any decision regarding this treatment. The consolidated financial statements do not include any adjustments that might ultimately result from the decision made by the Government of Indonesia regarding this matter.

JAKARTA
26 March 2012

Yanto, S.E., Ak., M.Ak., CPA
License of Public Accountant No. AP.0241

NOTICE TO READERS

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices utilised in Indonesia to audit such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than Indonesia. Accordingly, the accompanying consolidated financial statements and the auditor's report thereon are not intended for use by those who are not informed about Indonesian accounting principles and auditing standards, and their application in practice.

A120326004/ DC2/YAN /II/2012.B

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011, 31 DECEMBER 2010 AND 1 JANUARY 2010
(Expressed in thousand US Dollars, except for par value and share data)

	Notes	2011	2010*	1 January 2010*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	2e, 6	558,872	607,271	1,199,427
Restricted cash and time deposits - current portion	2e, 7	140	282	-
Trade receivables, net of provision for impairment of US$nil (2010: US$nil)				
- Third parties	2f, 8	471,116	275,426	306,645
- Related party	2f, 8, 35	226	-	-
Advances and prepayments - current portion	9	40,301	41,612	20,910
Inventories, net of provision for obsolete stock of US$nil (2010: US$nil)	2g, 10	52,420	32,045	26,593
Prepaid taxes	2u, 34a	25,574	71,463	32,423
Recoverable taxes - current portion	2u, 34b	80,410	78,412	69,503
Other receivables - third parties		13,528	3,110	2,251
Loans to third parties	23	36,542	-	-
Loan to a related party	35	15,508	-	-
Derivative assets	2w	666	-	-
Other current assets		2,222	155	2,422
Total current assets		1,297,525	1,109,776	1,660,174
NON-CURRENT ASSETS				
Restricted cash and time deposits - non-current portion	2e, 7	801	1,012	1,009
Deferred exploration and development expenditure, net of accumulated amortisation of US$29,435 (2010: US$28,759)	2o, 11	10,322	7,942	8,618
Recoverable taxes - non-current portion	2u, 34b	16,540	-	-
Advances and prepayments - non-current portion	9	122,491	77,330	28,600
Fixed assets, net of accumulated depreciation of US$487,430 (2010: US$355,124)	2k, 2m,12	1,432,299	967,797	786,312
Investments in associates	2h, 13	395,783	357,347	508
Investment in equity securities	2i,14	65,708	-	-
Mining properties, net of accumulated amortisation of US$191,404 (2010: US$131,730)	2c, 15	1,244,650	1,005,270	1,059,158
Goodwill	2l, 16	1,005,506	930,743	975,852
Deferred stripping costs	2r, 24	47,911	-	-
Deferred tax assets	2u, 34e	5,544	4,789	3,997
Other non-current assets		13,881	8,113	5,944
Total non-current assets		4,361,436	3,360,343	2,869,998
TOTAL ASSETS		5,658,961	4,470,119	4,530,172

* As restated (refer to Note 3)

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011, 31 DECEMBER 2010 AND 1 JANUARY 2010
(Expressed in thousand US Dollars, except for par value and share data)

	Notes	2011	2010*	1 January 2010*
LIABILITIES				
CURRENT LIABILITIES				
Trade payables				
- Third parties	2n, 17	370,941	256,255	215,460
- Related parties	2n, 17, 35	17,401	12,139	15,190
Accrued expenses	2v, 18	39,192	82,080	32,145
Short-term bank loan		-	-	20,000
Taxes payable	2u, 34c	69,591	15,110	239,581
Royalties payable	19	132,429	75,906	78,515
Current maturities of long-term borrowings:				
- Finance lease payables	2p, 20	35,695	41,001	35,724
- Bank loans	2i, 21	102,549	149,814	193,950
Derivative liabilities - current portion	2w	4,097	10,100	13,528
Other liabilities		7,306	2,092	3,248
Total current liabilities		779,201	644,497	847,341
NON-CURRENT LIABILITIES				
Long-term borrowings, net of current maturities:				
- Finance lease payables	2p, 20	39,551	47,760	50,612
- Bank loans	2i, 21	1,139,480	567,522	590,233
Senior Notes	2i, 22	787,292	786,148	785,090
Derivative liabilities - non-current portion	2w	1,385	6,131	4,309
Accrued stripping costs	2r, 24	-	34,304	38,934
Deferred tax liabilities	2u, 34f	435,694	325,780	316,431
Amounts due to a related party	35	500	500	500
Provision for employee benefits	2t	20,915	15,814	9,619
Provision for mine reclamation	2q	5,706	5,155	2,956
Provision for mine closure	2q	7,014	4,297	1,991
Total non-current liabilities		2,437,537	1,793,411	1,800,675

* As restated (refer to Note 3)

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011, 31 DECEMBER 2010 AND 1 JANUARY 2010
(Expressed in thousand US Dollars, except for par value and share data)

	Notes	2011	2010*	1 January 2010*
EQUITY				
Equity attributable to owners of the parent				
Share capital - authorised 80,000,000,000 shares; issued and fully paid-up 31,985,962,000 shares with par value of Rp 100 per share	2z, 26	342,940	342,940	342,940
Additional paid-in-capital	2z, 27	1,175,281	1,175,281	1,175,281
Difference in value from restructuring transactions of entities under common control	2aa, 28	(20,787)	(20,787)	(20,787)
Other reserves:				
- Exchange difference due to financial statement translation	2d	(966)	(46)	(25)
- Difference from equity changes in subsidiaries and associates		-	444	444
- Fair value reserve		(2,597)	(11,386)	(11,877)
Retained earnings				
- Appropriated	30	37,731	25,583	4,582
- Unappropriated		904,269	516,974	386,488
		2,435,871	2,029,003	1,877,046
Non-controlling interests	2c, 25a	6,352	3,208	5,110
Total equity		2,442,223	2,032,211	1,882,156
TOTAL LIABILITIES AND EQUITY		5,658,961	4,470,119	4,530,172

* As restated (refer to Note 3)

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010
(Expressed in thousand US Dollars, except for basic earnings per share)

	Notes	2011	2010*
Revenue	2v, 31	3,987,405	2,717,643
Cost of revenue	2v, 32	(2,559,012)	(1,888,920)
Gross profit		1,428,393	828,723
Operating expenses			
Selling and marketing	2v, 33a	(66,081)	(54,777)
General and administrative	2v, 33b	(78,741)	(62,451)
Total operating expenses		(144,822)	(117,228)
Operating income		1,283,571	711,495
Other (expenses)/income			
Finance costs		(119,758)	(115,424)
Finance income		6,718	4,665
Loss on disposal of fixed assets	2k, 12	(2,824)	(5,600)
Foreign exchange gain, net	2d	1,992	87
Share in net loss of associates	2h, 13	(15,555)	(1,494)
Amortisation of goodwill	2l, 16	-	(53,510)
Other expenses, net	36	(151,533)	(14,922)
		(280,960)	(186,198)
Profit before income tax		1,002,611	525,297
Income tax expense	2u, 34d	(450,508)	(278,460)
Profit before pre-acquisition loss		552,103	246,837
Pre-acquisition loss		-	19
Net income for the year		552,103	246,856
Other comprehensive income, net of tax			
Exchange difference due to financial statement translation		(981)	(12)
Difference from equity changes in subsidiaries and associates		(444)	34
Fair value reserve		8,822	491
Total other comprehensive income, net of tax		7,397	513
Total comprehensive income		559,500	247,369
Net income attributable to:			
Owners of the parent		550,354	247,162
Non-controlling interests	25b	1,749	(306)
Net income		552,103	246,856
Total comprehensive income attributable to:			
Owners of the parent		557,779	247,632
Non-controlling interests	25a	1,721	(263)
Total comprehensive income		559,500	247,369
Basic earnings per share	2x, 37	0.01721	0.00773

* As restated (refer to Notes 2b and 3)

The accompanying notes form an integral part of these consolidated financial statements

PT ADARO ENERGY Tbk AND SUBSIDIARIES — Schedule 3/1

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010
(Expressed in thousand US Dollars, unless otherwise stated)

	Notes	Attributable to owners of the parent									Non-controlling interests	Total equity
					Other reserves			Retained earnings				
		Share capital	Additional paid-in-capital	Difference in value from restructuring transactions of entities under common control	Exchange difference due to financial statement translation	Difference from equity changes in subsidiaries and associates	Fair value reserve	Appropriated	Unappropriated	Total		
Balance at 1 January 2010*		**342,940**	**1,175,281**	**(20,787)**	**(25)**	**444**	**(11,877)**	**4,582**	**386,488**	**1,877,046**	**5,110**	**1,882,156**
Appropriation of retained earnings	30	-	-	-	-	-	-	21,001	(21,001)	-	-	-
Payment of cash dividends	29	-	-	-	-	-	-	-	(95,675)	(95,675)	-	(95,675)
Acquisition of non-controlling interest by the Group		-	-	-	-	-	-	-	-	-	(1,639)	(1,639)
Comprehensive income:												
Net income for the year		-	-	-	-	-	-	-	247,162	247,162	(306)	246,856
Other comprehensive income:												
- Exchange difference due to financial statement translation		-	-	-	(21)	-	-	-	-	(21)	9	(12)
- Difference from equity changes in subsidiaries and associates		-	-	-	-	-	-	-	-	-	34	34
- Fair value reserve, net of tax		-	-	-	-	-	491	-	-	491	-	491
Total other comprehensive income		-	-	-	(21)	-	491	-	-	470	43	513
Total comprehensive income		-	-	-	(21)	-	491	-	247,162	247,632	(263)	247,369
Balance at 31 December 2010*		**342,940**	**1,175,281**	**(20,787)**	**(46)**	**444**	**(11,386)**	**25,583**	**516,974**	**2,029,003**	**3,208**	**2,032,211**

* As restated (refer to Note 3)

The accompanying notes form an integral part of these consolidated financial statements

PT ADARO ENERGY Tbk AND SUBSIDIARIES

Schedule 3/2

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010
(Expressed in thousand US Dollars, unless otherwise stated)

	Notes	Attributable to owners of the parent: Share capital	Additional paid-in-capital	Difference in value from restructuring transactions of entities under common control	Other reserves: Exchange difference due to financial statement translation	Other reserves: Difference from equity changes in subsidiaries and associates	Fair value reserve	Retained earnings: Appropriated	Retained earnings: Unappropriated	Total	Non-controlling interests	Total equity
Balance at 1 January 2011		**342,940**	**1,175,281**	**(20,787)**	**(46)**	**444**	**(11,386)**	**25,583**	**516,974**	**2,029,003**	**3,208**	**2,032,211**
Appropriation of retained earnings	30	-	-	-	-	-	-	12,148	(12,148)	-	-	-
Payment of cash dividends	29	-	-	-	-	-	-	-	(150,911)	(150,911)	-	(150,911)
Non-controlling interests at acquisition		-	-	-	-	-	-	-	-	-	823	823
Addition during the year		-	-	-	-	-	-	-	-	-	600	600
Comprehensive income:												
Net income for the year		-	-	-	-	-	-	-	550,354	550,354	1,749	552,103
Other comprehensive income:												
- Exchange difference due to financial statement translation		-	-	-	(920)	-	-	-	-	(920)	(61)	(981)
- Difference from equity changes in subsidiaries and associates		-	-	-	-	(444)	-	-	-	(444)	-	(444)
- Fair value reserve, net of tax		-	-	-	-	-	8,789	-	-	8,789	33	8,822
Total other comprehensive income		-	-	-	(920)	(444)	8,789	-	-	7,425	(28)	7,397
Total comprehensive income		-	-	-	(920)	(444)	8,789	-	550,354	557,779	1,721	559,500
Balance at 31 December 2011		**342,940**	**1,175,281**	**(20,787)**	**(966)**	**-**	**(2,597)**	**37,731**	**904,269**	**2,435,871**	**6,352**	**2,442,223**

The accompanying notes form an integral part of these consolidated financial statements

PT ADARO ENERGY Tbk AND SUBSIDIARIES **Schedule 4**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010
(Expressed in thousand US Dollars, unless otherwise stated)

	2011	2010*
Cash flows from operating activities		
Receipts from customers	3,791,489	2,750,177
Payments to suppliers	(2,195,407)	(1,539,242)
Payments to employees	(110,410)	(81,710)
Receipts of finance income	6,210	4,665
Payments of royalties	(198,333)	(164,674)
Payments of income taxes	(329,933)	(553,669)
Payments of interest and finance costs	(106,013)	(119,724)
Receipt from settlement of restricted cash and time deposits	211	-
Other payments, net	(145,447)	(2,487)
Net cash flows provided from operating activities	712,367	293,336
Cash flows from investing activities		
Purchase of fixed assets	(625,022)	(244,659)
Payment for addition of deferred exploration and development expenditure	(540)	-
Proceeds from disposal of fixed assets	5,699	3,800
Payment of advance for investments in equity securities	-	(47,100)
Purchase of interest in associates	(25,887)	(358,337)
Purchase of equity securities	(65,708)	-
Loans to third parties	(36,542)	-
Loan to a related party	(15,000)	-
Net cash outflow from acquisition of subsidiaries	(301,458)	(35)
Proceeds from sales of investments in associates	-	9
Purchase of additional interest in a subsidiary	-	(10,000)
Net cash flows used in investing activities	(1,064,458)	(656,322)
Cash flows from financing activities		
Proceed of bank loans	870,000	40,000
Repayments of bank loans	(326,410)	(129,951)
Payments of loan related costs	(44,659)	-
Receipts from issue of new shares in subsidiary from minority party	600	-
Transfer from/(to) restricted cash and time deposits	142	(279)
Payments of dividends	(150,911)	(95,675)
Payments of obligations under finance leases	(44,498)	(39,820)
Net cash flows provided from/(used in) financing activities	304,264	(225,725)
Net decrease in cash and cash equivalents	(47,827)	(588,711)
Cash and cash equivalents at the beginning of the year	607,271	1,199,427
Effect of exchange rate changes on cash and cash equivalents	(572)	(3,445)
Cash and cash equivalents at the end of the year (refer to Note 6)	558,872	607,271
Non-cash activities:		
Acquisition of assets under finance leases	30,982	42,356
Addition of investments in associates through conversion of advance for investments	28,225	2,900

* As restated (refer to Note 3)

The accompanying notes form an integral part of these consolidated financial statements

(Expressed in thousand US Dollars, unless otherwise stated)

1. GENERAL

a. Establishment of the Company and other information

PT Adaro Energy Tbk (the “Company”) was established by Notarial Deed No. 25 dated 28 July 2004 of Sukawaty Sumadi, S.H., Notary in Jakarta. The Deed was published in State Gazette of the Republic of Indonesia No. 59, dated 25 July 2006, State Gazette Supplementary No. 8036 and was approved by the Minister of Justice of the Republic of Indonesia in Decree No. C-21493 HT.01.01.TH.2004 dated 26 August 2004. The latest amendment was made to the Articles of Association of the Company based on Notarial Deed No. 65 dated 31 October 2008 of Humberg Lie, S.H., S.E., M.Kn., to conform with the requirements of the Regulations of the Capital Market and Financial Institution Supervisory Board (“Bapepam-LK”) No. IX.J.1 dated 14 May 2008 for Principles of Articles of Association of Companies which Conduct Public Offering of Equity Securities and Public Companies. The amendment of the Articles of Association was accepted by the Minister of Law and Human Rights of the Republic of Indonesia in Decree No. AHU-AH.01.10-24501, dated 1 December 2008 and No. AHU-AH.01.10-24502, dated 1 December 2008.

In July 2008, the Company conducted an Initial Public Offering (“IPO”) of 11,139,331,000 shares (34.8% of 31,985,962,000 shares issued and fully paid-up). The shares offered to the public in the IPO were listed on the Indonesian Stock Exchange on 16 July 2008.

In accordance with Article 3 of the Articles of Association, the Company is engaged in trading, services, industry, coal hauling, workshop activities, mining and construction. The Company’s subsidiaries are engaged in coal mining, coal trading, mining contractor services, infrastructure, coal logistics and power plant services.

The Company commenced its commercial operations in July 2005. The Company’s head office is domiciled in Jakarta and located at Menara Karya Building, 23rd floor, Jl. H.R. Rasuna Said Block X-5, Kav. 1-2, South Jakarta.

The Company’s Boards of Commissioners and Directors were as follows:

	31 December 2011
President Commissioner	: Edwin Soeryadjaya
Vice President Commissioner	: Theodore Permadi Rachmat
Commissioners	: Ir. Subianto
	Lim Soon Huat
Independent Commissioners	: Ir. Palgunadi Tatit Setyawan
	Dr. Ir. Raden Pardede
President Director	: Garibaldi Thohir
Vice President Director	: Christian Ariano Rachmat
Directors	: Sandiaga Salahuddin Uno
	Andre Johannes Mamuaya
	David Tendian
	Chia Ah Hoo
	M. Syah Indra Aman

	31 December 2010
President Commissioner	: Edwin Soeryadjaya
Vice President Commissioner	: Theodore Permadi Rachmat
Commissioners	: Ir. Subianto
	Lim Soon Huat
Independent Commissioners	: Ir. Palgunadi Tatit Setyawan
	Dr. Ir. Raden Pardede

1. GENERAL (continued)

a. Establishment of the Company and other information (continued)

31 December 2010

President Director	: Garibaldi Thohir
Vice President Director	: Christian Ariano Rachmat
Directors	: Sandiaga Salahuddin Uno
	Andre Johannes Mamuaya
	David Tendian
	Chia Ah Hoo
	Alastair Bruce Grant

The composition of the Company's Audit Committee as at the date of these consolidated financial statements was as follows:

Chairman	: Ir. Palgunadi Tatit Setyawan
Members	: Prof. Dr. Ir. Irwandy Arif, MSc
	Mamat Ma'mun, SE.

As at 31 December 2011, the Group had 7,476 employees (31 December 2010: 6,242 employees) (unaudited).

b. Subsidiaries

The Company has direct and indirect ownership in the following subsidiaries:

Subsidiaries	Business activity	Domicile	Commencement of commercial operations	Year of acquisition	Percentage of ownership (%)		Total assets (in thousand US Dollars, before elimination)	
					2011	2010	2011	2010
Direct								
PT Alam Tri Abadi ("ATA") [a)]	Trading and service	Indonesia	2007	2005	100%	100%	5,659,564	4,138,873
PT Saptaindra Sejati ("SIS") [a)]	Mining services	Indonesia	2002	2005	100%	100%	566,742	481,613
PT Makmur Sejahtera Wisesa ("MSW")	Trading and power plant service	Indonesia	-	2005	100%	100%	125,341	82,150
Indirect								
PT Adaro Indonesia ("Adaro")	Mining	Indonesia	1992	2005	100%	100%	2,699,588	1,884,993
PT Dianlia Setyamukti ("Dianlia")	Investment	Indonesia	1995	2005	100%	100%	16,941	17,252
PT Jasapower Indonesia ("JPI") [a)]	Mining services	Indonesia	-	2007	100%	100%	129,308	51,228
PT Biscayne Investments ("Biscayne") [a)]	Investment	Indonesia	-	2007	100%	100%	97,967	97,868
PT Indonesia Bulk Terminal ("IBT")	Terminal handling services	Indonesia	1997	2007	100%	100%	94,422	94,313
PT Adaro Persada Mandiri ("APM") [d)]	Service	Indonesia	2006	2006	100%	100%	24,313	5,890
Rach (Mauritius) Ltd ("Rach (M)") [e)]	Investment	Mauritius	-	2007	-	100%	-	-
Rachpore Investments Pte Ltd ("Rachpore") [a)]	Investment	Singapore	-	2007	100%	100%	23,325	24,129
Arindo Holdings (Mauritius) Ltd ("Arindo Holdings") [a)]	Investment	Mauritius	-	2008	100%	100%	443,917	407,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011 AND 2010
(Expressed in thousand US Dollars, unless otherwise stated)

1. GENERAL (continued)

b. Subsidiaries (continued)

Subsidiaries	Business activity	Domicile	Commencement of commercial operations	Year of acquisition	Percentage of ownership (%)		Total assets (in thousand US Dollars, before elimination)	
					2011	2010	2011	2010
Indirect (continued)								
Vindoor Investments (Mauritius) Ltd ("Vindoor") [a)]	Investment	Mauritius	-	2008	100%	100%	207,408	168,886
Coaltrade Services International Pte Ltd ("Coaltrade")	Coal trading	Singapore	2001	2008	100%	100%	207,394	168,871
PT Viscaya Investments ("Viscaya")	Investment	Indonesia	-	2008	100%	100%	219,048	173,765
Rachmalta Investment Ltd ("Rachmalta")	Investment	Malta	-	2008	100%	100%	6,709	6,709
PT Sarana Daya Mandiri ("SDM")	Service	Indonesia	2009	2008	51%	51%	44,455	47,738
Coronado Holdings Pte Ltd ("Coronado")	Investment	Singapore	-	2009	86%	86%	3,781	4,080
Orchard Maritime Logistics Pte Ltd ("OML") [a)]	Coal handling and barging	Singapore	2006	2009	95%	95%	8,124	29,903
Orchard Maritime Netherlands B.V. ("OMN")	Investment	Netherlands	-	2009	95%	95%	320	320
PT Adaro Logistics ("AL") [a) c)]	Investment	Indonesia	-	2009	100%	100%	157,783	130,602
PT Maritim Barito Perkasa ("MBP")	Coal handling and barging	Indonesia	2004	2009	100%	100%	152,840	129,597
PT Harapan Bahtera Internusa ("HBI")	Coal handling and barging	Indonesia	2004	2009	100%	100%	2,265	1,005
PT Maritim Indonesia ("Marindo")	Service	Indonesia	-	2009	72%	72%	660	661
Joyce Corner International Ltd ("JCI") [b)]	Investment	Seychelles	-	2009	100%	100%	-	50,000
PT Adaro Power ("Adaro Power")	Service	Indonesia	-	2010	100%	100%	12,244	7
PT Puradika Bongkar Muat Makmur Jasa ("PBMM")	Service	Indonesia	-	2010	100%	100%	-	4
PT Rehabilitasi Lingkungan Indonesia ("RLI")	Service	Indonesia	-	2011	100%	-	1,395	-
PT Indonesia Multi Purpose Terminal ("IMPT")	Terminal handling services	Indonesia	-	2011	85%	-	2,529	-
PT Mustika Indah Permai ("MIP")	Mining	Indonesia	-	2011	75%	-	17,853	-
PT Bukit Enim Energi ("BEE")	Mining	Indonesia	-	2011	61%	-	108	-
PT Adaro Mining Technologies ("AMT")	Service	Indonesia	-	2011	100%	-	440	-
PT Adaro Eksplorasi Indonesia ("AEI")	Service	Indonesia	2007	2011	51%	-	1,067	-

[a)] and subsidiaries
[b)] liquidated on 8 August 2011
[c)] previously was PT Sarana Multi Persada, refer to Note 5h
[d)] previously was PT Satya Mandiri Persada, refer to Note 5l
[e)] liquidated on 26 April 2011

1. GENERAL (continued)

c. Coal Cooperation Agreement

Adaro's activities are governed by the provisions of a Coal Cooperation Agreement (the "CCA") which was entered into by Adaro and PT Tambang Batubara Bukit Asam (Persero) Tbk ("PTBA"), formerly Perusahaan Negara Tambang Batubara, on 16 November 1982. Based on Presidential Decree No. 75/1996 dated 25 September 1996 and the amendment to the CCA No. J2/Ji.DU/52/82 between PTBA and Adaro on 27 June 1997, all rights and obligations of PTBA under the CCA were transferred to the Government of the Republic of Indonesia (the "Government") represented by the Minister of Mines and Energy, effective from 1 July 1997.

Under the terms of the CCA, Adaro acts as a contractor to the Government, and is responsible for coal mining operations in an area located in South Kalimantan. Adaro commenced its 30-year operating period on 1 October 1992 with coal produced from the Paringin area of interest. Adaro is entitled to 86.5% of the coal produced with the remaining 13.5% being the Government's share of production. Commencing on 1 July 1999, Adaro adopted the sales-based cash royalty method in accordance with the Government regulations to satisfy the Government's production entitlement.

Adaro's sales reflect 100% of the revenue generated from coal sales and the Government royalty expense is recorded as a part of cost of revenue.

d. Cooperation Agreement

On 25 August 1990, IBT entered into a Basic Agreement with PT (Persero) Pelabuhan Indonesia III (formerly Perum Pelabuhan III) ("Pelindo III") for the construction, development and operation of a Public Coal Port in Pulau Laut, South Kalimantan. On 10 November 1994, IBT and Pelindo III amended the Basic Agreement to become a Cooperation Agreement. Under the terms of the Cooperation Agreement, IBT commenced a 30-year operating period on 21 August 1997.

On 18 August 2009, IBT and Pelindo III amended the Cooperation Agreement in relation to the expansion of IBT's business to include management of the liquid bulk terminal. Under the agreement, IBT has an obligation to pay Pelindo III a share of the handling fee for the management of the liquid bulk terminal services for a certain amount per tonne for unloading and loading activities.

According to the Cooperation Agreement, IBT has an obligation to pay royalties to Pelindo III based on a certain percentage of revenue from coal bulk terminal management services. On 9 February 2011, IBT and Pelindo III agreed to change the royalty fee for the management of the coal bulk terminal services from a percentage of revenue to a fixed rate per tonne. The new rate is effective from 1 January 2010 to 31 August 2012.

e. Barito Channel Cooperation Agreement

On 28 August 2007, PT Ambang Barito Nusapersada ("Ambapers") appointed SDM as the partner to execute Barito Channel dredging, which includes the activities of river mouth dredging, maintenance dredging and financing the channel dredging project. On 25 March 2008, SDM entered into a Cooperation Agreement with Ambapers to execute this appointment. The term of the agreement is 15 years commencing on the date on which the channel utilisation service fee is charged by Ambapers. Afterwards, SDM will be given the first right to consider extension or refusal to extend for the next five years, with a guarantee from Ambapers that the terms and conditions of the agreement will be mutual for SDM.

Ambapers charges a channel fee for every ship that passes through the Barito Channel in accordance with the regulations set by the local government. Revenue from channel fees is distributed to the local government, Ambapers and SDM in the determined proportions on the fifth day of the following month.

f. Production Operation Mining Business Permit - MIP

Based on the Decree of the Regent of Lahat No. 503/188/KEP/PERTAMBEN/2010 dated 29 April 2010, PT Mustika Indah Permai was granted a Production Operation Mining Business Permit for 20 years for 2,000 hectares, located in the Lahat Regency, South Sumatera Province.

1. GENERAL (continued)

g. Production Operation Mining Business Permit - BEE

Based on the Decree of the Regent of Muara Enim No. 256/KPTS/TAMBEN/2011 dated 9 March 2011, PT Bukit Enim Energi was granted a Production Operation Mining Business Permit for 20 years for 11,130 hectares, located in the Muara Enim Regency, South Sumatera Province.

h. Coal reserves (unaudited)

Based on the report from Terence Willsteed & Associates dated 5 April 2011, the coal reserves of Adaro as at 31 December 2010, were as follows (in million metric tonnes, unaudited):

Coal reserves	Proven reserves	Probable reserves	Total
Tutupan	410	141	551
Wara	289	98	387
	699	239	938

Based on the report from Marston & Marston Inc in February 2012, the coal reserves of MIP as at 15 December 2011, were as follows (in million metric tonnes, unaudited):

Coal reserves	Proven reserves	Probable reserves	Total
MIP-Lahat	238	35	273

i. Exploitation/development area (unaudited):

Name of Location	Exploration Licence Acquisition Date	Due Date	Total Proven Reserves as at 31 December 2010 (Tonnes)	Addition	Total Production (Tonnes) Current Period	Total Production (Tonnes) Accumulated	Total Proven Reserves as at 31 December 2011 (Tonnes)
Wara	PKP2B - 16 November 1982	1 October 2022	289,000,000	-	5,369,677	7,917,803	283,630,323
Tutupan			410,000,000	-	42,297,789	412,067,294	367,702,211
Lahat	IUP - 29 April 2010	29 April 2030	-	238,000,000	-	-	238,000,000
Total			699,000,000	238,000,000	47,667,466	419,985,097	889,332,534

The Group has a new exploration area in BEE - Muara Enim.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group's consolidated financial statements were prepared and finalised by the Board of Directors on 26 March 2012.

Presented below are the significant accounting policies adopted in preparing the consolidated financial statements of the Group, which are in conformity with Indonesian Financial Accounting Standards. The consolidated financial statements are also prepared in conformity with Bapepam-LK No. VIII.G.7 for Guidance on Financial Statements Presentation and Circular Letter of Bapepam-LK No. SE-02/BL/2008 dated 31 January 2008 for Guidance on the Preparation and Disclosure of Financial Statements of an Issuer or Public Company in the General Mining Industry.

a. Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the basis of historical cost, except for available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) which are measured at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of preparation of the consolidated financial statements (continued)

The preparation of financial statements in conformity with Indonesian Financial Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Figures in the consolidated financial statements are expressed in thousand US Dollars, unless otherwise stated.

From 1 January 2011, the Group changed its reporting currency from Rupiah to US Dollars (refer to Note 3).

b. Changes to Statements of Financial Accounting Standards and Interpretations of Financial Accounting Standards

On 1 January 2011, the Group adopted new and revised Statements of Financial Accounting Standards ("SFAS") and Interpretations of Statement of Financial Accounting Standards ("IFAS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective standards and interpretations.

- SFAS No. 1 (Revised 2009), "Presentation of Financial Statements"

  The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statements of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statements of comprehensive income) or two statements (the statements of comprehensive income and statements of income). The Group has selected to present one performance statement.

  Where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position as at the beginning of the comparative period in addition to the current requirement to present statement of financial position at the end of the current period and comparative period.

  In addition, no items of income or expense are to be presented as arising from outside the entity's ordinary activities.

  As a result, the demurrage expense amounting to US$34,331 incurred beyond the normal activity of Adaro due to the bad weather in July to September 2010 which affected production and delayed coal barging and shipment, which was previously recorded as an extraordinary item will be classified as expenses from ordinary business.

  The Group has made reclassification in the consolidated statement of comprehensive income for the year ended 31 December 2010, as follows:

	Before reclassification	Reclassification	After reclassification
Statements of income			
Cost of revenue	1,854,589	34,331	1,888,920
Income tax expense	293,909	(15,449)	278,460
Extraordinary item, net of tax	18,882	(18,882)	-

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Changes to Statements of Financial Accounting Standards and Interpretations of Financial Accounting Standards (continued)

- SFAS No. 4 (Revised 2009), "Consolidated and Separate Financial Statements"

  The revised standard prohibits a parent company from failing to consolidate its controlled subsidiaries. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity, unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. The standard also acknowledges that control can still exist when the parent owns half or less of the voting power of the entity. When assessing the control, a company should consider the existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity.

  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in the consolidated statements of income. The Group applied SFAS No. 4 (Revised 2009) prospectively to transactions with non-controlling interests from 1 January 2011.

  SFAS No. 4 requires non-controlling interests to be presented in the consolidated statements of financial position within equity, separately from the equity of the owners of the parent. As such, for the current period, the Group has reclassified the 2010 non-controlling interests which has been previously recorded as a mezzanine between liabilities and equity to equity of US$3,208. As result, the statement of financial position as at 1 January 2010 has been presented.

  Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this may result in the non-controlling interests having a deficit balance. The Group has changed the presentation of the total comprehensive income to the owners of the parent and the non-controlling interests. As such, for the current period, total comprehensive income attributable to the owners of the parent and the non-controlling interests is US$557,779 and US$1,721, respectively.

- SFAS No. 5 (Revised 2009), "Operating Segments"

  The revised standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. As such, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. This has not resulted in additional reportable segments being presented.

- SFAS No. 10 (Revised 2010), "The Effects of Changes in Foreign Exchange Rates"

  The revised standard requires an entity to determine its functional currency and translate all foreign currency items into its functional currency. Functional currency is determined by using a hierarchy of primary and secondary factors. An entity may present its financial statements in any currency. The standard also provides guidance on the presentation of the financial statements of a group whose subsidiaries, associates and joint ventures have different functional currencies.

  This statement is required to be applied for financial years beginning on or after 1 January 2012, but has been adopted early by the Group. Refer to Note 3 for details.

- SFAS No. 22 (Revised 2010), "Business Combination"

  The revised standard requires the acquisition method to be applied in business combinations which eliminates the option of using a pooling-of-interest method. There is a choice, on an acquisition-by-acquisition basis, of measuring the non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. All acquisition-related costs should be expensed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Changes to Statements of Financial Accounting Standards and Interpretations of Financial Accounting Standards (continued)

- SFAS No. 22 (Revised 2010), "Business Combination" (continued)

The Group will apply SFAS No. 22 (Revised 2010) prospectively to all business combinations from 1 January 2011. The requirement to apply this SFAS prospectively has the following effect for a business combination which took place before the application of this SFAS:

Previously recognised goodwill

As required under the standard, at 1 January 2011, the carrying amount of goodwill arising from prior business combinations will be its carrying amount at that date in accordance with the Group's previous accounting policies. Hence, in determining that amount, the Group will eliminate the carrying amount of any accumulated amortisation of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill. The Group will discontinue amortising goodwill arising from prior business combination and the goodwill is tested annually for impairment.

Previously recognised negative goodwill

As required under the standard, the carrying amount of all negative goodwill arising from prior business combinations should be derecognised at 1 January 2011 with a corresponding adjustment to the opening balance of retained earnings as at 1 January 2011. The Group did not have any negative goodwill arising from prior business combinations and as such, no adjustment has been made with respect to negative goodwill.

For investments accounted for by applying the equity method

As required under this standard, for investments accounted for by applying the equity method and acquired on or after 1 January 2011, the Group will apply this standard in the accounting for:

- any acquired goodwill included in the carrying amount of that investment. Therefore, the Group will not include any amortisation of that notional goodwill in the determination of the Group's share of the investee's profits or losses.
- any excess included in the carrying amount of the investment of the entity's interest in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment. Therefore, the Group will include that excess as income in the determination of the Group's share of the investee's profits or losses in the period in which the investment is acquired.

For investments accounted for by applying the equity method and acquired before 1 January 2011:

- the Group will apply this standard on a prospective basis, from the beginning of the first annual period beginning on or after 1 January 2011, to any acquired goodwill included in the carrying amount of that investment. Therefore, the Group will, from that date, discontinue including the amortisation of that goodwill in the determination of the Group's share of the investee's profits or losses.
- the Group will derecognise any negative goodwill included in the carrying amount of that investment at the beginning of the first annual period beginning on or after 1 January 2011, with a corresponding adjustment to the opening balance of retained earnings.

The adoption of these new and revised standards and interpretations did not result in significant changes to the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial periods:

- SFAS No. 2 (Revised 2009), "Statement of Cash Flows"
- SFAS No. 3 (Revised 2010), "Interim Financial Reporting"
- SFAS No. 7 (Revised 2010), "Related Party Disclosures"
- SFAS No. 8 (Revised 2010), "Events after the Reporting Period"
- SFAS No. 12 (Revised 2009), "Interests in Joint Ventures"
- SFAS No. 15 (Revised 2009), "Investments in Associates"
- SFAS No. 19 (Revised 2010), "Intangible Assets"
- SFAS No. 23 (Revised 2010), "Revenue"
- SFAS No. 25 (Revised 2009), "Accounting Policies, Changes in Accounting Estimates and Errors"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Changes to Statements of Financial Accounting Standards and Interpretations of Financial Accounting Standards (continued)

- SFAS No. 48 (Revised 2009), “Impairment of Assets”
- SFAS No. 57 (Revised 2009), “Provision, Contingent Liabilities and Contingent Assets”
- SFAS No. 58 (Revised 2009), “Non-current Assets Held for Sale and Discontinued Operations”
- IFAS No. 7 (Revised 2009), “Consolidation of Special Purpose Entities”
- IFAS No. 9, “Changes in Existing Decommissioning, Restoration and Similar Liabilities”
- IFAS No. 10, “Customer Loyalty Programs”
- IFAS No. 11, “Distributions of Non-Cash Assets to Owners”
- IFAS No. 12, “Jointly Controlled Entities-Non - Monetary Contributions by Venturers”
- IFAS No. 14, “Intangible Assets - Web Site Costs”
- IFAS No. 17, “Interim Financial Reporting and Impairment”

The withdrawals of the following standards and interpretations did not result in significant changes to the Group’s accounting policies and had no material effect on the amounts reported for the current or prior financial year:

- SFAS No. 6, “Accounting and Reporting for Development-Stage Entities”
- SFAS No. 21, “Accounting for Equity”
- SFAS No. 40, “Accounting for Changes in Equity of Subsidiaries or Associates”
- IFAS No. 1, “Determining Market Price of Dividends”
- IFAS No. 2, “Presentation of Capital in the Balance Sheet and Subscription Receivables”
- IFAS No. 3, “Accounting for Donations or Endowments”

The following new and revised accounting standards and interpretations have been published and are mandatory for financial years beginning on or after 1 January 2012:

- SFAS No. 13 (Revised 2011), “Investment Properties”
- SFAS No. 16 (Revised 2011), “Property, Plant, and Equipment”
- SFAS No. 18 (Revised 2010), “Accounting and Reporting by Retirement Benefit Plans”
- SFAS No. 24 (Revised 2010), “Employee Benefits”
- SFAS No. 26 (Revised 2011), “Borrowing Costs”
- SFAS No. 28 (Revised 2010), “Accounting for Loss Insurance”
- SFAS No. 30 (Revised 2011), “Leases”
- SFAS No. 33 (Revised 2011), “Stripping Activities and Environmental Management in General Mining”
- SFAS No. 34 (Revised 2010), “Construction Contracts”
- SFAS No. 36 (Revised 2010), “Accounting for Life Insurance”
- SFAS No. 45 (Revised 2010), “Financial Reporting for Non-Profit Organizations”
- SFAS No. 46 (Revised 2010), “Income Taxes”
- SFAS No. 50 (Revised 2010), “Financial Instruments: Presentation”
- SFAS No. 53 (Revised 2010), “Share-based Payments”
- SFAS No. 55 (Revised 2010), “Financial Instruments: Recognition and Measurement”
- SFAS No. 56 (Revised 2010), “Earnings per Share”
- SFAS No. 60, “Financial Instruments: Disclosures”
- SFAS No. 61, “Accounting for Government Grants and Disclosures of Government Assistance”
- SFAS No. 62, “Insurance Contracts”
- SFAS No. 63, “Financial Reporting in Hyperinflationary Economies”
- SFAS No. 64, “Exploration for and Evaluation of Mineral Resources”
- IFAS No. 13, “Hedges of a Net Investment in a Foreign Operation”
- IFAS No. 15, “SFAS No. 24, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”
- IFAS No. 16, “Service Concession Arrangements”
- IFAS No. 18, “Government Assistance - No Specific Relation to Operating Activities”
- IFAS No. 19, “Applying the Restatement Approach under PSAK 63: Financial Reporting in Hyperinflationary Economies”
- IFAS No. 20, “Income Taxes-Changes in the Tax Status of an Entity or its Shareholders”
- IFAS No. 21, “Agreements for the Construction of Real Estate”
- IFAS No. 22, “Service Concession Arrangements: Disclosure”
- IFAS No. 23, “Operating Leases - Incentives”
- IFAS No. 24 - “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”
- IFAS No. 25, “Land Rights”
- IFAS No. 26, “Re-assessment of Embedded Derivatives”

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Changes to Statements of Financial Accounting Standards and Interpretations of Financial Accounting Standards (continued)

The following withdrawal of accounting standards and interpretations have been published and are mandatory for the financial year beginning on or after 1 January 2012:

- SFAS No. 11 - Translation of Financial Statements in Foreign Currencies;
- SFAS No. 27 - Accounting for Cooperatives;
- SFAS No. 29 - Accounting for Oil and Gas;
- SFAS No. 39 - Accounting for Joint Operations;
- SFAS No. 52 - Reporting Currencies;
- IFAS No. 4 - Allowable Alternative Treatment of Foreign Exchange Differences;

The Group is still assessing the impact of these new or revised SFAS and IFAS as well as the withdrawal of the aforementioned standards and interpretations on the consolidated financial statements.

c. Principles of consolidation

i. Subsidiaries

Subsidiaries are all entities (including special purpose entities), over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired is recorded as mining properties and/or goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, in the case of a bargain purchase, the difference is recognised directly in the consolidated statements of income.

Mining properties represent the fair value adjustment of mining properties acquired at the date of acquisition of Adaro and are stated at cost. Mining properties are amortised over the life of the property using the units of production method from the date of the acquisition based on estimated proven and probable reserves. Changes in estimated proven and probable reserves are accounted for on a prospective basis, from the beginning of the period in which the change occurs.

For the accounting policy on goodwill please refer to Note 2l.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(Expressed in thousand US Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Principles of consolidation (continued)

ii. Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated statements of income. The fair value is the initial carrying amount, for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statements of income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the consolidated statements of income where appropriate.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this may result in the non-controlling interests having a deficit balance.

d. Foreign currency translation

i. Functional and reporting currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US Dollars, which is the Group's functional currency.

ii. Transaction and balances

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statements of income within 'foreign exchange gain, net'.

Transactions denominated in currencies other than US Dollars are converted into US Dollars at the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities in currencies other than US Dollars are recognised in the consolidated statements of income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

As at 31 December, the exchange rates used, based on the middle rates published by Bank Indonesia (the Central Bank of Indonesia), were as follows (US Dollars full amount):

	2011	2010
Rupiah 10,000 ("Rp")	1.10	1.11
Great Britain Pound Sterling ("£")	1.54	1.55
Singapore Dollars ("S$")	0.77	0.78
Australian Dollars ("A$")	1.01	1.02
Euro ("€")	1.29	1.33
Japanese Yen 100 ("¥")	1.29	1.23

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the consolidated statements of income and other changes in carrying amount are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Foreign currency translation (continued)

iii. Group companies

The results of the operations and financial position of all the Group subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
(b) income and expenses for each the consolidated statements of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) all resulting exchange differences are recognised in other comprehensive income.

e. Cash and cash equivalents

Cash and cash equivalents are cash on hand, cash in banks and time deposits with a maturity period of three months or less at the time of placement and which are not used as collateral or are not restricted.

The consolidated statements of cash flows have been prepared using the direct method by classifying the cash flows on the basis of operating, investing and financing activities. For the purpose of the consolidated statements of cash flows, cash and cash equivalents are presented net of overdrafts.

f. Trade and other receivables

Trade receivables are amounts due from customers for coal sold or services performed in the ordinary course of business.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

g. Inventories

Coal inventory is valued at the lower of cost or net realisable value. Cost is determined based on the average cost basis and includes an appropriate portion of fixed and variable overheads. Net realisable value is the estimated sales amount in the ordinary course of business less the costs of completion and selling expenses.

Spare parts, fuel, lubricants and supplies are valued at cost, determined on an average cost basis, less provision for obsolete and slow moving inventory. A provision for obsolete and slow moving inventory is determined on the basis of estimated future usage or sale of individual inventory items. Supplies of maintenance materials are charged to production costs in the period in which they are used.

h. Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of voting rights. Investments in associates are accounted for using the equity method of accounting and initially recognised at cost. The Group's investment in associates includes mining properties and/or goodwill identified at acquisition, net of any accumulated amortisation and impairment loss. Refer to Note 2m for the impairment of non-financial assets including mining properties.

Under the equity method, the investment in associate are initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profits or losses of the investee or to recognise the share of movement in reserves of the investee after the date of acquisition. Profit distributions (except stock dividends) received from the investee reduce the carrying amount of the investment. The Group's share of profit or losses is recognised in the consolidated statements of income and its share of other comprehensive income after the date of acquisition is recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Investments in associates (continued)

Under the equity method, if the Group's share of losses in an associate equal or exceeding the carrying amount of the investment including any other unsecured receivables, the Group does not recognise further losses, unless it incurred obligations or payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates will be changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains or losses arising in investments in associates are recognised in the consolidated statements of income.

Changes in accounting policies

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2011 when revised SFAS No. 4, "Consolidated and Separate Financial Statements", became effective. The revision to SFAS No. 4 contained consequential amendments to SFAS No. 15, "Investments in Associates" and SFAS No. 12, "Interests in Joint Ventures".

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date of control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. On the loss of significant influence, the Group will measure at fair value any investment the Group retains in the former associate provided the associate does not become a subsidiary or a joint venture. The Group will recognise in the consolidated statements of income any differences between:

(a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and

(b) the carrying amount of the investment at the date when significant influence is lost.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2011. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the consolidated financial statements.

i. Financial assets and liabilities

i.1. Financial assets

The Group classifies its financial assets into the categories of: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; (iii) loans and receivables; and (iv) available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are financial guarantee contracts or designated as hedges. Gains or losses arising from changes in fair value of the financial assets are presented in the consolidated statements of income within "other gains/(losses)-net" in the period in which they arise. Dividend income from the financial assets at fair value through profit or loss is recognised in the consolidated statements of income as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Financial assets and liabilities (continued)

i.1. Financial assets (continued)

(i) Financial assets at fair value through profit or loss (continued)

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statements of income and subsequently carried at fair value.

Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, except for:

(a) investments that upon initial recognition are designated as financial assets at fair value through profit or loss;
(b) investments that are designated in the category of available-for-sale; and
(c) investments that meet the definition of loans and receivables.

They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Held-to-maturity investments are initially recognised at fair value including directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method.

Interest on the investments calculated using the effective interest method is recognised in the consolidated statements of income as part of other income.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities more than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables are initially recognised at fair value including directly attributable transaction costs and subsequently carried at amortised cost using the effective interest method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as loans or receivables, held-to-maturity investments and financial assets at fair value through profit or loss. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months of the end of the reporting period.

Available-for-sale financial assets are initially recognised at fair value, including directly attributable transaction costs. Subsequently, the financial assets are carried at fair value, with gains or losses recognised in equity, except for impairment losses and foreign exchange gains or losses, until the financial assets are derecognised. If the available-for-sale financial assets are impaired, the cumulative gain or loss previously recognised in equity, is recognised in the consolidated statements of income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statements of income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statements of income as part of finance income when the Group's right to receive the payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Financial assets and liabilities (continued)

i.2. Financial liabilities

The Group classifies its financial liabilities into the categories of: (i) financial liabilities at fair value through profit or loss and (ii) financial liabilities carried at amortised cost. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of its financial liabilities at initial recognition. Financial liabilities are derecognised when they are extinguished which is when the obligation specified in the contract is discharged or is cancelled or expires.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of repurchasing it in the short-term.

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value and subsequently carried at fair value, with gains and losses recognised in the consolidated statements of income.

(ii) Financial liabilities carried at amortised cost

Financial liabilities that are not classified as financial liabilities carried at fair value through profit or loss, are initially recognised at fair value less directly attributable transaction costs. Subsequently, the financial liabilities are carried at amortised cost using the effective interest method. They are included in current liabilities, except for maturities more than 12 months after the end of the reporting period. These are classified as non-current liabilities.

Gains and losses are recognised in the consolidated statements of income when the financial liabilities are derecognised or impaired, as well as through the amortisation process.

i.3. Fair value estimation

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as fuel hedging and foreign exchange forward contracts. For these financial instruments, inputs into models are generally market observable.

i.4. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

j. Impairment of financial assets

j.1. Assets carried at amortised cost

The Group assesses at the statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group use to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lenders, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Impairment of financial assets (continued)

j.1. Assets carried at amortised cost (continued)

- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; and
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in the consolidated statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss will be reversed either directly or by adjusting an allowance account. The reversal will not result in the carrying of a financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date at which the impairment was reversed. The reversal amount will be recognised in the consolidated statements of income.

j.2. Assets classified as available-for-sale

When a decline in the fair value of an available for sale financial asset has been recognised directly in other comprehensive income within equity and there is objective evidence that the assets are impaired, the cumulative loss that had been recognised in other comprehensive income within equity will be reclassified from other comprehensive income within equity to the consolidated statements of income even though the financial asset has not been derecognised. The amount of the cumulative loss that is reclassified from other comprehensive income within equity to the consolidated statements of income will be the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statements of income.

The impairment losses recognised in the consolidated statements of income for an investment in an equity instrument classified as available-for-sale will not be reversed through the consolidated statements of income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

k. Fixed assets and depreciation

Land is recognised at cost and not depreciated, unless the land has met any of the following criteria:

- The quality of the land condition is no longer sufficient to be utilised for an entity's main operations.
- The main characteristic of the operation is to leave the land and building after completion of the project.
- Management's estimate or assurance that extension of renewal of rights cannot be obtained.

In such a case, land is depreciated using the straight-line method over the expected useful life of land as follows:

- period of land utilisation that is expected to be achieved; or
- period of expected productivity of land; or
- period of rights, if the rights cannot be renewed or extended or rights are shorter than the period of land utilisation and period of expected productivity of land.

(Expressed in thousand US Dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Fixed assets and depreciation (continued)

Fixed assets are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets, except for fixed assets of Adaro, are depreciated using the straight-line method to their residual value over the expected useful lives as follows:

	Years
Buildings	20
Infrastructure	5 – 30
Operational equipment	6 – 10
Vessels	5 – 20
Project equipment	4
Mining equipment	4
Vehicles	4
Office equipment	4 – 5

The fixed assets of Adaro are depreciated using the straight-line method over the lesser of the estimated useful lives of the assets, the life of the mine or the term of the CCA, stated as follows:

	Years
Buildings	10 – 20
Machinery, operational equipment and vehicles	3 – 10
Office equipment	10
Crushing and handling facilities	11 – 30
Roads and bridges	11 – 30
Stockpile facilities	17 – 20
Dock facilities	20

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of income during the financial period in which they are incurred.

The assets' useful lives and residual values are reviewed and adjusted if appropriate, at least at each financial year-end. The effects of any revisions are recognised in the consolidated statements of income, when the changes arise.

For assets which are no longer utilised or sold or surrendered to the Government, the carrying amounts are eliminated from the consolidated financial statements and the resulting gains and losses on the disposal of fixed assets are recognised in the consolidated statements of income.

The accumulated costs of the construction of buildings and plants and the installation of machinery are capitalised as construction in progress. These costs are reclassified to the fixed asset accounts when the construction or installation is completed. Depreciation is charged from that date.

Interest and other borrowing costs, such as discount fees on loans either directly or indirectly used in financing the construction of a qualifying asset, are capitalised up to the date when construction is complete. For borrowings directly attributable to a qualifying asset, the amount to be capitalised is determined as the actual borrowing costs incurred during the year, less any income earned on the temporary investment of such borrowings. For borrowings that are not directly attributable to a qualifying asset, the amount to be capitalised is determined by applying a capitalisation rate to the amount expended on the qualifying asset. The capitalisation rate is the weighted-average of the borrowing costs applicable to the total borrowings outstanding during the period, excluding borrowings directly attributable to financing the qualifying asset under construction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition. Previously, goodwill was amortised over a period of 5 – 20 years using the straight-line method. Management determines the estimated useful life of goodwill based on its evaluation at the time of the acquisition, considering various factors inherent to the acquired companies.

As a result of adopting SFAS No. 22 (refer to Note 2b, the Group has applied the new accounting policy prospectively in respect of goodwill whereby goodwill will no longer be amortised but will be tested annually for impairment and carried at cost less impairment.

m. Impairment of non-financial assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

n. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

o. Deferred exploration and development expenditure

Deferred exploration expenditure represents the accumulated costs relating to general investigation, permission and administrative, geology and geophysical, exploration drilling and evaluation, that is incurred to search, discover and evaluate proven reserves in a specific mining area during a specific time period in accordance with statutory regulations.

Exploration expenditure incurred is capitalised and carried forward, on an area of interest basis, provided one of the following conditions is met:

(i) such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or

(ii) exploration activities in the area of interest have not yet reached the stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in or in relation to the area of interest are continuing.

The ultimate recoupment of deferred exploration expenditure is dependent upon successful development and commercial exploitation or, alternatively, sale of the respective area. Deferred exploration expenditure on each area of interest is reviewed at the end of each accounting period. Exploration expenditure in respect of an area of interest which has been abandoned, or for which a decision has been made by the Group's Directors against its commercial viability are written off in the period in which the decision is made.

Deferred development expenditure represents the accumulated cost relating to administration, land clearing and the cost of opening the mine, that is conducted in the preparation of proven reserves until commercial production.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Deferred exploration and development expenditure (continued)

Mine development expenditure and incorporated costs in developing an area of interest prior to the commencement of operations in the respective area, as long as they meet the criteria for deferral, are capitalised.

Deferred exploration and development expenditure is amortised on a straight-line basis from the date of commercial production of the respective area of interest over the lesser of the life of the mine and the remaining term of the CCA.

p. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of income on a straight-line basis over the period of the lease.

Leases of fixed assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the outstanding finance balance. The interest element of the finance cost is charged to the consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Fixed assets acquired under finance leases are depreciated similarly to owned assets. If there is no reasonable certainty that the Group will hold the ownership by the end of the lease term, the asset is depreciated over the shorter of the useful life of the asset and the lease term.

q. Provision

(i) Provision for environmental related obligations

Restoration, rehabilitation and environmental expenditures to be incurred related to remediation of disturbed areas during the production phase are charged to cost of revenue when the obligation arising from the disturbance occurs.

Provision for decommissioning, demobilisation and restoration provides for the legal obligations associated with the retirement of property, plant and equipment and other long-lived assets that result from the acquisition, construction or development and/or the normal operation of such assets. The retirement of such assets is its other than temporary removal from service including its sale, abandonment, recycling or disposal in some other manner.

These obligations are recognised as liabilities when a legal obligation with respect to the retirement of an asset is incurred, with the initial and subsequent measurement of the obligation at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An asset retirement cost equivalent to these liabilities is capitalised as part of the related asset's carrying value and is subsequently depreciated or depleted over the asset's useful life. The increase in these obligations due to the passage of time is recognised as interest expense.

The changes in the measurement of these obligations that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits (e.g. cash flows) required to settle the obligation, or a change in the discount rate will be added to or deducted from, the cost of the related asset in the current period. The amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated statements of income. If the adjustment results in an addition to the cost of an asset, the Group will consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the Group will test the asset for impairment by estimating its recoverable amount and will account for any impairment loss incurred, if any.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Provision (continued)

(i) Provision for environmental related obligations (continued)

Provision for environmental issues that may not involve the retirement of an asset, where the Group is a responsible party are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provision is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

(ii) Other provision

Provision for restructuring costs, legal claims and others are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provision may comprise items such as lease termination penalties and employee termination payments. Provision is not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Increase in the provision due to the passage of time is recognised as interest expense.

r. Stripping costs

Stripping costs are recognised as production costs based on the annual planned stripping ratio. The annual planned stripping ratio is determined based on current knowledge of the disposition of coal resources and is estimated not to be materially different from the long term planned stripping ratio. If the actual stripping ratio exceeds the planned ratio, the excess stripping costs are recorded in the consolidated statements of financial position as deferred stripping costs. If the actual stripping ratio is lower than the planned stripping ratio, the difference is adjusted against the amount of deferred stripping costs carried forward from prior periods or is recognised in the consolidated statements of financial position as accrued stripping costs. Changes in the planned stripping ratio are considered as changes in estimates and are accounted for on a prospective basis. The beginning balance of accrued or deferred stripping costs is amortised on a straight-line basis over the remaining mine life, or the remaining term of the CCA, whichever is shorter.

s. Borrowings

Borrowings are recognised initially at fair value, net of transaction cost incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of income over the period of the borrowings, using the effective interest method for fixed interest rate borrowings and the straight-line method for floating rate borrowings.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawndown. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawndown, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Provision for employee benefits

(i) Pension obligations

Pension schemes are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group is required to provide a minimum amount of pension benefit in accordance with Labour Law No. 13/2003 or the Group's Collective Labour Agreement (the "CLA"), whichever is higher. Since the Labour Law or the CLA sets the formula for determining the minimum amount of benefits, in substance pension plans under the Labour Law or the CLA represent defined benefit plans.

The liability recognised in the consolidated statements of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality government bonds (considering currently there is no deep market for high-quality corporate bonds) that are denominated in the currency in which the benefits will be paid and that have terms of maturity approximating the terms of the related pension liability.

Expense charged to the consolidated statements of income includes the current service cost, interest expense, amortisation of past service cost and actuarial gains and losses.

Past-service costs are recognised immediately in the consolidated statements of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, when exceeding 10% of the present value of the defined benefit obligation (before deducting any plan assets) or 10% of the fair value of any plan assets at 31 December, are charged or credited to the consolidated statements of income over the average remaining service lives of the employees participating in the plan.

For defined contribution plans the Group pays contribution to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Termination benefits

Termination benefits are payable when an employee's employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises the termination benefits when it is demonstrably committed either to terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Specific for Adaro, the tax rate used is 45% as stipulated in its CCA. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Where appropriate, it establishes provision based on amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined, except for Adaro, using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax rate used by Adaro is, according to the CCA, 35% for the first ten years from the date of the CCA and 45% for subsequent years.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

For income which is subject to final tax, income tax expense is recognised proportionally with revenue recognised in the current period. The difference between the amount of final tax payable and the amount charged as current tax for the calculation of profit or loss is recognised as prepaid tax or accrued tax.

Amendments to taxation obligations are recorded when an assessment letter is received or, if objected to or appealed against, when the results of the objection or appeal are determined.

v. Revenue and expense recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of coal and services rendered in the ordinary course of the Group’s activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue from sales of goods is recognised when all the following conditions are met:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred with respect to the sales transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction, can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Revenue and expense recognition (continued)

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Expenses are recognised as incurred on an accrual basis.

w. Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so the nature of the item being hedged. The Group designates certain derivatives as either (1) a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss (fair value hedge); or (2) a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and (ii) could affect profit or loss (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statements of income, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. The gain or loss relating to the effective portion of such fair value hedge is recognised in the consolidated statements of income in the similar line of changes in the fair value of the hedge items to which it is charged. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statements of income within “other expenses-net”.

(ii) cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity within the “fair value reserve” account. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statements of income within “other expenses-net”.

Amounts accumulated in equity are reclassified to the consolidated statements of income in the periods when the hedged item affects the statements of income. The gain or loss relating to the effective portion of the cash flow hedge is recognised in the consolidated statements of income in the similar line of the hedged items to which it is usually charged. The gain or loss relating to the ineffective portion is recognised in the consolidated statements of income within “other gains/(losses)-net”. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statements of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of income within “other expenses-net”.

Changes in the fair value of any derivative instruments that are not designated or do not qualify for hedge accounting are recognised immediately in the consolidated statements of income within “other expenses-net”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x. Earnings per share

Basic earnings per share is calculated by dividing net income attributable to the equity holder of the Company by the weighted-average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing net income attributable to the equity holder of the Company adjusted for interest expense and foreign exchange gains or losses on convertible bonds and its related tax effects, by the weighted-average number of issued and fully paid-up shares during the period, assuming that all options have been exercised and all convertible bonds have been converted.

y. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions.

z. Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

aa. Difference in value from restructuring transactions of entities under common control

Restructuring transactions among entities under common control are accounted for using the pooling-of-interest method.

The difference between the transfer price and the book value of each restructuring transaction among entities under common control is recorded under the account “difference in value from restructuring transactions of entities under common control” in the equity section of the consolidated statements of financial position.

The balance of the account “difference in value from restructuring transactions of entities under common control” can change when:

(i) there are reciprocal transactions between entities under common control;
(ii) there is quasi-reorganisation;
(iii) under common control status is lost between transacting entities; or
(iv) there is a transfer of the assets, liabilities, share or other ownership instruments that has caused the difference from restructuring transactions of entities under common control to another party that is not under common control.

When changes in the balance of this account result from point (i), the existing balance is netted-off with the new transaction, hence creating a new balance for the account.

When changes in the balance of the account come from point (ii), the balance is used to eliminate or add to the negative retained earnings balance.

When changes in the balance of the account come from points (iii) or (iv), the balance is recognised as realised gain or loss.

bb. Dividends

Dividend distribution to the Group’s shareholders is recognised as a liability in the Group’s consolidated financial statements in the period in which the dividends are declared.

cc. Transactions with related parties

A person or a close member of the person’s family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

cc. Transactions with related parties (continued)

An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity itself is such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a related person as identified above.
(vii) A person that has control or joint control over the reporting entity that has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

All major transactions with related parties are disclosed in the notes to the consolidated financial statements.

3. CHANGE OF REPORTING CURRENCY

On 1 January 2011, the Company changed its reporting currency from Rupiah to US Dollars, its functional currency, due to substantially, if not all:

- The Group's sales and earnings are originated in US Dollars
- The Group's expenditure are originated in US Dollars
- The Group's financing activities are originated in US Dollars

As such, the Board of Directors believe the change will result in a more appropriate presentation of the Group's transaction in the consolidated financial statements. The change of the Company's reporting currency has been accounted for in accordance with SFAS No. 10 (Revised 2010) "The Effects of Changes in Foreign Exchange Rates" which should be applied on or after 1 January 2012 but allows early implementation.

For comparative purposes, the consolidated financial statements and associated notes as at and for the year ended 31 December 2010 have been remeasured, as though the US Dollar were the reporting currency in that year, using the procedures outlined below:

- The Company's monetary items are converted into US Dollars using the closing rate, while non-monetary items including equity are converted using the exchange rate at the date of the transactions; and

- Income and expenses are converted using a yearly average rate, except for several transactions which were converted using the exchange rate at the date of the transactions.

3. CHANGE OF REPORTING CURRENCY (continued)

The following is the consolidated statements of financial position as at 31 December 2010 and 1 January 2010 presented in Rupiah currency (expressed in million Rupiah, except for par value and share data).

	2010	1 January 2010
CURRENT ASSETS		
Cash and cash equivalents	5,459,971	11,274,623
Trade receivables, net of provision for impairment of Rp nil		
- Third parties	2,476,369	2,882,459
Advances and prepayments - current portion	595,131	393,629
Inventories, net of provision for obsolete stock of Rp nil	288,732	250,450
Prepaid taxes	643,190	304,782
Recoverable taxes	705,007	653,329
Other receivables - third parties	27,966	21,160
Restricted cash and time deposits - current portion	2,534	-
Other current assets	1,390	23,515
Total current assets	10,200,290	15,803,947
NON-CURRENT ASSETS		
Restricted cash and time deposits - non-current portion	9,099	9,484
Deferred exploration and development expenditure, net of accumulated amortisation of Rp 258,569	71,408	81,010
Advances and prepayments - non-current portion	471,567	68,561
Fixed assets, net of accumulated depreciation of Rp 3,386,721	8,810,252	7,415,677
Investments in associates	3,212,904	4,776
Mining properties, net of accumulated amortisation of Rp 1,210,851	9,245,886	9,791,657
Goodwill, net of accumulated amortisation of Rp 1,387,451	8,462,275	9,091,776
Deferred tax assets	44,293	37,587
Other non-current assets	72,947	55,872
Total non-current assets	30,400,631	26,556,400
TOTAL ASSETS	40,600,921	42,360,347
CURRENT LIABILITIES		
Trade payables		
- Third parties	2,303,985	2,025,321
- Related parties	109,144	142,783
Accrued expenses	737,982	302,161
Short-term bank loan	-	188,000
Taxes payable	135,857	2,252,058
Royalties payable	682,473	738,044
Current maturity of long-term borrowings:		
- Finance lease payables	368,641	335,803
- Bank loans	1,346,980	1,823,127
Derivative liabilities - current portion	90,810	127,163
Other liabilities	17,659	28,654
Total current liabilities	5,793,531	7,963,114

(Expressed in thousand US Dollars, unless otherwise stated)

3. CHANGE OF REPORTING CURRENCY (continued)

	2010	1 January 2010
NON-CURRENT LIABILITIES		
Long-term borrowings, net of current maturities:		
- Finance lease payables	429,406	475,755
- Bank loans	5,102,587	5,548,196
Senior Notes	7,068,256	7,379,848
Derivative liabilities - non-current portion	55,127	40,505
Accrued stripping costs	308,425	365,980
Deferred tax liabilities	2,981,363	2,933,399
Amounts due to a related party	4,495	4,700
Provision for employee benefits	142,191	90,419
Provision for mine reclamation	46,354	27,784
Provision for mine closure	38,634	18,713
Total non-current liabilities	16,176,838	16,885,299
EQUITY		
Share capital - authorised 80,000,000,000 shares; issued and fully paid-up 31,985,962,000 shares with par value of Rp 100 per share	3,198,596	3,198,596
Additional paid-in-capital	10,732,663	10,732,663
Difference in value from restructuring transactions of entities under common control	(191,843)	(191,843)
Other reserves:		
- Exchange difference due to financial statement translation	(440,097)	(214,163)
- Difference from equity changes in subsidiaries and associates	4,188	4,188
- Fair value reserve	(103,683)	(112,677)
Retained earnings		
- Appropriated	262,723	44,360
- Unappropriated	5,113,894	3,983,767
	18,576,441	17,444,891
Non-controlling interests	54,111	67,043
Total equity	18,630,552	17,511,934
TOTAL LIABILITIES AND EQUITY	40,600,921	42,360,347

3. CHANGE OF REPORTING CURRENCY (continued)

The following is the consolidated statement of income for the year ended 31 December 2010 presented in Rupiah currency (expressed in million Rupiah, except for basic earnings per share).

	2010
Revenue	24,689,333
Cost of revenue	(16,957,291)
Gross profit	7,732,042
Operating expenses	
Selling and marketing	(497,646)
General and administrative	(460,118)
Total operating expenses	(957,764)
Operating income	6,774,278
Other income/(expenses)	
Finance costs	(1,048,252)
Finance income	42,377
Loss on disposal of fixed assets	(51,235)
Foreign exchange loss, net	(28,286)
Share in net loss of associates	(13,485)
Amortisation of goodwill	(490,045)
Other expenses, net	(135,434)
	(1,724,360)
Profit before income tax	5,049,918
Income tax expense	(2,668,668)
Profit from ordinary activity	2,381,250
Extraordinary item, net of tax	(171,544)
Profit before pre-acquisition loss	2,209,706
Pre-acquisition loss	200
Profit before minority interest	2,209,906
Minority interest in net income of subsidiaries	(2,593)
Net income	2,207,313
Basic earnings per share	69,0

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with Indonesian Financial Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

- Reserve estimates

  Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. The Group determines and reports its coal reserves under the principles incorporated in the Code for Reporting of Mineral Resources and Ore Reserves (the "JORC Code"). In order to estimate coal reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, production techniques, stripping ratio, production costs, transport costs, commodity demand, commodity prices and exchange rates.

  Estimating the quantity and/or calorific value of coal reserves requires the size, shape and depth of coal bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements to interpret the data.

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

  - Asset carrying values may be affected due to changes in estimated future cash flows.
  - Depreciation, depletion and amortisation charged in the consolidated statements of income may change where such changes are determined on a unit-of-production basis or where the useful economic lives of assets change.
  - Overburden removal costs recorded in the the consolidated statements of financial position or charged to the statements of income may change due to changes in stripping ratios.
  - Decommissioning, site restoration and environmental provision may change where changes in estimated reserves affect expectations about the timing or cost of these activities.
  - The carrying value of deferred tax assets/liabilities may change due to changes in estimates of the likely recovery of the tax benefits.

- Deferred stripping costs

  Stripping of waste materials takes place throughout the production stage of the mine or pit. Some mining companies expense their production stage stripping costs as incurred, while others defer such stripping costs. In operations that experience material fluctuations in the ratio of waste materials to ore or contained minerals on a year to year basis over the life of the mine or pit, deferral of stripping costs reduces the volatility of the cost of stripping expensed in individual reporting periods. Those mining companies that expense stripping costs as incurred will therefore report greater volatility in the results of their operations from period to period.

  The life of mine or pit waste-to-ore ratio is a function of an individual mine's pit design and therefore changes to that design will generally result in changes to the ratio. Changes in other technical or economic parameters that have an impact on reserves will also have an impact on the life of mine or pit ratio even if they do not affect the mine or pit design. Changes to the life of mine or pit ratio are accounted for prospectively.

  The Group's determination of whether multiple pit mines are considered separate or integrated operations depends on each mine's specific circumstances and the analysis requires judgement. Another company could make the determination that a mine is separate or integrated differently than the Group, even if the fact pattern appears to be similar. To the extent that the determination is different, the resulting accounting would also be different.

(Expressed in thousand US Dollars, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

- Impairment of non-financial assets

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

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. The recoverable amounts of cash generating units have been determined based on the greater of an asset's fair value less costs to sell or value in use.

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves (see 'Reserve Estimates' above), operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may have an impact on the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the consolidated statements of income.

- Income taxes

Judgement and assumptions are required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes for each company within the Group. In particular, the calculation of Adaro income tax expense involves the interpretation of applicable tax laws and regulations including Adaro's CCA. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The resolution of tax positions taken by each company within the Group can take several years to complete and in some cases it is difficult to predict the ultimate outcome. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred income tax provision in the period in which such a determination is made.

Deferred tax assets, including those arising from unrecouped tax losses, capital allowances and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production, sales volumes or sales of service, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

There is an uncertainty about the recoverability of value added taxes input and vehicle fuel tax (refer to Note 34b).

5. ACQUISITIONS, DISPOSALS AND LIQUIDATION OF SUBSIDIARIES

a. Acquisition of Joyce Corner International Ltd

On 27 January 2010, ATA acquired an additional 20% interest in JCI for US$10,000. From this transaction, the Company's direct and indirect interest in SIS and APM increased from 97.18% to 100%. The details of the net assets acquired and goodwill are as follows:

	2010*
Purchase consideration through cash payment	10,000
Fair value of net assets acquired	(1,639)
Goodwill	8,361

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

5. ACQUISITIONS, DISPOSALS AND LIQUIDATION OF SUBSIDIARIES (continued)

b. Liquidation of Ariane Investments (Australia) Pty Ltd and Indonesia Coal Pty Ltd

On 22 October 2010, Ariane Investments (Australia) Pty Ltd and Indonesia Coal Pty Ltd were deregistered from the Australian Securities & Investments Commission, in relation to the liquidation of both companies.

c. Acquisition of PT Puradika Bongkar Muat Makmur

On 30 November 2010, PT Sarana Multi Persada and ATA acquired 100% interest in PBMM for Rp 400 million (or equivalent to US$42).

	2010*
Purchase consideration through cash payment	42
Fair value of net assets acquired	(5)
Goodwill	37

Details of assets and liabilities arising from the acquisition are as follows:

	2010*
Cash and cash equivalents	5
Other assets	-
Net assets acquired	5
Goodwill	37
Purchase consideration through cash payment	42
Cash and cash equivalents in PBMM	(5)
Net cash outflow from acquisition of subsidiary	37

From this transaction, the Group recognised pre-acquisition losses amounting to US$21 in the consolidated financial statements for the year ended 31 December 2010.

d. Establishment of PT Adaro Power

On 17 December 2010, the Company and ATA established PT Adaro Power, each with ownership of 50%, from capital injection of Rp 30 million (or equivalent to US$3), respectively. The establishment deed was approved by the Minister of Law and Human Rights of the Republic of Indonesia on 28 December 2010.

e. Establishment of PT Rehabilitasi Lingkungan Indonesia

On 10 March 2011, the Company and ATA established PT Rehabilitasi Lingkungan Indonesia with ownership of 0.008% and 99.992%, respectively, from capital injection of Rp 1 million (or equivalent to US$110, full amount) and Rp 12,499 million (or equivalent to US$1,380), respectively. The establishment deed has been approved by the Minister of Law and Human Rights of the Republic of Indonesia on 15 March 2011.

f. Acquisition of PT Indonesia Multi Purpose Terminal

On 1 July 2011, PT Adaro Logistics acquired 85% interest in IMPT for Rp 2,125 million (or equivalent to US$247). This acquisition has been accounted for as purchase of assets.

	2011
Purchase consideration through cash payment	247
Fair value of net liabilities acquired	1,261
Intangible asset	1,508

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

5. ACQUISITIONS, DISPOSALS AND LIQUIDATION OF SUBSIDIARIES (continued)

f. Acquisition of PT Indonesia Multi Purpose Terminal (continued)

Details of assets and liabilities arising from purchase of assets are as follows:

	2011
Cash and cash equivalents	1
Advances and prepayments	788
Fixed assets, net	34
Other assets	79
Accrued expenses	(103)
Other liabilities	(2,282)
Net liabilities	(1,483)
Interest acquired	85%
Net liabilities acquired	(1,261)
Intangible asset	1,508
Purchase consideration through cash payment	247
Cash and cash equivalents in IMPT	(1)
Net cash outflow from purchase of intangible assets	246

g. Acquisition of PT Mustika Indah Permai

On 19 August 2011, ATA acquired 75% interest in MIP for US$234,211.

	2011
Purchase consideration through cash payment	234,211
Fair value of net assets acquired	(2,129)
Mining properties and goodwill	232,082

Details of assets and liabilities arising from the acquisition are as follows:

	2011
Cash and cash equivalents	155
Other receivables	63
Advances and prepayments	4,234
Fixed assets, net	188
Deferred exploration expenditure	2,516
Deferred tax assets	2
Other assets	20
Trade payables	(41)
Accrued expenses	(21)
Taxes payable	(3)
Bank loans	(64)
Other liabilities	(4,210)
Net assets	2,839
Interest acquired	75%
Net assets acquired	2,129
Mining properties	232,082
Goodwill	58,020
Deferred tax liabilities	(58,020)
Purchase consideration through cash payment	234,211
Cash and cash equivalents in MIP	(155)
Net cash outflow from acquisition of subsidiary	234,056

For MIP legal issue, refer to Note 40t.

(Expressed in thousand US Dollars, unless otherwise stated)

5. ACQUISITIONS, DISPOSALS AND LIQUIDATION OF SUBSIDIARIES (continued)

h. Change in name of PT Sarana Multi Persada into PT Adaro Logistics

On 12 August 2011, the name of PT Sarana Multi Persada was changed to PT Adaro Logistics. This change has been approved by the Minister of Law and Human Rights of the Republic of Indonesia in Decree No. AHU-41977.AH.01.02.Tahun 2011 dated 18 August 2011.

i. Acquisition of PT Bukit Enim Energi

On 4 July 2011 and 14 October 2011, ATA acquired 15.04% and 46% interest in BEE, respectively, for total cost of US$67,040.

	2011
Purchase consideration through cash payment	67,040
Fair value of net assets acquired	(68)
Mining properties and goodwill	66,972

Details of assets and liabilities arising from the acquisition are as follows:

	2011
Fixed assets, net	4
Other assets	107
Net assets	111
Interest acquired	61%
Net assets acquired	68
Mining properties	66,972
Goodwill	16,743
Deferred tax liabilities	(16,743)
Purchase consideration through cash payment	67,040
Cash and cash equivalents in BEE	-
Net cash outflow from acquisition of subsidiary	67,040

j. Establishment of PT Adaro Mining Technologies

On 24 October 2011, ATA and AL established PT Adaro Mining Technologies with ownership of 99.97% and 0.03%, respectively, from capital injection of Rp 3,499 million and Rp 1 million, respectively. The establishment deed has been approved by the Minister of Law and Human Rights of the Republic of Indonesia on 27 October 2011.

k. Acquisition of PT Trikarya Intidrill Persada and change of name

On 17 October 2011, ATA acquired 40% interest in PT Trikarya Intidrill Persada for Rp 1.4 billion.

On 15 December 2011, PT Trikarya Intidrill Persada's Extraordinary General Shareholders Meeting approved the change of name for PT Trikarya Intidrill Persada to PT Adaro Eksplorasi Indonesia ("AEI") and approved the issue of 450 new shares that will be taken and paid by AMT for Rp 450 million. As such, AMT owns 18.37% interest in AEI and ownership of ATA in AEI diluted to 32.65%. Total ownership of the Group in AEI is 51.02%.

(Expressed in thousand US Dollars, unless otherwise stated)

5. ACQUISITIONS, DISPOSALS AND LIQUIDATION OF SUBSIDIARIES (continued)

k. Acquisition of PT Trikarya Intidrill Persada and change of name (continued)

	2011
Purchase consideration through cash payment	208
Fair value of net assets acquired	(306)
Negative goodwill - charged to the consolidated statements of income	98

Details of assets and liabilities arising from the acquisition are as follows:

	2011
Cash and cash equivalents	92
Trade receivables	627
Advances and prepayments	77
Inventories	9
Prepaid taxes	71
Fixed assets, net	190
Trade payables	(419)
Accrued expenses	(11)
Taxes payable	(37)
Net assets	599
Interest acquired	51%
Net assets acquired	306
Negative goodwill	(98)
Purchase consideration through cash payment	208
Cash and cash equivalents in AEI	(92)
Net cash outflow from acquisition of subsidiary	116

l. Change in name of PT Satya Mandiri Persada into PT Adaro Persada Mandiri

On 26 December 2011, the name of PT Satya Mandiri Persada was changed to PT Adaro Persada Mandiri. This change has been approved by the Minister of Law and Human Rights of the Republic of Indonesia in Decree No. AHU-64525.AH.01.02.Tahun 2011 dated 29 December 2011.

m. Liquidation of Joyce Corner International Ltd and Rach (Mauritius) Ltd

On 8 August 2011, Joyce Corner International Ltd was struck off from the register of Companies of the Republic of Seychelles and has been dissolved from that date. All the assets and liabilities of JCI have been transferred to its shareholder.

On 26 April 2011, Rach (M) was liquidated and all assets and liabilities were transferred to its shareholder. However, the notice from the Registrar of Companies confirming the dissolution was only received on 9 January 2012.

(Expressed in thousand US Dollars, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	2011	2010*	1 January 2010*
Cash on hand			
Others (each below US$50,000)	107	94	84
Total cash on hand	107	94	84
Cash in banks			
Rupiah			
Others (each below US$50,000)	42,804	47,062	18,751
Total Rupiah accounts	42,804	47,062	18,751
US Dollars			
PT Bank OCBC NISP Tbk	128,360	75	1,001
PT Bank DBS Indonesia	64,466	1,079	101,197
Oversea-Chinese Banking Corporation Ltd	61,842	73,116	124,193
Sumitomo Mitsui Banking Corporation	61,117	71,097	145,825
PT Bank Mandiri (Persero) Tbk	53,658	11,429	6,153
PT Bank Sumitomo Mitsui Indonesia	17,374	101,635	3,644
DBS Bank Ltd	308	56,120	93,411
Others (each below US$50,000)	19,053	14,277	3,349
Total US Dollars accounts	406,178	328,828	478,773
Singapore Dollars			
Others (each below US$50,000)	1,032	3,809	641
Total Singapore Dollars accounts	1,032	3,809	641
Euro			
Others (each below US$50,000)	1,736	15,931	36,994
Total Euro accounts	1,736	15,931	36,994
Total cash in banks	451,750	395,630	535,159
Deposits			
Rupiah			
Others (each below US$50,000)	18,167	16,065	10,296
Total Rupiah deposits	18,167	16,065	10,296
US Dollars			
PT ANZ Panin Bank	20,000	-	122,376
PT Bank UOB Indonesia	6,125	66,165	168,389
Oversea-Chinese Banking Corporation Ltd	-	-	235,000
Others (each below US$50,000)	62,723	103,036	128,123
Total US Dollars deposits	88,848	169,201	653,888
Euro			
Others (each below US$50,000)	-	26,281	-
Total Euro deposits	-	26,281	-
Total deposits	107,015	211,547	664,184
	558,872	607,271	1,199,427

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

6. CASH AND CASH EQUIVALENTS (continued)

The interest rates of the above deposits were as follows:

	2011	2010	1 January 2010
Rupiah	6.0% - 9.5%	5.0% - 11.0%	6.9% - 9.5%
US Dollars	1.0% - 2.7%	0.1% - 2.0%	0.2% - 3.5%
Euro	-	0.7%	-

There are no cash and cash equivalents with related parties.

7. RESTRICTED CASH AND TIME DEPOSITS

	2011	2010*	1 January 2010*
Bank			
US Dollars			
PT Bank OCBC NISP Tbk	140	282	-
Deposits			
US Dollars			
The Hongkong and Shanghai Banking Corporation Ltd	601	600	600
PT Bank DBS Indonesia	200	412	409
	801	1,012	1,009
Total restricted cash and time deposits	941	1,294	1,009
Less: current portion	(140)	(282)	-
Non-current portion	801	1,012	1,009

The interest rates of the above deposits were as follows:

	2011	2010	1 January 2010
US Dollars	0.4% - 0.8%	0.1% - 2.0%	0.1% - 2.0%

There are no restricted cash and time deposits with related parties.

The restricted deposits in The Hongkong and Shanghai Banking Corporation Ltd and PT Bank DBS Indonesia are placed as security for bank guarantees issued by these banks, as described in Note 40e.

The balance in PT Bank OCBC NISP Tbk represents the placement of a sinking fund by SDM to pay installments of the principal and interest that will be due, in relation to the bank loan to PT Bank OCBC NISP Tbk (refer to Note 21c).

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

8. TRADE RECEIVABLES

	2011	2010*	1 January 2010*
Third parties:			
PT Paiton Energy	63,819	56,353	37,848
Zhushui International Pty Ltd (formerly International Energy Group Ltd)	61,121	16,297	41,727
PT Berau Coal	44,267	33,173	27,921
Carboex International Ltd	32,669	5,210	5,712
PT Pembangkitan Jawa-Bali	31,351	8,675	6,611
Korea South-East Power Co Ltd	24,500	3,616	2,955
Castle Peak Power Co Ltd	-	20,622	11,533
Others (each below US$20,000)	213,389	131,480	172,338
	471,116	275,426	306,645
Related party:			
PT Jasa Tambang Indonesia	226	-	-
	471,342	275,426	306,645

The aging analysis of trade receivables is as follows:

	2011	2010*	1 January 2010*
Current and overdue by 1 - 30 days	449,289	268,880	287,868
Overdue by 31 - 60 days	20,146	35	2,700
Overdue by 61 - 90 days	2	1,322	9,096
Overdue by more than 90 days	1,905	5,189	6,981
	471,342	275,426	306,645

Details of trade receivables based on currencies are as follows:

	2011	2010*	1 January 2010*
US Dollars	351,537	186,564	222,344
Rupiah	119,805	88,862	84,301
	471,342	275,426	306,645

As at 31 December 2011, the trade receivables of SDM amounting to US$3,151 were pledged as collateral for a loan from PT Bank OCBC NISP Tbk (refer to Note 21c).

As at 31 December 2010, the trade receivables of SIS, amounting to US$84,961 (including receivables from Adaro amounting to US$28,210 that had been eliminated), were pledged as collateral for the Senior Credit Facility (refer to Note 21b). In March 2011, the loan has been refinanced using the Syndicated Bank Loan (refer to Note 21d).

Based on a review of the status of the individual trade receivable accounts at the end of the period, the Group's management is of the opinion that these receivables will be collected in full and therefore a provision for impairment is not considered necessary.

Refer to Note 35 for details of related party balances and transactions.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

9. ADVANCES AND PREPAYMENTS

	2011	2010*	1 January 2010*
Advances to suppliers	99,053	36,229	23,017
Prepayment for liquidity services	23,503	7,294	9,239
Advances for investments	18,875	47,100	-
Advances for purchase of fuel	11,342	10,089	11,231
Prepaid rent and insurance	3,001	2,944	2,589
Others	7,018	15,286	3,434
Total advances and prepayments	162,792	118,942	49,510
Less: current portion	(40,301)	(41,612)	(20,910)
Non-current portion	122,491	77,330	28,600

Advances for investments amounting to US$18,875 represents the fund placement by ATA for the future development of a coal mining project (refer to Note 13). The funds will be reclassified as investments in associates when they are used by associates through the issue of new shares.

Advances to suppliers mostly represent advance payments for the purchase of fixed assets and advance payments for the construction of the Coal Fired Power Plant and steam turbine generators.

10. INVENTORIES

	2011	2010*	1 January 2010*
Coal inventory	27,556	12,669	8,140
Tools and supplies	11,537	6,378	7,549
Spare parts	9,380	8,792	7,495
Fuel and lubricants	3,947	4,206	3,409
	52,420	32,045	26,593

The Group's management is of the opinion that the inventories can be either used or sold and therefore a provision for obsolete stock is not considered necessary.

As at 31 December 2011, the Group's inventories were covered by insurance against the risk of material damage with total coverage of US$27,944. The Group's management is of the opinion that inventories are adequately insured to cover the risk of loss and damage.

11. DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	2011	2010*	1 January 2010*
Acquisition costs			
Commercial producing areas			
South Paringin, North Paringin and Tutupan	31,906	31,906	31,906
Wara	4,795	4,795	4,795
	36,701	36,701	36,701
Area of interest which has not reached the commercial production stage Lahat	3,056	-	-
	39,757	36,701	36,701

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

11. DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE (continued)

	2011	2010*	1 January 2010*
Accumulated amortisation			
Commercial producing areas			
South Paringin, North Paringin and Tutupan			
Carrying amount - beginning balance	(28,383)	(28,083)	(27,783)
Amortisation	(300)	(300)	(300)
	(28,683)	(28,383)	(28,083)
Wara			
Carrying amount - beginning balance	(376)	-	-
Amortisation	(376)	(376)	-
	(752)	(376)	-
	(29,435)	(28,759)	(28,083)
	10,322	7,942	8,618

12. FIXED ASSETS

	31 December 2011					
	Beginning balance	Additions	Acquisition	Disposals/ reclassification	Exchange difference due to financial statement translation	Ending balance
Acquisition costs						
Direct ownership						
Land	64,609	251	-	107	(21)	64,946
Buildings	25,093	3,992	-	4,519	(24)	33,580
Infrastructure	78,049	89	-	3,328	-	81,466
Machinery, operational equipment and vehicles	447,123	276,204	465	9,177	(18)	732,951
Vessels	134,383	6,334	-	14,695	-	155,412
Mining equipment	976	551	-	(2)	-	1,525
Project equipment	4,921	1,585	-	(52)	-	6,454
Office equipment	8,406	2,772	124	155	(5)	11,452
Crushing and handling facilities	143,397	92,823	-	6,527	-	242,747
Roads and bridges	115,061	-	-	16,867	-	131,928
Stockpile facilities	6,101	-	-	-	-	6,101
Dock facilities	2,459	-	-	-	-	2,459
	1,030,578	384,601	589	55,321	(68)	1,471,021
Construction in progress	116,076	204,884	-	(52,285)	(87)	268,588
Leased assets						
Operational equipment	176,267	30,982	-	(27,129)	-	180,120
	1,322,921	620,467	589	(24,093)	(155)	1,919,729
Accumulated depreciation						
Direct ownership						
Buildings	(5,195)	(1,572)	-	111	12	(6,644)
Infrastructure	(15,245)	(4,396)	-	-	-	(19,641)
Machinery, operational equipment and vehicles	(180,655)	(83,992)	(138)	803	8	(263,974)
Vessels	(9,888)	(8,386)	-	340	-	(17,934)
Mining equipment	(354)	(279)	-	6	-	(627)
Project equipment	(1,997)	(1,137)	-	54	-	(3,080)
Office equipment	(5,756)	(1,571)	(35)	55	3	(7,304)
Crushing and handling facilities	(39,104)	(13,688)	-	-	-	(52,792)
Roads and bridges	(43,127)	(6,376)	-	-	-	(49,503)
Stockpile facilities	(4,249)	(307)	-	-	-	(4,556)
Dock facilities	(1,926)	(132)	-	-	-	(2,058)
	(307,496)	(121,836)	(173)	1,369	23	(428,113)
Leased assets						
Operational equipment	(47,628)	(25,890)	-	14,201	-	(59,317)
	(355,124)	(147,726)	(173)	15,570	23	(487,430)
Net book value	967,797					1,432,299

* As restated (refer to Note 3)

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12. FIXED ASSETS (continued)

	31 December 2010*				
	Beginning balance	Additions	Disposals/ reclassification	Exchange difference due to financial statement translation	Ending balance
Acquisition costs					
Direct ownership					
Land	64,445	45	8	111	64,609
Buildings	21,335	2,746	891	121	25,093
Infrastructure	67,435	10	10,604	-	78,049
Machinery, operational equipment and vehicles	322,512	118,828	5,779	4	447,123
Vessels	151,891	1,897	(19,405)	-	134,383
Mining equipment	362	615	(1)	-	976
Project equipment	2,928	1,300	693	-	4,921
Office equipment	8,371	1,026	(992)	1	8,406
Crushing and handling facilities	99,454	30,166	13,777	-	143,397
Roads and bridges	99,612	70	15,379	-	115,061
Stockpile facilities	6,101	-	-	-	6,101
Dock facilities	2,174	-	285	-	2,459
	846,620	156,703	27,018	237	1,030,578
Construction in progress	61,390	99,437	(44,751)	-	116,076
Leased assets					
Operational equipment	158,190	42,356	(24,279)	-	176,267
	1,066,200	298,496	(42,012)	237	1,322,921
Accumulated depreciation					
Direct ownership					
Buildings	(3,975)	(1,229)	33	(24)	(5,195)
Infrastructure	(11,158)	(4,087)	-	-	(15,245)
Machinery, operational equipment and vehicles	(127,389)	(54,235)	972	(3)	(180,655)
Vessels	(21,355)	(7,753)	19,220	-	(9,888)
Mining equipment	(266)	(89)	1	-	(354)
Project equipment	(1,054)	(952)	9	-	(1,997)
Office equipment	(4,448)	(1,456)	148	-	(5,756)
Crushing and handling facilities	(31,812)	(7,292)	-	-	(39,104)
Roads and bridges	(37,744)	(5,383)	-	-	(43,127)
Stockpile facilities	(3,943)	(306)	-	-	(4,249)
Dock facilities	(1,802)	(124)	-	-	(1,926)
	(244,946)	(82,906)	20,383	(27)	(307,496)
Leased assets					
Operational equipment	(34,942)	(24,915)	12,229	-	(47,628)
	(279,888)	(107,821)	32,612	(27)	(355,124)
Net book value	786,312				967,797

Depreciation expense for the years ended 31 December 2011 and 2010 was allocated as follows:

	2011	2010*
Cost of revenue	144,909	101,489
General and administrative expenses	2,817	6,332
	147,726	107,821

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

12. **FIXED ASSETS** (continued)

The calculation of loss on disposals of fixed assets for the years ended 31 December 2011 and 2010 was as follows:

	2011	2010*
Acquisition costs	24,093	42,012
Accumulated depreciation	(15,570)	(32,612)
Carrying value of fixed assets	8,523	9,400
Proceeds from disposals of fixed assets	5,699	3,800
Loss on disposal of fixed assets	(2,824)	(5,600)

In accordance with the CCA, the fixed assets of Adaro as at 31 December 2011 amounting to US$543,638 (31 December 2010: US$281,582) remain the property of the Government. However, Adaro has an exclusive right to use these assets over the contract period, or their useful lives, whichever is shorter.

In accordance with the Cooperation Agreement, the fixed assets of IBT as at 31 December 2011 amounting to US$67,824 (31 December 2010: US$71,725), in the coal port operation become the property of Pelindo III at the end of the 30-year operation period.

The Group owns 28 plots of land with “Hak Guna Bangunan” titles (“Building-Use Titles” or “HGB”) with remaining useful lives of between 9 and 30 years. The Group’s management believes that there will be no difficulty in extending the land rights as the land was acquired legally and this is supported by sufficient evidence of ownership.

In August 2008, ATA paid land compensation amounting to US$60,000 to PT Cakung Permata Nusa (“Cakung”), PT Cakradenta Agung Pertiwi (“Cakradenta”) and PT Astra Agro Lestari Tbk (“AAL”) to settle the status of overlapping land plots between the mining area owned by Adaro and the plantation areas owned by Cakung and Cakradenta of 7,163 hectares. Currently, the land title is still in the process of being transferred to ATA.

As at 31 December 2011, the Group’s fixed assets were insured against all risks of damage with a total coverage of approximately US$1,507,528, which also included the construction of the Tanjung Tabalong coal fired power plant project by MSW, except for fixed assets that could not be insured such as land, Barito channel dredging and parts of construction in progress. The Group’s management believes that the fixed assets as at 31 December 2011 were adequately insured.

As at 31 December 2010, the moveable fixed assets owned by SIS and the land and building owned by APM were pledged as collateral for the Senior Credit Facility (refer to Note 21b). In March 2011, the loan was refinanced using the Syndicated Bank Loan (refer to Note 21d).

Construction in progress

Construction in progress represents projects that have not been completed at the statement of financial position date as follows:

	31 December 2011		
Construction in progress	**Percentage of completion**	**Accumulated costs**	**Estimated completion**
Power plant	83%	119,810	May 2012
Overburden crushing and conveying system	38%	96,103	May 2013
Crushing and handling facilities	3% - 95%	22,474	February - December 2012
Conveyor belt	10%	16,726	On hold
Others (each below US$10,000)	3% - 99%	13,475	2012
		268,588	

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

12. FIXED ASSETS (continued)

Construction in progress (continued)

31 December 2010			
Construction in progress	**Percentage of completion**	**Accumulated costs***	**Estimated completion**
Power plant	49%	69,936	January – March 2012
Conveyor belt	10%	16,260	On hold
Vessels	98%	12,958	March 2011
Crushing and handling facilities	3% - 98%	10,454	February - May 2011
Others (each below US$10,000)	1% - 90%	6,468	2011 - 2012
		116,076	

1 January 2010			
Construction in progress	**Percentage of completion**	**Accumulated costs***	**Estimated completion**
Power plant	28%	17,277	November 2011
Conveyor belt	10%	10,477	On hold
Others (each below US$10,000)	10% - 98%	33,636	2010 - 2011
		61,390	

Borrowing costs capitalised as fixed assets for year ended 31 December 2011 amounted to US$9,111 (2010: US$8,750).

13. INVESTMENTS IN ASSOCIATES

	2011	**2010***
PT Juloi Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	142,305	-
Initial investment	-	142,175
Addition of investment	9,435	1,750
Share in net loss of associate	(7,001)	(1,620)
	144,739	142,305
PT Kalteng Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	74,627	-
Initial investment	-	74,642
Addition of investment	532	375
Share in net loss of associate	(614)	(390)
	74,545	74,627
PT Maruwai Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	54,049	-
Initial investment	-	53,315
Addition of investment	2,961	625
Share in net (loss)/income of associate	(1,641)	109
	55,369	54,049

* As restated (refer to Note 3)

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13. INVESTMENTS IN ASSOCIATES (continued)

	2011	2010*
PT Lahai Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	43,547	-
Initial investment	-	42,652
Addition of investment	14,705	-
Share in net (loss)/income of associate	(4,932)	895
	53,320	43,547
PT Sumber Barito Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	28,058	-
Initial investment	-	28,435
Addition of investment	550	-
Share in net loss of associate	(559)	(377)
	28,049	28,058
PT Pari Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	7,104	-
Initial investment	-	7,109
Addition of investment	128	75
Share in net loss of associate	(205)	(80)
	7,027	7,104
PT Ratah Coal		
Percentage of interest	25.00%	25.00%
Carrying amount - beginning balance	7,153	-
Initial investment	-	7,109
Addition of investment	66	75
Share in net loss of associate	(139)	(31)
	7,080	7,153
PT Bhimasena Power Indonesia		
Percentage of interest	34.00%	-
Initial investment	3,400	-
Share in net loss of associate	(37)	-
	3,363	-
PT Rachindo Investments		
Percentage of interest	50.00%	50.00%
Carrying amount - beginning balance	504	504
	504	504
PT Servo Meda Sejahtera		
Percentage of interest	35.00%	-
Initial investment	22,335	-
Share in net loss of associate	(427)	-
Exchange difference due to financial statement translation	(121)	-
	21,787	-
	395,783	357,347

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

13. INVESTMENTS IN ASSOCIATES (continued)

Details of the share in the net loss of associates for the years ended 31 December 2011 and 2010 were as follows:

	2011	2010*
PT Juloi Coal	(7,001)	(1,620)
PT Kalteng Coal	(614)	(390)
PT Maruwai Coal	(1,641)	109
PT Lahai Coal	(4,932)	895
PT Sumber Barito Coal	(559)	(377)
PT Pari Coal	(205)	(80)
PT Ratah Coal	(139)	(31)
PT Bhimasena Power Indonesia	(37)	-
PT Servo Meda Sejahtera	(427)	-
	(15,555)	(1,494)

In May 2010, after being approved by the Directorate General of Mineral, Coal and Geothermal ("DGoMCG"), ATA acquired 25% ownership in PT Juloi Coal, PT Kalteng Coal, PT Maruwai Coal, PT Lahai Coal, PT Sumber Barito Coal, PT Pari Coal and PT Ratah Coal.

On 25 July 2011, Adaro Power, Electric Power Development Co Ltd and Itochu Corporation established PT Bhimasena Power Indonesia with issued and fully paid-up capital of US$3,400, US$3,400 and US$3,200, respectively and for ownership of 34%, 34% and 32%, respectively.

On 10 October 2011, ATA and PT Servo Infrastruktur ("SI") signed sales and purchase and shares transfer deeds, whereby ATA purchased 35% interest in PT Servo Meda Sejahtera ("SMS") from SI, for Rp 200 billion.

The Group's share of the results of its principal associates, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

	Country of domicile	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
2011						
PT Juloi Coal	Indonesia	20,277	6,191	-	(28,005)	25%
PT Kalteng Coal	Indonesia	1,780	417	-	(2,454)	25%
PT Maruwai Coal	Indonesia	136,595	1,675	-	(6,563)	25%
PT Lahai Coal	Indonesia	63,802	8,905	-	(19,729)	25%
PT Sumber Barito Coal	Indonesia	1,663	285	-	(2,234)	25%
PT Pari Coal	Indonesia	560	128	-	(821)	25%
PT Ratah Coal	Indonesia	247	91	-	(556)	25%
PT Bhimasena Power Indonesia	Indonesia	40,453	30,562	-	(109)	34%
PT Rachindo Investments	Indonesia	1,010	-	-	-	50%
PT Servo Meda Sejahtera	Indonesia	54,146	44,587	6,817	(3,328)	35%
2010						
PT Juloi Coal	Indonesia	7,653	3,062	-	(8,521)	25%
PT Kalteng Coal	Indonesia	2,223	405	-	(2,687)	25%
PT Maruwai Coal	Indonesia	130,483	750	-	643	25%
PT Lahai Coal	Indonesia	16,002	127	-	3,118	25%
PT Sumber Barito Coal	Indonesia	1,814	352	-	(1,860)	25%
PT Pari Coal	Indonesia	819	66	-	(339)	25%
PT Ratah Coal	Indonesia	506	44	-	(132)	25%
PT Rachindo Investments	Indonesia	1,010	-	-	-	50%

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

14. INVESTMENT IN EQUITY SECURITIES

	2011	2010*	1 January 2010*
PT Bhakti Energi Persada			
Percentage of interest	10.22%	-	-
Initial investment	65,708	-	-
	65,708	-	-

On 27 January 2011 and amended on 28 February 2011, ATA entered into a Conditional Sale and Purchase Agreement to acquire a 10.22% interest in PT Bhakti Energi Persada for US$65,708, which further entered into a Settlement Agreement on 14 June 2011 to effect the closing of this transaction.

The carrying amount of investment in equity securities is approximate to its fair value due to the recent purchase of the investment.

15. MINING PROPERTIES

	2011	2010*
Acquisition cost		
Carrying amount - beginning balance	1,137,000	1,137,000
Addition	299,054	-
	1,436,054	1,137,000
Accumulated amortisation		
Carrying amount - beginning balance	(131,730)	(77,842)
Amortisation	(59,674)	(53,888)
	(191,404)	(131,730)
	1,244,650	1,005,270

16. GOODWILL

	2011	2010*
Acquisition cost		
Carrying amount - beginning balance	930,743	1,073,596
Addition	74,763	8,401
	1,005,506	1,081,997
Accumulated amortisation		
Carrying amount - beginning balance	-	(97,744)
Amortisation	-	(53,510)
	-	(151,254)
	1,005,506	930,743

As disclosed in Note 2l, starting on 1 January 2011, goodwill is no longer amortised.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

16. GOODWILL (continued)

Details of goodwill based on segment reporting, are as follows:

	Coal mining and trading	Mining service	Others	Total
31 December 2011	733,710	39,665	232,131	1,005,506
31 December 2010*	658,947	39,665	232,131	930,743
1 January 2010*	696,741	33,743	245,368	975,852

In 2011, the impairment testing of the goodwill has been tested on a cash-generating units level.

The key assumptions used for value in use calculations are as follows:

	Coal mining & trading	Mining services	Others
Growth rate after five years	0%	0%	0%
Pre-tax discount rate	6.6% – 28.7%	10.7%	10.5% – 12.0%

Management determined that the key assumptions are based on the combination of past experience and external sources.

The pre-tax discount rate is the post-tax discount rate adjusted to reflect the specific amount and timing of the future tax cash flows. Discounting post-tax cash flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate will give the same result.

In segment others, the recoverable amount calculated based on value in used exceeded the carrying value ranging from US$5,988 – US$15,287. A rise in discount rate from 0.4% – 0.7% would remove the remaining headroom.

17. TRADE PAYABLES

	2011	2010*	1 January 2010*
Third parties:			
PT Pamapersada Nusantara	89,323	68,299	73,456
PT Shell Indonesia	26,386	17,189	20,273
PT United Tractors Tbk	21,596	19,933	8,618
PT Batuah Abadi Lines	18,963	19,957	22,115
Others (each below US$20,000)	214,673	130,877	90,998
	370,941	256,255	215,460
Related parties:			
PT Rahman Abdijaya	10,471	6,615	10,145
PT Pulau Seroja Jaya	6,530	4,561	3,148
PT Anugerah Buminusantara Abadi	212	639	514
PT Jasa Tambang Indonesia	152	-	-
PT Pulau Seroja Jaya Pratama	36	324	1,383
	17,401	12,139	15,190
	388,342	268,394	230,650

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

17. TRADE PAYABLES (continued)

Details of trade payables based on currencies are as follows:

	2011	2010*	1 January 2010*
US Dollars	326,144	219,931	190,206
Rupiah	47,920	43,403	37,562
Euro	7,410	4,590	2,500
Australian Dollars	4,460	223	91
Great Britain Pound Sterling	1,346	6	20
Singapore Dollars	1,018	103	139
Japanese Yen	44	138	132
	388,342	268,394	230,650

The aging analysis of trade payables is as follows:

	2011	2010*	1 January 2010*
Current and overdue by 1 - 30 days	384,854	261,030	229,558
Overdue by 31 - 60 days	538	5,315	143
Overdue by 61 - 90 days	376	153	58
Overdue by more than 90 days	2,574	1,896	891
	388,342	268,394	230,650

Trade payables balances mainly arose from the purchase of fuel, spare parts, repair and maintenance services, coal transportation services and coal mining services.

Refer to Note 35 for details of related party balances and transactions.

18. ACCRUED EXPENSES

	2011	2010*	1 January 2010*
Accrued interest	16,542	14,513	15,024
Freight cost	8,701	53,579	8,224
Others	13,949	13,988	8,897
	39,192	82,080	32,145

Accrued freight cost in the year ended 31 December 2010 mainly arose from demurrage expenses.

19. ROYALTIES PAYABLE

	2011	2010*	1 January 2010*
Government royalties payable, net	132,429	75,906	78,515

Since 1 July 1999, Adaro has adopted a sales-based cash royalty method to satisfy the Government's production entitlement (refer to Note 1c). Payments of the Government's entitlement are based on Adaro's calculation of the net sales price, which is subject to audit by the Directorate of Mineral and Coal Business Supervision, Ministry of Energy and Mineral Resources ("MoEMR"). Part of the settlement of the royalty is offset by Adaro with the VAT input and vehicle fuel tax (refer to Note 34b).

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

20. FINANCE LEASE PAYABLES

	2011	2010*	1 January 2010*
PT Komatsu Astra Finance	59,270	65,502	78,935
PT Austindo Nusantara Jaya Finance	13,915	19,072	-
Others (each below US$5,000)	2,061	4,187	7,401
	75,246	88,761	86,336
Less:			
Current portion	(35,695)	(41,001)	(35,724)
Non-current portion	39,551	47,760	50,612

The future minimum lease payments under the finance lease agreements are as follows:

	2011	2010*	1 January 2010*
Payable not later than one year	37,495	43,645	38,444
Payable later than one year and not later than five years	41,401	49,644	52,578
	78,896	93,289	91,022
Less:			
Future financing charges	(3,650)	(4,528)	(4,686)
Present value of minimum finance lease payments	75,246	88,761	86,336

The significant general terms and conditions of the finance leases are as follows:

- the Group is restricted from selling, lending, leasing, or otherwise disposing of or ceasing to exercise direct control over the leased assets;
- the Group is restricted from creating or allowing any encumbrance to all or any part of the leased assets; and
- all leased assets are pledged as collateral for the underlying finance lease payables.

21. LONG-TERM BANK LOANS

	2011	2010*	1 January 2010*
US Dollars			
Syndicated Loan, net of unamortised financing cost of US$2,554 (2010: US$4,430 and 1 January 2010: US$6,123)	384,946	483,070	543,877
Syndicated Bank Loan - SIS, net of unamortised financing cost of US$13,191 (2010: US$nil)	286,809	-	-
US$750,000 Facility Agreement, net of unamortised financing cost of US$5,876	144,124	-	-
Amortising Revolving Credit Facility, net of unamortised financing cost of US$5,349	414,651	-	-
Senior Credit Facility (syndicated loan), net of unamortised financing cost of US$nil (2010: US$3,643 and 1 January 2010: US$5,054)	-	220,517	225,306
PT Bank OCBC NISP Tbk	11,499	13,749	15,000
	1,242,029	717,336	784,183
Less:			
Current portion	(102,549)	(149,814)	(193,950)
Non-current portion	1,139,480	567,522	590,233

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

21. LONG-TERM BANK LOANS (continued)

The interest rates on the long-term bank loans are as follows:

	2011	2010	1 January 2010
US Dollars	1.7% - 4.6%	1.4% - 4.8%	1.5% - 6.7%

a. Syndicated Loan

On 2 November 2007, Adaro and Coaltrade, as the Borrowers, entered into a syndicated loan facility agreement with several foreign banks (the “Lenders”), which consisted of DBS Bank Ltd, Standard Chartered Bank (Singapore branch), Sumitomo Mitsui Banking Corporation (Singapore branch) (“SMBC”), the Bank of Tokyo-Mitsubishi UFJ Ltd (Singapore branch) and United Overseas Bank Ltd (Singapore and Labuan branch), wherein DBS Bank Ltd acted as the facility agent. Based on the agreement, the Lenders agreed to grant bank loan facilities of US$750,000, of which Adaro and Coaltrade obtained facilities of US$550,000 and US$200,000, respectively. These facilities consisted of a term loan facility of US$650,000 and a revolving loan facility of US$100,000 with interest rates at London Interbank Offered Rate (“LIBOR”) plus a certain percentage. These facilities were used to refinance certain existing loans of Adaro.

The term loan facility is payable quarterly with the first installment on 7 March 2008. The term loan facility had a maturity date on the fifth anniversary from the date of the loan agreement.

Based on the amended agreement dated 25 March 2010, the Company, IBT and the Borrowers (collectively hereinafter referred to as the “Guarantors”), act as the guarantors of this syndicated loan.

On 30 September 2010, the Borrowers, the Guarantors and DBS Bank Ltd, as the facility agent, entered into an amendment agreement to amend the maturity date of the term loan facility to 7 December 2015 and all amounts outstanding under the revolving loan facility shall be deemed to be amounts outstanding under the term loan facility. The margin of interest was increased by a certain percentage. The effective date of this amendment agreement is 7 October 2010.

The remaining payment schedule for the outstanding term loan, after the amendment agreement, is as follows:

Year	Adaro	Coaltrade	Total
2012	73,079	26,921	100,000
2013	73,079	26,921	100,000
2014	73,079	26,921	100,000
2015	65,864	21,636	87,500
	285,101	102,399	387,500

In accordance with the loan agreements, Adaro, IBT and Coaltrade (the “Primary Operating Companies”) are required to maintain certain financial ratios, with which the Primary Operating Companies were in compliance as at 31 December 2011. The Primary Operating Companies are also required to comply with certain terms and conditions with regard to its Articles of Association, the nature of business, dividends, corporate actions, financing activities and other matters. The Primary Operating Companies are in compliance with the terms and conditions.

b. Senior Credit Facility (syndicated loan)

On 13 August 2008, SIS (the “Borrower”) and the Company (the “Guarantor”), entered into a Senior Credit Facility agreement of US$300,000 with a syndicate of banks consisting of ANZ Banking Group Ltd, Calyon, Standard Chartered Bank, DBS Bank Ltd, SMBC, United Overseas Bank Ltd, The Bank of Tokyo-Mitsubishi UFJ Ltd (Singapore Branch), Oversea-Chinese Banking Corporation Ltd, PT Bank Ekspor Indonesia (“BEI”), PT Bank Mandiri (Persero) Tbk (“Mandiri”) (Singapore Branch) as Mandated Lead Arrangers, SMBC as Facility Agent, PT ANZ Panin Bank as Common Security Agent and DBS Bank Ltd and PT Bank DBS Indonesia as account banks.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

21. LONG-TERM BANK LOANS (continued)

b. Senior Credit Facility (syndicated loan) (continued)

This facility had a final maturity date of 30 June 2013 and was payable on a quarterly basis. This facility bears interest at LIBOR plus a certain percentage.

This credit facility was used for the purpose of refinancing all the bank and other third party loans and to finance the capital expenditures, working capital and the acquisition of shares in APM.

Under this senior credit facility agreement, SIS was required to maintain certain financial ratios. SIS was also required to comply with certain terms and conditions with regard to its Articles of Association, the nature of business, corporate actions, financing activities and other matters. SIS is in compliance with the related terms and conditions.

This loan was collateralised by:
- all trade receivables owned by SIS;
- all equipment, machinery, vehicles and other moveable goods owned by SIS;
- insurance claims on all equipment, machinery, vehicles and other moveable goods owned by SIS;
- all Principal Agreements owned by SIS;
- land and buildings owned by APM; and
- a corporate guarantee from the Company.

In August 2010, SIS made an additional drawdown of US$40,000. As at 31 December 2010, the outstanding balance of this facility was US$224,160. In March 2011, SIS refinanced all the outstanding loan balance under Senior Credit amounting to US$224,160 by entering into a new syndicated loan (refer to Note 21d).

c. PT Bank OCBC NISP Tbk

On 3 December 2009, SDM obtained a term loan facility of US$15,000 from PT Bank OCBC NISP Tbk. This credit facility was used for the purpose of refinancing a portion of the Barito Channel project cost which was previously financed by ATA. The facility has a final maturity date of five years after first withdrawal and is payable on a semester basis. The loan bears interest at 3-month Singapore Interbank Offered Rate (“SIBOR”) plus a certain percentage and is payable on a quarterly basis.

Under the loan agreement, SDM is required to maintain certain financial ratios, with which SDM was in compliance as at 31 December 2011. SDM is also required to comply with certain terms and conditions with regards to its Articles of Association, the nature of business, corporate actions, financing activities and other matters. SDM is in compliance with the related terms and conditions.

The loan is collateralised by:
- all trade receivables owned by SDM at the maximum of US$15,000;
- insurance claim which covers the risk of operating loss; and
- Letter of Comfort from Adaro.

As at 31 December 2011, the outstanding balance of this facility was US$11,499 (31 December 2010: US$13,749) which is repayable according to the following schedule:

Payment schedule (year)	Payment amount
2012	3,000
2013	3,500
2014	4,999
	11,499

(Expressed in thousand US Dollars, unless otherwise stated)

21. LONG-TERM BANK LOANS (continued)

d. Syndicated Bank Loan

On 18 February 2011, SIS, as Borrower, entered into a Facility Agreement of US$400,000 with a syndicate of banks consisting of The Hongkong and Shanghai Banking Corporation Limited, Oversea-Chinese Banking Corporation Limited, PT Bank UOB Buana, DBS Bank Ltd, Sumitomo Mitsui Banking Corporation (Singapore Branch), PT Bank Mandiri (Persero) Tbk (Singapore Branch), The Bank of Tokyo-Mitsubishi UFJ Ltd (Jakarta Branch), PT ANZ Panin Bank, PT Bank OCBC NISP Tbk, Credit Agricole Corporate and Investment Bank and Standard Chartered Bank (Jakarta Branch) as Mandated Lead Arrangers, Chinatrust Commercial Bank Co Ltd (Singapore Branch) and Societe Generale (Singapore Branch) as Lead Arrangers, The Hongkong and Shanghai Banking Corporation Limited as Facility Agent, PT DBS Bank Indonesia as Security Agent and Oversea-Chinese Banking Corporation Limited and PT Bank OCBC NISP Tbk as Account Banks. The Company, under this Facilities Agreement provides corporate guarantee. This loan is collateralised by the mining service contract with Adaro. These facilities consist of a term loan facility of US$300,000 and a revolving loan facility of US$100,000.

This loan facility was used for the purpose of refinancing the Senior Credit facility, to finance the capital expenditure, payment of transaction costs and expenses associated with the facility and other general corporate purpose.

This loan facility has a final maturity date of 18 February 2018 and is payable on a quarterly basis. This facility bears interest at LIBOR plus a certain percentage.

Under this senior credit facility agreement, SIS is required to maintain certain financial ratios, with which SIS was in compliance as at 31 December 2011. SIS is also required to comply with certain terms and conditions with regard to its Articles of Association, the nature of business, corporate actions, financing activities and others. SIS is in compliance with the related terms and conditions.

As at 31 December 2011, the outstanding balance of the term loan facility was US$300,000 (31 December 2010: US$nil), which is repayable according to the following schedule:

Payment schedule (year)	Payment amount
2014	33,750
2015	45,000
2016	56,250
2017	71,250
2018	93,750
	300,000

e. Amortising Revolving Credit Facility

On 2 October 2009, Adaro entered into an Amortising Revolving Credit Facility with a syndicate of banks consisting of Oversea-Chinese Banking Corporation Ltd, DBS Bank Ltd, Sumitomo Mitsui Banking Corporation (Singapore Branch), BNP Paribas (Singapore Branch), The Bank of Tokyo-Mitsubishi UFJ Ltd (Singapore Branch), United Overseas Bank Ltd (Labuan Branch), Chinatrust Commercial Bank Co Ltd (Singapore Branch), PT ANZ Panin Bank, PT Bank Mandiri (Persero) Tbk (Singapore Branch), Standard Chartered Bank (Jakarta Branch) and The Hongkong and Shanghai Banking Corporation Ltd, in an aggregate amount of US$500,000 for capital expenditure purposes.

(Expressed in thousand US Dollars, unless otherwise stated)

21. LONG-TERM BANK LOANS (continued)

e. Amortising Revolving Credit Facility (continued)

The availability of the loan will be stepped down as set forth in the table below:

Amortising period	Maximum available facility
The date falling 12 months after 2 October 2009	US$460,000
The date falling 24 months after 2 October 2009	US$420,000
The date falling 36 months after 2 October 2009	US$380,000
The date falling 48 months after 2 October 2009	US$230,000
Final maturity 2 October 2014	US$0

This facility will be charged with interest rates at LIBOR plus a certain percentage and has a maturity date on the date falling five years after the date of this loan agreement. The Company acted as the guarantor for this loan facility. In 2011, Adaro made drawndowns amounting to US$420,000. As at 31 December 2011, the outstanding balance on this facility amounted to US$420,000.

In accordance with the loan agreement, Adaro is required to maintain certain financial ratios, with which Adaro was in compliance as at 31 December 2011. Adaro is also required to comply with certain terms and conditions with regard to its Articles of Association, the nature of business, dividends, corporate actions, financing activities and other matters. Adaro is in compliance with the related terms and conditions.

f. US$750,000 Facility Agreement

On 4 July 2011, Adaro, as the Borrower, entered into a syndicated loan facility agreement with several banks (the “Lenders”) which consisted of DBS Bank Ltd, Oversea-Chinese Banking Corporation Limited, PT Bank Mandiri (Persero) Tbk., The Bank of Tokyo-Mitsubishi UFJ Ltd (Singapore Branch) and The Bank of Tokyo-Mitsubishi UFJ Ltd (Jakarta Branch), wherein PT Bank Mandiri (Persero) Tbk acts as the facility agent. These facilities consist of a term loan facility of US$350,000 and an amortising revolving loan facility of US$400,000, with interest rates at LIBOR plus a certain percentage. These facilities were used for capital expenditure, working capital and other general corporate purposes. The Company acts as the guarantor of this syndicated loan.

The term loan facility is payable quarterly with the first installment on 4 October 2012.

The availability of the amortising revolving loan facility will be stepped down as set forth in the table below:

Amortising period	Maximum available facility
4 July 2011 - 4 July 2013	US$400,000
5 July 2013 - 4 July 2014	US$378,500
5 July 2014 - 4 July 2015	US$352,000
5 July 2015 - 4 July 2016	US$317,500
5 July 2016 - 4 July 2017	US$275,000
5 July 2017 - 4 July 2018	US$227,000
5 July 2018 - 4 July 2020	US$218,500
5 July 2020 - 4 April 2021	US$149,500
5 April 2021 - 4 July 2021	US$0

Both the term loan facility and the amortising revolving loan facility have a maturity date on the tenth anniversary from the date of the loan agreement. As at 31 December 2011, Adaro had made drawdowns on the term loan facility amounting to US$150,000, which is repayable according to the following schedule:

(Expressed in thousand US Dollars, unless otherwise stated)

21. **LONG-TERM BANK LOANS** (continued)

f. **US$750,000 Facility Agreement** (continued)

Payment schedule (year)	Payment amount
2012	1,929
2013	8,143
2014	10,286
2015	13,500
2016	16,071
2017	18,428
2018	14,786
2019	6,428
2020	29,036
2021	31,393
	150,000

In accordance with the loan agreement, Adaro is required to maintain certain financial ratios, with which Adaro was in compliance as at 31 December 2011. Adaro is also required to comply with certain terms and conditions with regard to its Articles of Association, the nature of business, dividends, corporate actions, financing activities and other matters. Adaro is in compliance with the related terms and conditions.

22. **SENIOR NOTES**

	2011	2010*	1 January 2010*
Face value	800,000	800,000	800,000
Discount and issue cost	(15,161)	(15,161)	(15,161)
Amortisation of discount and issue cost	2,453	1,309	251
	787,292	786,148	785,090

On 22 October 2009, Adaro issued Guaranteed Senior Notes (the "Senior Notes") amounting to US$800,000, with a selling price of 99.141%. The Senior Notes will mature in 2019. The Senior Notes bear a fixed interest rate of 7.625%, payable semi-annually in arrears on 22 April and 22 October of each year commencing on 22 April 2010. The Senior Notes are unconditionally and irrevocably guaranteed by the Company.

The Senior Notes were issued under an indenture between Adaro, the Company and The Bank of New York Mellon, as the trustee.

The Senior Notes have been rated "Ba1" by Moody's and "BB+" by Fitch. The ratings reflect the rating agencies' assessments of the likelihood of timely payment of the principal and interest on the Senior Notes.

The proceeds of the Senior Notes will be used primarily to finance the expansion of the Group's infrastructure to support the expansion of Adaro's coal production capacity.

The Senior Notes and the guarantee of the Senior Notes are unsecured and rank equally with all existing and future unsecured senior debt of Adaro and the Company, respectively. The Senior Notes and the guarantee of the Senior Notes are effectively subordinated to all of Adaro's and the Company's existing and future secured debt to the extent of the assets securing the debt. The Company's guarantee of the Senior Notes is structurally subordinated to all liabilities (including trade payables) of all of the Company's other subsidiaries, which are not initially issuing guarantees for the Senior Notes. The Company may in the future designate its subsidiaries to guarantee the Senior Notes.

The Senior Notes were listed on the Singapore Exchange Securities Trading.

Adaro and the Company are required to comply with certain terms and conditions on incurrence of indebtedness and issue of disqualified stock, designation of the Subsidiary's Guarantor, merger, consolidation and sales of assets, certain transactions with affiliates, business activities and other matters. Adaro and the Company are in compliance with the related terms and conditions.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

23. LOANS TO THIRD PARTIES

	2011	2010*	1 January 2010*
US Dollars			
PT Agrarizki Media	20,000	-	-
PT Servo Infrastruktur	16,542	-	-
	36,542	-	-

The interest rates on the loans to third parties are as follows:

	2011	2010	1 January 2010
US Dollars	1.3% - 9%	-	-

PT Agrarizki Media

On 1 July 2011, ATA entered into a Loan Agreement with PT Agrarizki Media, whereas ATA will provide loan facility of US$20,000. This loan bears annual fixed interest rate and the interest will be paid every three months from the date of the first drawdown. This loan was due on 30 December 2011. On 23 December 2011, the maturity of this loan was extended to 30 June 2012.

PT Servo Infrastruktur

On 10 October 2011, ATA entered into a Loan Agreement with PT Servo Infrastruktur (“SI”), whereas ATA will provide a loan facility of US$16,670 (equivalent to Rp 150 billion) to SI. ATA also will provide an additional loan facility of US$4,440 (equivalent to Rp 40 billion) based on a written request and on the discretion of ATA. This loan bears interest at LIBOR plus a certain percentage and the interest will be paid every month from the date of the first drawdown. This loan will be due on 10 October 2012.

24. (DEFERRED)/ACCRUED STRIPPING COSTS

	2011	2010*
Carrying amount - beginning balance	34,304	38,934
Amortisation	(2,816)	(3,063)
	31,488	35,871
Movement of deferred stripping costs	(79,399)	(1,567)
	(47,911)	34,304

The actual average stripping ratio for the Tutupan area for the year ended 31 December 2011 was 6.69:1 (31 December 2010: 5.52:1) and for the Wara area was 3.34:1 (31 December 2010: 2.70:1). The planned stripping ratio for the Tutupan area as at 31 December 2011 was 6.36:1 (31 December 2010: 5.50:1) and for the Wara area was 2.00:1 (31 December 2010: 2.67:1).

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

25. NON-CONTROLLING INTERESTS

a. Non-controlling interests in equity of subsidiaries

	2011	2010*
SDM		
Percentage of non-controlling interest	48.80%	48.80%
Carrying amount - beginning balance	2,834	2,976
Share in net income/(loss) of subsidiary	1,644	(142)
	4,478	2,834
Coronado		
Percentage of non-controlling interest	14.00%	14.00%
Carrying amount - beginning balance	205	324
Share in net income/(loss) of subsidiary	171	(154)
Increase due to change in equity of subsidiary	33	34
Exchange difference due to financial statement translation	-	1
	409	205
IMPT		
Percentage of non-controlling interest	15.00%	-
Non-controlling interest at acquisition	(223)	-
Share in net loss of subsidiary	(19)	-
Additional during the year	600	-
Exchange difference due to financial statement translation	(16)	-
	342	-
MIP		
Percentage of non-controlling interest	25.00%	-
Non-controlling interest at acquisition	710	-
Share in net loss of subsidiary	(48)	-
Exchange difference due to financial statement translation	(43)	-
	619	-
AEI		
Percentage of non-controlling interest	48.98%	-
Non-controlling interest at acquisition	293	-
	293	-
BEE		
Percentage of non-controlling interest	38.96%	-
Non-controlling interest at acquisition	43	-
Exchange difference due to financial statement translation	(1)	-
	42	-

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

25. NON-CONTROLLING INTERESTS (continued)

a. Non-controlling interests in equity of subsidiaries (continued)

	2011	2010*
Marindo		
Percentage of non-controlling interest	25.50%	25.50%
Carrying amount - beginning balance	169	171
Share in net income/(loss) of subsidiary	1	(10)
Exchange difference due to financial statement translation	(1)	8
	169	169
JCI		
Percentage of non-controlling interest	-	-
Carrying amount - beginning balance	-	1,639
Decrease due to acquisition of non-controlling interest by the Group	-	(1,639)
	-	-
	6,352	3,208

b. Non-controlling interests in net income/(loss) of subsidiaries

	2011	2010*
SDM	1,644	(142)
MIP	(48)	-
IMPT	(19)	-
Coronado	171	(154)
Marindo	1	(10)
	1,749	(306)

26. SHARE CAPITAL

All shares in the Company have been listed on the Indonesian Stock Exchange since 16 July 2008. The Company's shareholders as at 31 December 2011, 31 December 2010 and 1 January 2010 based on the records maintained by PT Kustodian Sentral Efek Indonesia ("KSEI"), the share administrator, were as follows:

Shareholders	Number of shares	Percentage of ownership (%)	Amount
31 December 2011			
PT Adaro Strategic Investments	14,045,425,500	43.91	150,589
Garibaldi Thohir (President Director)	1,967,600,654	6.15	21,096
Edwin Soeryadjaya (President Commissioner)	1,359,777,646	4.25	14,579
Theodore Permadi Rachmat (Vice President Commissioner)	707,420,430	2.21	7,585
Sandiaga Salahuddin Uno (Director)	633,338,202	1.98	6,790
Ir. Subianto (Commissioner)	416,932,620	1.30	4,470
Andre J. Mamuaya (Director)	7,545,000	0.02	81
Chia Ah Hoo (Director)	4,815,500	0.01	52
Public	12,843,106,448	40.17	137,698
	31,985,962,000	100.00	342,940

* As restated (refer to Notes 3)

(Expressed in thousand US Dollars, unless otherwise stated)

26. SHARE CAPITAL (continued)

Shareholders	Number of shares	Percentage of ownership (%)	Amount
31 December 2010*			
PT Adaro Strategic Investments	14,045,425,500	43.91	150,589
Garibaldi Thohir (President Director)	1,967,600,654	6.15	21,096
Edwin Soeryadjaya (President Commissioner)	1,359,777,646	4.25	14,579
Theodore Permadi Rachmat (Vice President Commissioner)	707,420,430	2.21	7,585
Sandiaga Salahuddin Uno (Director)	633,338,202	1.98	6,790
Ir. Subianto (Commissioner)	416,932,620	1.30	4,470
Andre J. Mamuaya (Director)	7,545,000	0.02	81
Chia Ah Hoo (Director)	4,815,500	0.01	52
Alastair Bruce Grant (Director)	1,414,500	0.00	15
Public	12,841,691,948	40.17	137,683
	31,985,962,000	100.00	342,940
1 January 2010*			
PT Adaro Strategic Investments	14,045,425,500	43.91	150,589
Garibaldi Thohir (President Director)	2,065,100,654	6.46	22,141
GSCO Adcorp Holdings	1,656,321,073	5.18	17,758
Edwin Soeryadjaya (President Commissioner)	1,377,777,646	4.31	14,772
Theodore Permadi Rachmat (Vice President Commissioner)	724,420,430	2.27	7,767
Sandiaga Salahuddin Uno (Director)	660,838,202	2.07	7,085
Ir. Subianto (Commissioner)	416,932,620	1.30	4,470
Andre J. Mamuaya (Director)	8,545,000	0.03	92
Alastair Bruce Grant (Director)	6,764,500	0.02	73
Chia Ah Hoo (Director)	6,315,500	0.02	68
David Tendian (Director)	2,250,000	0.01	24
Public	11,015,270,875	34.42	118,101
	31,985,962,000	100.00	342,940

27. ADDITIONAL PAID-IN-CAPITAL

	2011	2010*	1 January 2010*
Additional paid-in-capital from IPO	1,219,813	1,219,813	1,219,813
Share issue costs	(44,532)	(44,532)	(44,532)
Additional paid-in-capital	1,175,281	1,175,281	1,175,281

The additional paid-in-capital represents the balance from the initial public offering in 2008.

28. DIFFERENCE IN VALUE FROM RESTRUCTURING TRANSACTIONS OF ENTITIES UNDER COMMON CONTROL

	2011	2010*	1 January 2010*
Acquisition of SIS			
Cost of acquisition	36,114	36,114	36,114
Book value of net assets acquired	(42,251)	(42,251)	(42,251)
Difference in value from restructuring transactions of entities under common control	(6,137)	(6,137)	(6,137)

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

28. DIFFERENCE IN VALUE FROM RESTRUCTURING TRANSACTIONS OF ENTITIES UNDER COMMON CONTROL (continued)

	2011	2010*	1 January 2010*
Acquisition of ATA			
Cost of acquisition	1,390,727	1,390,727	1,390,727
Book value of net assets acquired	(1,364,041)	(1,364,041)	(1,364,041)
Difference in value from restructuring transactions of entities under common control	26,686	26,686	26,686
Acquisition of MSW			
Cost of acquisition	4,904	4,904	4,904
Book value of net assets acquired	(4,666)	(4,666)	(4,666)
Difference in value from restructuring transactions of entities under common control	238	238	238
	20,787	20,787	20,787

The difference in value from restructuring transactions of entities under common control represents the difference between the acquisition cost and net book value of net assets acquired, incurred through restructuring transactions among entities under common control.

29. DIVIDENDS

At the Company's Annual General Meeting of Shareholders ("AGMS") held on 23 April 2010, a total cash dividend for 2009 of Rp 927,593 million or equivalent to US$100,842 (Rp 29/share or equivalent to US$0.0032/share-full amount), was approved. This included an interim cash dividend for 2009 of Rp 383,832 million or equivalent to US$40,531, paid on 30 December 2009. The remaining final cash dividend for 2009 of Rp 543,761 million, which was equivalent to US$60,311, was paid on 18 June 2010.

At the Company's Board of Commissioners and Directors Meeting held on 4 November 2010, a total interim cash dividend for 2010 of Rp 315,062 million or equivalent to US$35,364 (Rp 9.85/share or equivalent to US$0.0011/share-full amount), was approved. The cash dividend was paid on 10 December 2010.

At the Company's AGMS held on 20 April 2011, a total cash dividend for 2010 of Rp 970,774 million or equivalent to US$111,108 (Rp 30.35/share or equivalent to US$0.0035/share-full amount) was approved. This included an interim cash dividend for 2010 of Rp 315,062 million or equivalent to US$35,364, paid on 10 December 2010. The remaining Rp 655,712 million, equivalent to US$75,744, final cash dividend for 2010, was paid on 9 June 2011.

At the Company's Board of Commissioners and Directors Meeting held on 8 November 2011, a total interim cash dividend for 2011 of US$75,167 (US$0.00235/share-full amount), was approved. The cash dividend was paid on 9 December 2011.

30. APPROPRIATED RETAINED EARNINGS

Limited Liability Company Law of the Republic of Indonesia No. 1/1995 introduced in March 1995 and amended by Law No. 40/2007, issued in August 2007, requires the establishment of a general reserve from net income amounting to at least 20% of a company's issued and paid-up capital. There is no time limit on the establishment of that reserve.

At the Company's AGMS held on 3 June 2009, an appropriation of the statutory reserve was approved amounting to Rp 44,360 million (equivalent to US$4,582) from the 2008 consolidated net income.

At the Company's AGMS held on 23 April 2010, an appropriation of the statutory reserve was approved amounting to Rp 218,363 million (equivalent to US$21,001) from the 2009 consolidated net income.

At the Company's AGMS held on 20 April 2011, an appropriation of the statutory reserve was approved amounting to Rp 110,336 million (equivalent to US$12,148) from the 2010 consolidated net income.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

31. REVENUE

	2011	2010*
Coal mining and trading		
Export		
- Third parties	2,875,890	1,844,651
Domestic		
- Third parties	829,893	662,539
	3,705,783	2,507,190
Mining services		
Domestic		
- Third parties	192,249	141,273
Others		
Export		
- Third parties	4,698	6,472
Domestic		
- Third parties	84,675	62,708
	89,373	69,180
	3,987,405	2,717,643

There are no customers having transactions of more than 10% of the consolidated revenue.

32. COST OF REVENUE

	2011	2010*
Coal mining and trading		
Mining	1,048,413	825,646
Coal processing	146,509	113,131
Total production costs	1,194,922	938,777
Royalties to Government	405,376	264,042
Freight and handling costs	283,918	309,534
Purchase of coal	275,271	85,602
Depreciation and other amortisation	100,595	63,221
Amortisation of mining properties	59,675	53,888
Coal inventory:		
Beginning balance	12,669	8,140
Ending balance	(27,556)	(12,669)
Increase in coal inventory	(14,887)	(4,529)
Total cost of revenue - coal mining and trading	2,304,870	1,710,535

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

32. COST OF REVENUE (continued)

	2011	2010*
Mining services		
Repair and maintenance	42,130	24,639
Consumables	41,558	28,729
Depreciation and amortisation	34,437	28,900
Employee costs	22,864	18,703
Subcontractors	14,921	11,174
Other costs (each below US$5,000)	12,973	9,014
Total cost of revenue- mining services	168,883	121,159
Others		
Consumables	59,004	44,803
Depreciation and amortisation	8,153	6,981
Other costs (each below US$5,000)	18,102	5,442
Total cost of revenue - others	85,259	57,226
	2,559,012	1,888,920

Details of the suppliers having transactions of more than 10% of the consolidated cost of revenue are as follows:

	2011	2010*
Third parties:		
PT Pamapersada Nusantara	344,487	263,325
PT Shell Indonesia	296,838	216,625
	641,325	479,950

Refer to Note 35 for details of related party balances and transactions.

33. OPERATING EXPENSES

a. Selling and marketing

	2011	2010*
Sales commission	63,162	52,076
Others	2,919	2,701
	66,081	54,777

b. General and administrative

	2011	2010*
Employee costs	40,081	28,037
Others	38,660	34,414
	78,741	62,451

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION

a. Prepaid taxes

	2011	2010*	1 January 2010*
The Company			
Corporate income tax	3,133	1,350	785
VAT	-	-	13
	3,133	1,350	798
Subsidiaries			
Corporate income tax	14,511	65,213	24,321
VAT	7,930	3,158	1,876
Income tax Article 15	-	1,623	5,395
Final income tax Article 4(2)	-	119	33
	22,441	70,113	31,625
	25,574	71,463	32,423

b. Recoverable taxes

	2011	2010*	1 January 2010*
Vehicle fuel tax receivable	41,556	33,370	22,243
VAT input	38,854	28,457	31,474
Deposit to Government	16,540	16,585	15,786
	96,950	78,412	69,503
Less:			
Current portion	(80,410)	(78,412)	(69,503)
Non-current portion	16,540	-	-

Receivable relating to VAT input represents the balance of VAT input to be offset against the royalty payable due to the Government of Indonesia.

According to Government Regulation No. 144/2000 which has been effective from 1 January 2001, raw coal prior to processing to briquettes is no longer subject to VAT. Since that date, Adaro has been unable to seek restitution for VAT input. The Coordinating Minister for Economics has requested that the Minister of Finance postpone the implementation of this regulation. The final decision regarding this matter cannot be predicted at present. For the year ended 31 December 2011, Adaro has offset the claim for recoverable VAT input amounting to US$133,238 (31 December 2010: US$101,977, 2009: US$100,216, 2008: US$50,870, 2007: US$39,735, 2006: US$36,424, 2005: US$20,631, 2004: US$22,377, 2003: US$18,882, 2002: US$25,472 and 2001: US$857) against royalty payments due to the Government of Indonesia. Until 31 December 2011, Adaro has offset the claim for recoverable VAT input totalling US$550,679 against royalty payables.

Based on the CCA, Adaro was subject to sales tax on services received, in accordance with prevailing laws and regulations. However, with the enforcement of Law No. 8 of 1983 regarding VAT, the regulations on sales tax were no longer valid.

Adaro is of the opinion that the sales tax is different from VAT in both form and substance and therefore VAT is a new tax. According to the provisions of the CCA, the Government will pay and assume and hold Adaro harmless from this new tax. As such, management believes that Adaro can recover its VAT input in this manner and expects that the outstanding balance will be recovered in full. These consolidated financial statements do not include any adjustments that might ultimately result from the decision made by the Government regarding this matter. Refer to Note 40c for further details.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

b. Recoverable taxes (continued)

In 2008, the Government of Indonesia through the Financial and Development Supervisory Board ("BPKP"), commenced an audit to resolve this dispute on the offset of VAT paid againts royalties payable for the period of 2001 to 2007. However, as at the date of these consolidated financial statements, the formal result of this audit had not been issued by the Government of Indonesia. In September 2008, Adaro placed a fund amounting to Rp 150 billion as a deposit in relation to the settlement of this dispute.

In August 2009, BPKP continued its audit in relation to VAT and sales tax for the fiscal periods prior to 2001, as well as the 2008 fiscal period. As at the date of these consolidated financial statements, the audit is still ongoing. Management is of the opinion that the audit result will not have a material impact on the Group's financial position and cash flows.

Vehicle fuel tax (Pajak Bahan Bakar Kendaraan Bermotor/"PBBKB") receivable represents the balance of PBBKB that Adaro believes should be compensated by the Government of Indonesia, since PBBKB is a new tax according to the provisions of the CCA. For the year ended 31 December 2011, Adaro has started to offset the claim for vehicle fuel tax amounting to US$17,495 against royalty payments due to the Government of Indonesia.

c. Taxes payable

	2011	2010*	1 January 2010*
The Company			
Income tax Articles 23 and 26	5,631	2,477	968
Final income tax Article 4(2)	607	194	214
VAT	349	54	-
Income tax Article 21	192	92	21
	6,779	2,817	1,203
Subsidiaries			
Corporate income tax	50,774	9,524	232,243
Income tax Articles 23 and 26	5,146	1,306	2,136
VAT	2,942	384	2,990
Income tax Article 21	2,143	1,030	963
Land and building tax	1,540	-	-
Final income tax Article 4(2)	241	49	46
Income tax Article 15	26	-	-
	62,812	12,293	238,378
	69,591	15,110	239,581

d. Income tax expense

	2011	2010*
The Company		
Current	-	-
Deferred	4,744	4,305
	4,744	4,305
Subsidiaries		
Current	420,102	270,624
Deferred	25,662	3,531
	445,764	274,155
Consolidated		
Current	420,102	270,624
Deferred	30,406	7,836
	450,508	278,460

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

d. Income tax expense (continued)

The reconciliation between profit before income tax and estimated taxable income is as follows:

	2011	**2010***
Consolidated profit before income tax	1,002,611	525,297
Profit before income tax - subsidiaries	(1,005,743)	(523,907)
Adjusted for consolidation elimination	549,881	241,375
Profit before income tax - the Company	546,749	242,765
Temporary difference:		
Provision for employee benefits	909	458
Permanent difference:		
Income subject to final tax	(216)	(343)
Income from investments in subsidiaries and associates	(559,296)	(241,246)
Non-deductible expenses	13,622	2,830
Taxable income	6,005	-
Difference due to changes in reporting currency	(16,886)	(4,212)
	(556,771)	(242,971)
Taxable (loss)/income - the Company	(9,113)	252
Tax losses used	-	(252)
Current income tax - the Company	-	-
Current income tax - subsidiaries	420,102	270,624
Consolidated current income tax	420,102	270,624

Current income tax computations are based on estimated taxable income. The amounts may be adjusted when Annual Tax Returns are filed with the tax office.

The reconciliation between income tax expense and the theoretical tax amount on the Company's profit before income tax using currently enacted tax rates is as follows:

	2011	**2010***
Consolidated profit before income tax	1,002,611	525,297
Profit before income tax - subsidiaries	(1,005,743)	(523,907)
Adjusted for consolidation elimination	549,881	241,375
Profit before income tax - the Company	546,749	242,765
Income tax calculated at prevailing tax rate	136,687	60,691
Income subject to final tax	(54)	(86)
Non-deductible expenses	3,406	708
Income from investments in subsidiaries and associates	(139,824)	(60,312)
Capitalised borrowing cost	4,076	4,266
Taxable income	1,501	-
Unrecognised tax loss carry forward	2,278	-
Adjusments relating to prior year	896	91
Difference due to changes in reporting currency	(4,222)	(1,053)
Income tax expense - the Company	4,744	4,305
Income tax expense - subsidiaries	445,764	274,155
Consolidated income tax expense	450,508	278,460

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

d. Income tax expense (continued)

The income tax charged/(credited) relating to other comprehensive income during the year is as follows:

	2011	2010*
Hedging reserve	4,083	740

e. Deferred tax assets

	1/1/2010*	Charged to the consolidated statements of income	Transfer to deferred tax assets	Acquisition of subsidiary	Credited to equity	31/12/2010*
The Company						
Tax loss carried forward	975	(155)	-	-	-	820
Provision for employee benefits	107	121	-	-	-	228
	1,082	(34)	-	-	-	1,048
Unrecognised deferred tax assets	-	-	-	-	-	-
	1,082	(34)	-	-	-	1,048
Subsidiaries						
Tax loss carried forward	39,386	(13,662)	-	-	-	25,724
Provision for employee benefits	89	89	-	-	-	178
Loss from changes in fair value of derivative instruments	727	-	-	-	(93)	634
	40,202	(13,573)	-	-	(93)	26,536
Unrecognised deferred tax assets	(37,287)	14,492	-	-	-	(22,795)
	2,915	919	-	-	(93)	3,741
Consolidated						
Tax loss carried forward	40,361	(13,817)	-	-	-	26,544
Provision for employee benefits	196	210	-	-	-	406
Loss from changes in fair value of derivative instruments	727	-	-	-	(93)	634
	41,284	(13,607)	-	-	(93)	27,584
Unrecognised deferred tax assets	(37,287)	14,492	-	-	-	(22,795)
Deferred tax assets at the end of the year	3,997	885	-	-	(93)	4,789

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

e. Deferred tax assets (continued)

	1/1/2011	Charged to the consolidated statements of income	Transfer to deferred tax assets	Acquisition of subsidiary	Credited to equity	31/12/2011
The Company						
Tax loss carried forward	820	(820)	-	-	-	-
Provision for employee benefits	228	218	-	-	-	446
	1,048	(602)	-	-	-	446
Unrecognised deferred tax assets	-	-	-	-	-	-
	1,048	(602)	-	-	-	446
Subsidiaries						
Tax loss carried forward	25,724	(7,048)	-	-	-	18,676
Provision for employee benefits	178	(10)	529	-	-	697
Difference between commercial and tax net book value of fixed assets	-	-	(473)	-	-	(473)
Loss from changes in fair value of derivative instruments	634	-	-	-	(451)	183
	26,536	(7,058)	56	-	(451)	19,083
Unrecognised deferred tax assets	(22,795)	8,810	-	-	-	(13,985)
	3,741	1,752	56	-	(451)	5,098
Consolidated						
Tax loss carried forward	26,544	(7,868)	-	-	-	18,676
Provision for employee benefits	406	208	529	-	-	1,143
Difference between commercial and tax net book value of fixed assets	-	-	(473)	-	-	(473)
Loss from changes in fair value of derivative instruments	634	-	-	-	(451)	183
	27,584	(7,660)	56	-	(451)	19,529
Unrecognised deferred tax assets	(22,795)	8,810	-	-	-	(13,985)
Deferred tax assets at the end of the year	4,789	1,150	56	-	(451)	5,544

Due to the fact that several subsidiaries are in a loss position and only function as a head office, there is a limitation on the future use of tax loss carry forwards and uncertainty as to whether the deferred tax assets will be realised. Thus, a portion of deferred tax assets relating to tax losses carried forward have not been recognised in these consolidated financial statements.

Most of the deferred tax assets are expected to be recovered after more than 12 months.

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

f. Deferred tax liabilities

	1/1/2010*	Charged to the consolidated statements of income	Transfer to deferred tax assets	Acquisition of subsidiary	Credited to equity	31/12/2010*
The Company						
Capitalised borrowing costs	-	4,266	-	-	-	4,266
Subsidiaries						
Provision for employee benefits	(1,096)	(667)	-	-	-	(1,763)
Mining properties	264,437	(13,151)	-	-	-	251,286
Loss from changes in fair value of derivative instruments	(5,917)	-	-	-	647	(5,270)
Difference between commercial and tax net book value of fixed assets	47,403	16,240	-	-	-	63,643
Tax loss carried forward	(12,369)	535	-	-	-	(11,834)
Difference in fixed assets under finance lease and lease installments	7,908	2,136	-	-	-	10,044
Deferred exploration and development expenditure	3,878	(304)	-	-	-	3,574
	304,244	4,789	-	-	647	309,680
Unrecognised deferred tax assets	12,187	(353)	-	-	-	11,834
	316,431	4,436	-	-	647	321,514
Consolidated						
Capitalised borrowing costs	-	4,266	-	-	-	4,266
Provision for employee benefits	(1,096)	(667)	-	-	-	(1,763)
Mining properties	264,437	(13,151)	-	-	-	251,286
Loss from changes in fair value of derivative instruments	(5,917)	-	-	-	647	(5,270)
Difference between commercial and tax net book value of fixed assets	47,403	16,240	-	-	-	63,643
Tax loss carried forward	(12,369)	535	-	-	-	(11,834)
Difference in fixed assets under finance lease and lease installments	7,908	2,136	-	-	-	10,044
Deferred exploration and development expenditure	3,878	(304)	-	-	-	3,574
	304,244	9,055	-	-	647	313,946
Unrecognised deferred tax assets	12,187	(353)	-	-	-	11,834
	316,431	8,702	-	-	647	325,780

* As restated (refer to Note 3)

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(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

f. Deferred tax liabilities (continued)

	1/1/2011	Charged to the consolidated statements of income	Transfer to deferred tax assets	Acquisition of subsidiary	Credited to equity	31/12/2011
The Company						
Capitalised borrowing costs	4,266	4,266	-	-	-	8,532
Subsidiaries						
Provision for employee benefits	(1,763)	(318)	529	-	-	(1,552)
Mining properties	251,286	(14,919)	-	74,764	-	311,131
Loss from changes in fair value of derivative instruments	(5,270)	-	-	-	3,632	(1,638)
Difference between commercial and tax net book value of fixed assets	63,643	39,805	(473)	-	-	102,975
Tax loss carried forward	(11,834)	2,544	-	-	-	(9,290)
Difference in fixed assets under finance lease and lease installments	10,044	2,932	-	-	-	12,976
Deferred exploration and development expenditure	3,574	(304)	-	-	-	3,270
	309,680	29,740	56	74,764	3,632	417,872
Unrecognised deferred tax assets	11,834	(2,544)	-	-	-	9,290
	321,514	27,196	56	74,764	3,632	427,162
Consolidated						
Capitalised borrowing costs	4,266	4,266	-	-	-	8,532
Provision for employee benefits	(1,763)	(318)	529	-	-	(1,552)
Mining properties	251,286	(14,919)	-	74,764	-	311,131
Loss from changes in fair value of derivative instruments	(5,270)	-	-	-	3,632	(1,638)
Difference between commercial and tax net book value of fixed assets	63,643	39,805	(473)	-	-	102,975
Tax loss carried forward	(11,834)	2,544	-	-	-	(9,290)
Difference in fixed assets under finance lease and lease installments	10,044	2,932	-	-	-	12,976
Deferred exploration and development expenditure	3,574	(304)	-	-	-	3,270
	313,946	34,006	56	74,764	3,632	426,404
Unrecognised deferred tax assets	11,834	(2,544)	-	-	-	9,290
	325,780	31,462	56	74,764	3,632	435,694

(Expressed in thousand US Dollars, unless otherwise stated)

34. TAXATION (continued)

f. Deferred tax liabilities (continued)

The analysis of deferred tax liabilities is as follows:

	2011	2010*
- Deferred tax liabilities to be recovered after more than 12 months	415,474	311,370
- Deferred tax liabilities to be recovered within 12 months	20,220	14,410
	435,694	325,780

g. Administration

Under the taxation laws of Indonesia, the companies within the Group which are domiciled in Indonesia calculate and pay tax on the basis of self assessment. The Directorate General of Tax ("DGT") may assess or amend taxes within ten years of the time the tax becomes due, or until the end of 2013, whichever is earlier. There are new rules applicable to the fiscal year 2008 and subsequent years stipulating that the DGT may assess or amend taxes within five years of the time the tax becomes due.

h. Tax assessment letter

Management of SIS disagreed with the tax assessments of corporate income tax and income tax Article 23 that were received in 2008 and therefore filed objection letters with the DGT against the tax assessment amounting to Rp 3,421 million (US$364). On 21 April 2009, the DGT accepted the objection on income tax Article 23 of Rp 142 million (US$15) and rejected the objection to corporate income tax of Rp 3,279 million (US$349). On 3 June 2009, SIS filed an appeal against the rejection amounting to Rp 3,279 million (US$349). On 27 June 2011, the tax court issued a decision to partially accept the appeal from SIS, amounting to Rp 2,397 million. On 8 December 2011, DGT requested a civil review on the decision of the tax court.

As at the date of these consolidated financial statements, the Company was audited for all taxes for the fiscal year 2010, Adaro was audited for all taxes for fiscal year 2008 and 2009, and MSW was audited for all taxes for fiscal year 2010. The Company, Adaro and MSW have not yet received the audit results. Management is of the opinion that the audit results will not have a material impact on the Company's, Adaro's and MSW's financial position and cash flows.

35. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Details of the balances and transactions with related parties are as follows:

	2011	2010*	1 January 2010*
Trade receivables (refer to Note 8)	226	-	-
Loan to a related party:			
- PT Servo Meda Sejahtera	15,508	-	-
	15,734	-	-
As a percentage of total assets	0.28%	-	-

On 18 July 2011, ATA entered into a Loan Agreement with SMS and SI, which has been amended by Amendment I of Loan Agreement dated 25 November 2011, where ATA provided a loan facility of US$15,000 to SMS. This loan bears annual fixed interest rate and the interest will be paid every month since the date of the first drawdown. This loan is due on 1 December 2011. As at 31 December 2011, the outstanding balance from this loan amounted to US$15,508 (including accrued interest of US$508). On 16 March 2012, based on Amendment II of the Loan Agreement, ATA, SMS and SI extended the maturity of this loan to 1 June 2012 and ATA provided an additional loan of Rp 50 billion to SMS. This loan was secured with 35% shares in SMS that are owned by SI.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

35. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

	2011	2010*	1 January 2010*
Trade payables (refer to Note 17)	17,401	12,139	15,190
Amounts due to a related party:			
- PT Rachindo Investments	500	500	500
	17,901	12,639	15,690
As a percentage of total liabilities	0.56%	0.52%	0.59%

	2011	2010*
Cost of revenue		
Mining service:		
- PT Rahman Abdijaya	74,781	61,356
Coal barging services:		
- PT Pulau Seroja Jaya	26,561	19,074
- PT Pulau Seroja Jaya Pratama	895	5,332
Rental:		
- PT Anugerah Buminusantara Abadi	2,386	2,858
	104,623	88,620
As a percentage of total cost of revenue	4.09%	4.69%

The Board of Commissioners and the Board of Directors of the Company are considered as key management personnel.

Remuneration for the Board of Commissioners and the Board of Directors of the Company is as follows:

	2011	2010*
Salaries and bonuses	4,701	2,314

The nature of relationships with related parties:

Related parties	Relationship with related parties
PT Rachindo Investments	Associates
PT Servo Meda Sejahtera	Associates
PT Anugerah Buminusantara Abadi	Affiliate
PT Pulau Seroja Jaya	Affiliate
PT Pulau Seroja Jaya Pratama	Affiliate
PT Rahman Abdijaya	Affiliate
PT Jasa Tambang Indonesia	Affiliate

The Group's pricing policy in relation to the transactions with related parties is set based on contracted prices.

36. OTHER EXPENSES, NET

	2011	2010*
Compensation for customer claim	152,818	-
Other (income)/expense, net	(1,285)	14,922
	151,533	14,922

* As restated (refer to Notes 2b and 3)

36. OTHER EXPENSES, NET (continued)

Customer Claims

In 2008, MoEMR requested that Indonesian coal producers renegotiate existing term coal supply contracts to match then current market prices. Those Indonesian coal producers were instructed by MoEMR that they would be required to suspend shipments if they failed to comply with the request.

Adaro declared force majeure and suspended deliveries to three customers. One of these customers later agreed with Adaro a renegotiated price under their contract in line with the Government requirement. The remaining two customers have asserted separate claims against Adaro seeking amounts by way of compensation through arbitrations. At the end of 2010, one of the arbitration case was withdrawn. For the other claim, the arbitration has asserted that Adaro should compensate the customer with a payment of US$152,818. With the payment of that amount in August 2011, all claims have now been resolved.

37. BASIC EARNINGS PER SHARE

	2011	2010*
Net income attributable to owners of the parent	550,354	247,162
Weighted average number of ordinary shares outstanding (in thousands of shares)	31,985,962	31,985,962
Basic earnings per share (full amount)	0.01721	0.00773

The Group did not have any dilutive ordinary shares at 31 December 2011 and 2010.

38. MONETARY ASSETS AND LIABILITIES

As at 31 December 2011, the Group had monetary assets and liabilities denominated in currencies other than US Dollars as follows:

		Foreign currency	Equivalent US$
Monetary assets			
Cash and cash equivalents	Rp	553,818,923,064	61,073
	S$	1,345,168	1,034
	€	1,311,204	1,736
Trade receivables	Rp	1,086,391,193,881	119,805
Prepaid taxes	Rp	67,081,913,296	7,398
Total monetary assets			191,046
Monetary liabilities			
Trade payables	Rp	434,538,107,418	47,920
	S$	1,322,790	1,018
	€	5,724,194	7,410
	¥	3,379,329	44
	A$	4,394,591	4,460
	£	873,634	1,346
Accrued expenses	Rp	14,353,690,904	1,583
	€	2,204,552	2,854
Taxes payable	Rp	102,299,214,621	11,281
Total monetary liabilities			77,916
Net monetary assets			113,130

If assets and liabilities in currencies other than US Dollars as at 31 December 2011 are translated using the exchange rate as at 22 March 2012, the total net monetery assets will decrease by approximately US$1,809.

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

39. SEGMENT INFORMATION

Management has determined the operating segment based on reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board of Directors considers the business operation by business type.

The segment information provided to the Board of Directors for the reportable segments for the years ended 31 December 2011 and 2010, is as follows:

	2011				
	Coal mining and trading	Mining service	Others	Eliminations	Consolidated
Revenue					
External revenue	3,705,783	192,249	89,373	-	3,987,405
Inter-segment revenue	220,251	232,378	252,943	(705,572)	-
Net revenue	3,926,034	424,627	342,316	(705,572)	3,987,405
Gross profit	1,397,684	51,678	89,034	(110,003)	1,428,393
Selling and marketing expense	(111,858)	-	-	45,777	(66,081)
General and administrative expense	(10,457)	(19,432)	(51,171)	2,319	(78,741)
Operating income	1,275,369	32,246	37,863	(61,907)	1,283,571
Finance costs	(106,269)	(21,868)	(18,563)	26,942	(119,758)
Finance income	17,353	502	7,451	(18,588)	6,718
Other income/(expenses), net	(146,610)	1,334	(23,874)	1,230	(167,920)
Profit before income tax	1,039,843	12,214	2,877	(52,323)	1,002,611
Income tax expense	(449,020)	(891)	(11,439)	10,842	(450,508)
Net income for the year	590,823	11,323	(8,562)	(41,481)	552,103
Depreciation and amortisation	49,793	78,166	15,842	61,908	205,709
Segment assets	2,925,103	561,003	1,988,074	184,781	5,658,961
Segment liabilities	2,469,602	453,226	1,672,033	(1,378,123)	3,216,738
Capital expenditure	314,745	138,341	171,874	(4,493)	620,467

	2010*				
	Coal mining and trading	Mining service	Others	Eliminations	Consolidated
Revenue					
External revenue	2,507,190	141,273	69,180	-	2,717,643
Inter-segment revenue	194,173	163,082	133,808	(491,063)	-
Net revenue	2,701,363	304,355	202,988	(491,063)	2,717,643
Gross profit	815,138	43,405	56,849	(86,669)	828,723
Selling and marketing expense	(83,947)	-	-	29,170	(54,777)
General and administrative expense	(14,226)	(22,816)	(26,969)	1,560	(62,451)
Operating income	716,965	20,589	29,880	(55,939)	711,495
Finance costs	(108,212)	(15,123)	(8,816)	16,727	(115,424)
Finance income	9,965	236	2,440	(7,976)	4,665
Other income/(expenses), net	(5,111)	(2,336)	(14,348)	(53,644)	(75,439)
Profit before income tax	613,607	3,366	9,156	(100,832)	525,297
Income tax expense	(272,123)	(789)	(14,432)	8,884	(278,460)
Net income for the year	341,484	2,577	(5,276)	(91,948)	246,837
Depreciation and amortisation	20,565	68,526	14,372	109,630	213,093
Segment assets	2,053,842	475,802	1,279,605	660,870	4,470,119
Segment liabilities	1,794,831	381,811	1,068,426	(807,160)	2,437,908
Capital expenditure	152,248	73,805	83,500	(11,057)	298,496

* As restated (refer to Notes 2b and 3)

(Expressed in thousand US Dollars, unless otherwise stated)

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

a. Coal mining, transportation, barging, transhipment and other related agreements

Adaro, as a coal producer, has entered into a number of coal mining agreements. Under the agreements, Adaro is required to pay contractors a service fee, calculated on a monthly basis, based on a formula which includes the amount of raw coal and overburden mined and transported. The contractors will provide all equipment, machinery, appliances and other supplies necessary for performing the mining and transportation services and are required to meet certain minimum production requirements.

Adaro has also entered into coal barging, transport and transhipment agreement with contractors to provide coal transportation services from Adaro's main area to certain port destinations. Adaro is required to pay contractors a service fee, calculated on a monthly basis, based on a formula which includes the amount of coal transported.

In addition, Adaro has also entered into a fuel supply agreement with PT Shell Indonesia ("Shell"). Adaro is required to pay Shell a price, based on a formula which includes the amount of fuel supplied and the market price of fuel. Adaro is also required to purchase a certain minimum yearly volume of fuel.

Contractor	Agreement type	Agreement date	Contract period end
PT Pamapersada Nusantara	Coal mining and transportation	7 September 2009	31 July 2013
PT Bukit Makmur Mandiri Utama	Coal mining and transportation	13 November 2008	31 December 2013
PT Rahman Abdijaya	Coal mining and transportation	14 December 2008	31 December 2013
PT Rante Mutiara Insani	Coal mining and transportation	22 February 2010	22 February 2015
PT Pulau Seroja Jaya	Coal barging	1 October 2010	31 October 2017
PT Batuah Abadi Lines	Coal barging	18 February 2000	30 June 2012
PT Mitra Bahtera Segara Sejati Tbk	Coal barging	1 October 2010	31 October 2017
PT Meratus Advance Maritim	Coal barging	1 December 2010	31 October 2017
PT Shell Indonesia	Fuel supply	8 December 2009	1 October 2022

SIS provides mining contractor services to various coal producers. Under the agreements, SIS provides labour, equipment and material for overburden removal, coal mining and coal transportation and overburden hauling and is required to meet certain minimum production requirements for these activities. SIS receives a service fee calculated on a monthly basis, based on a formula which includes several adjustment clauses.

Coal producer	Agreement date	Contract period or production level (metric tonnes/MT)
PT Berau Coal (Binungan H4)	27 December 2004	31 December 2013
PT Berau Coal (Binungan Blok C 1-4)	1 March 2007	31 December 2015
PT Berau Coal (Sambarata)	25 February 2004	31 December 2011*
PT Berau Coal (Sambarata Blok B-1)	21 January 2008	14 July 2012
PT Sumber Kurnia Buana	10 May 2005	9 May 2013 or certain production level
PT Borneo Indobara	17 October 2006	31 August 2014 or certain production level
PT Indomining	14 August 2007	13 August 2012 or certain production level
PT Tunas Muda Jaya	8 April 2009	2013 or certain production level

* In process of extending the agreement

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

b. Land-Use Cooperation Agreement

On 4 November 2009, MSW and the Government of Tabalong Regency entered into a land-use cooperation agreement for the cooperation to use 100.2 hectares of land from the Government of Tabalong Regency, located in Mabu'un village, Murung Pudak Sub-District, Tabalong Regency, in relation to the construction and operation of a Coal fired Power Plant. The Government of Tabalong Regency will provide the right to use the land. Subsequently the Group can apply for land rights for 30 years and this could be extended according to the prevailing law.

In return for the land rights, MSW will supply electricity of 1.5 Mega Watts ("MW") for regency street lighting.

c. Royalty claim

In May 2006, MoEMR alleged that Adaro had underpaid the royalties due from coal sales for the period from 2001 and demanded payment. Adaro strongly rejected the allegation because it had discharged its obligation to pay such royalties by way of offsetting it against the Government's obligation to reimburse Adaro for its VAT payment as prescribed under the CCA. In May 2006, Adaro filed an objection with the Jakarta Administrative Court against the MoEMR. Upon Adaro's application, in May 2006, the Jakarta Administrative Court granted an order restricting the MoEMR from taking any further administrative steps on the issue until a final and binding judgement was delivered.

In September 2006, the Jakarta Administrative Court issued a decision in favour of Adaro. The Jakarta High Administrative Court concurred with the Jakarta Administrative Court in February 2007. On 26 September 2008, the Indonesian Supreme Court concurred with the decision of the Jakarta High Administrative Court and the decision of the Indonesian Supreme Court is final and binding.

In June 2006, MoEMR granted authority to the Committee for State Claim Affairs (the "Committee") to pursue the alleged underpayment on its behalf. In July 2007, the Committee issued a demand for payment to Adaro. As this is an industry-wide problem, similar demands have been made by the Committee to other first-generation companies.

In September 2007, Adaro filed an objection with the Jakarta Administrative Court against the Committee. Upon Adaro's application, in September 2007 the Jakarta Administrative Court granted an order restricting the Committee from taking any further administrative steps on the issue until a final and binding judgement had been delivered. On 15 February 2008, the Jakarta Administrative Court issued a decision in favour of Adaro. The Jakarta High Administrative Court concurred with the Jakarta Admistrative Court on 1 July 2008. On 22 July 2009, the Indonesian Supreme Court concurred with the decision of the Jakarta High Administrative Court and the decision of the Indonesian Supreme Court is final and binding. On 29 January 2010, the Committee filed a civil review (Peninjauan Kembali) on the decision of the Indonesian Supreme Court. On 31 January 2011, the Jakarta Administrative Court delivered the decision on the civil review (Peninjauan Kembali), where the Supreme Court decided to reject the request of the civil review (Peninjauan Kembali) from the Committee, based on decision No. 47PK/TUN/2010 dated 20 July 2010.

As management believes that Adaro has strong grounds supporting the case and the recent court decision was in favour of Adaro, no provision has been booked in the consolidated financial statements in relation to this matter.

d. Capital expenditures

As at 31 December 2011, Adaro had outstanding purchase orders for mining equipment amounting to US$499,548 and SIS for operational equipment amounting to US$121,651.

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

e. Banking facility

On 5 September 2007, Adaro entered into a bank facility agreement with HSBC to issue a bank guarantee. This agreement has been amended several times and the last amendment was to extend the maturity date of this agreement to 31 July 2012. The total limit of this facility is US$30,000 which includes the issuing of a standby documentary credit amounting to US$20,000, performance bonds amounting to US$15,000 and tender bonds amounting to US$15,000. This facility is not bound by any collateral.

On 20 August 2008, Adaro entered into a banking facility amendment agreement with PT Bank DBS Indonesia for the banking facility in bank guarantee, bid bonds, performance bonds and standby letters of credit, with a total limit of US$15,000. This agreement has been amended several times and the last amendment was to extend the maturity date of this agreement to 14 July 2012. This facility is not bound by any collateral.

The use of certain banking facilities requires Adaro to maintain time deposits (refer to Note 7).

As at 31 December 2011, the total bank facilities used by Adaro which were obtained from HSBC and PT Bank DBS Indonesia and from other financial institutions (obtained without any facility) in various currencies, aggregated to US$43,588 (31 December 2010: US$59,544). Those facilities had been issued in relation to sales contracts and reclamation guarantees.

f. Sales commitment

As at 31 December 2011, Adaro had various commitments to deliver 213.9 million metric tonnes of coal to various buyers, subject to price agreement. The coal will be periodically delivered from 2012 until 2022.

g. Forestry fee

Based on Government Regulation No. 2 dated 4 February 2008, all companies that have activities in production and protected forest areas but not related to forestry will have an obligation to pay a forestry fee ranging from Rp 1,200,000 (full amount) to Rp 3,000,000 (full amount) per hectare. This fee is effective from 2008. The Group has recognised this fee on an accrual basis.

h. Engineering, Procurement and Construction Agreement

PT Punj Llyod Indonesia

On 23 April 2008, MSW entered into an Engineering, Procurement and Construction ("EPC") Agreement with PT Punj Llyod Indonesia ("Punj Llyod Indonesia"). Under this agreement, Punj Llyod Indonesia will provide construction services for the Project Tanjung Tabalong 2x30 MW coal fired power plant project, located in Kalimantan, Indonesia.

Under the agreement, MSW is required to pay a 15% advance to Punj Llyod Indonesia and installments upon the achievement of project milestones.

Punj Llyod Pte Ltd

On 23 April 2008, MSW entered into an EPC Agreement with Punj Llyod Pte Ltd ("Punj Llyod"). Under this agreement, Punj Llyod will supply equipment for the Tanjung Tabalong 2x30 MW coal fired power plant project, located in Kalimantan, Indonesia.

Under the agreement, MSW is required to pay Punj Llyod a 15% advance and installments upon the achievement of project milestones.

i. Agency fees

Adaro has various agency agreements with third party agents to market their coal for certain customers. The agents will receive commission based on a percentage of sales to those customers.

j. Legal proceedings

From time to time, the Group is involved in various legal proceedings as a normal incident to the Group's business. The Group is of the opinion that adverse decisions in any pending or threatened proceeding, or that any amounts it may be required to pay by reason thereof will not have a material adverse effect on its financial condition or the results of its operations.

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

k. DBS Bilateral Facility

On 24 February 2009, Adaro entered into a Multicurrency Revolving Credit Facility agreement with DBS Bank Ltd which acted as Original Lender and Facility Agent. Under this agreement, DBS Bank Ltd agreed to provide a multicurrency revolving credit facility in an aggregate amount of US$40,000 for a period of 36 months after the date of the agreement. This facility will be charged with interest rates at LIBOR plus a certain percentage. Coaltrade, IBT and the Company act as guarantors of this loan facility. On 12 November 2010, an amendment agreement was entered into to amend and restate in its entirety the facility, among others, changing the facility amount to US$36,000. As at 31 December 2011, Adaro had utilised the facility amounting to US$15,000 for stand-by letter of credit.

In accordance with the terms of the agreement, Adaro is required to maintain certain financial ratios.

This loan has similar significant terms and conditions to the long-term Syndicated Loan (refer to Note 21a).

l. Overland Conveyor Construction Contract

On 29 December 2009, JPI, Sandvik Asia Ltd and PT Tripatra Engineers and Constructors, entered into contracts for the construction of an Overland Conveyor, for the purpose of supporting Adaro's increase of its coal production capacity with total contract amounts (including provisional sums) of approximately US$237,000. The construction is planned to be completed within two years from the date of the commencement of the project.

Until 31 December 2011, there had been no spending related to this contract and the project had been put on hold.

m. Fuel Facilities Agreement

On 1 September 2009, IBT entered into a Fuel Facilities Agreement with Shell. Based on the agreement, Shell agreed to build a fuel storage facility with a minimum capacity of 60,000 tonnes of diesel on land belonging to IBT and IBT agreed to build shared facilities within the terminal for unloading and loading of the diesel. For the use of the shared facilities, Shell agreed to pay a handling fee of a certain amount per barrel of the loaded quantities of diesel. The agreement will expire on 31 December 2022. At the end of the agreement period, Shell will transfer the ownership of the fuel storage facility to IBT.

n. Mining Law No. 4/2009

On 16 December 2008, the Indonesian Parliament passed a new Law on Mineral and Coal Mining (the "Law"), which received the assent of the President on 12 January 2009, becoming Law No. 4/2009. The CCA system under which Adaro, one of the Group's subsidiaries, operates, will no longer be available to investors. However, the Law indicates that existing CCAs, such as those held by Adaro, will be honoured. There are a number of issues which existing CCA holders, including Adaro, are currently analysing. Among others these include:

- the Law notes that existing CCAs will be honoured until their expiration. However, it also states that existing CCAs must be amended within one year to conform to the provisions of the Law (other than terms relating to State revenue - which is not defined, but presumably includes royalties and taxes); and
- the requirement for CCA holders which have already commenced some form of activity to, within one year of enactment of the Law, submit a mining activity plan for the entire contract area. If this plan is not fulfilled, the contract area may be reduced to that allowed for mining business licences ("Izin Usaha Pertambangan" or "IUP") under the Law.

In February 2010, the Government of Indonesia released two implementing regulations for Mining Law No. 4/2009, i.e. Government Regulation No. 22/2010 and 23/2010 ("GR No. 22" and "GR No. 23"). GR No. 22 deals with the establishment of the mining areas under the new mining business license (IUP). GR No. 23 provides clarifications surrounding the procedures to obtain the new IUP. GR No. 23 indicates that existing CCAs will be honoured by the Government although any extension of existing CCAs will be through the issue of an IUP.

On 10 January 2012, the President of the Republic of Indonesia issued a Presidential Decree (Keppres No.3/2012) on Evaluation Team for Contract of Work ("COW") and CCA Adjustment.

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

n. Mining Law No. 4/2009 (continued)

The Team's task consists of the following: (1) evaluating the articles in the COW and CCA to be in compliance with the Law; (2) determining the steps to be taken to determining COW and CCA areas and state income/revenue for the purpose of COW and CCA negotiation; and (3) determining steps to be taken for the implementation of the COW and CCA holder's obligations, on the processing and/or refinery of mineral and coal.

The Group is closely monitoring the progress of the implementing regulations for the Law and will consider the impact on its operation, if any, once these regulations are issued.

o. Ministerial Regulation No. 28/2009

In September 2009, the Minister of Energy and Mineral Resources issued Ministerial Regulation No. 28/2009, which, among others, requires the Directorate General's approval to use an affiliate as a mining service contractor. The regulation provides the definition of affiliates and provides exception only when there are no similar mining services companies in the regency/city and/or province, or when there are no other capable mining service companies operating in the area. The regulation requires mining concession companies under their existing contracts to be conducting all coal extraction activities themselves within three years of the issue of the regulation, but for new contracts the obligation is effective from the date of the contract. Accordingly, Adaro will be required to develop its own extraction capabilities in lieu of relying on third party contractors.

The regulation provides a three-year transition period for changes to existing arrangements. The Group is currently considering the implications of this regulation, given that SIS provides mining services to Adaro.

The Director General of Mineral, Coal and Geothermal has recently issued Director General Regulation No. 376.K/30/DJB/2010 dated 10 May 2010 on the procedures and requirements of a request for approval to involve a subsidiary and/or an affiliate in mining services activities ("Dirgen Regulation"). The Dirgen Regulation regulates further Ministerial Regulation No. 28/2009, specifically on the procedures and requirements regarding the involvement of a subsidiary and/or an affiliate in mining services activities.

Management believes that Adaro carrying out coal extraction activity itself will not substantially change the operating structure of either Adaro or SIS (as a result of changes at Adaro or other similar customers of SIS), since SIS would be able to provide rental equipment service in relation to coal extraction activity subject to obtaining license/registration from MoEMR.

p. Ministerial Regulation No. 34/2009

In December 2009, the Minister of Energy and Mineral Resources issued another regulation, Ministerial Regulation No. 34/2009, which provides a legal framework to require mining companies to sell a portion of their output to domestic customers ("Domestic Market Obligation" or "DMO"). Subsequently, on 1 December 2011, MoEMR issued Ministrial Decree No. 1334/K/32/DJB/2011 which revised the minimum DMO percentage for the year 2011 to be 18.41%.

Adaro has met the minimum DMO percentage for the year ended 31 December 2011.

q. Ministerial Regulation No. 17/2010

In September 2010, the Minister of Energy and Mineral Resources issued Ministerial Regulation No. 17/2010 on The Procedure for the Setting of Benchmark Prices For Mineral and Coal Sales, which regulates that the sale of coal shall be conducted with reference to the benchmark price as issued by the Government, which will be regulated by a regulation issued by the Director General of Mineral, Coal and Geothermal. In the Ministerial Regulation, existing spot and term contracts which have been signed prior to the date of the Ministerial Regulation must confirm its provisions with the provisions under Ministerial Regulation within six months for spot contracts and 12 months for term contracts. Those contracts whose coal sales prices have been renegotiated under and in accordance with the instruction of the Minister or Director General are exempted.

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

q. Ministerial Regulation No. 17/2010 (continued)

On 3 March 2011, Minister of Energy and Mineral Resources issued Ministerial Decision No. 0617 K/32/MEM/2011 on The Benchmark Price for PT Perusahaan Listrik Negara (Persero) ("PLN") in Operation of Coal Fired Power Plant, which regulates:

- The coal purchase price by PLN in their operation of coal fired power plant is the coal benchmark price at the time that agreement between PLN and CCA company or IUP Coal Production, was made;
- The agreed coal purchase price should be adjusted every 12 months with the coal purchase price based on the coal benchmark price enacted at the date of adjustment; and
- The coal benchmark price will be regulated further by regulation of the Director General of Mineral, Coal and Geothermal.

On 24 March 2011, the Director General of Mineral and Coal issued Director General Regulation No. 515.K/32/DJB/2011 on the Formula for Setting the Coal Benchmark Price, which regulates:

- Setting the coal benchmark price every month based on the formula which is the average of several coal price indices;
- Coal benchmark price should be used as the basis in coal sales; and
- For the coal sales on a term basis, the coal price is based on the average of the three last benchmarked prices at the month where the price was agreed.

On 26 August 2011, the Director General of Mineral and Coal issued Director General Regulation No. 999.K/30/DJB/2011 on the Procedure for Determining the Adjustment Coal Benchmark Price, which regulates:

- Setting the cost adjustment for the calculation of coal benchmark price for Free on Board Barge coal sales, cost insurance freight coal sales and coal sales within one island; and
- The regulated adjustment is the maximum adjustment that can be applied for calculating Government royalties.

The Group has complied with the requirements of the regulation, as mentioned above.

r. Contract in relation to the overburden crushing and conveying system

On 25 March 2011, Adaro and FLSmidth Spokane, Inc entered into a contract in relation to the overburden crushing and conveying system equipment supply and offshore services ("FLSmidth Spokane Contract"), for the purpose of supporting Adaro's increase of its coal production capacity, with a total contract amount of US$92,003. Either party may assign their interest in the contract to another entity, with written consent from the other party.

On 10 November 2011, Adaro, JPI and FLSmidth Spokane, Inc entered into a deed of novation of a contract, where Adaro transfers all its rights and obligations under the FLSmidth Spokane Contract, to JPI.

On 25 March 2011, Adaro and PT Wijaya Karya (Persero) Tbk entered into a construction contract in relation to the overburden crushing and conveying system ("WIKA Contract"), with a total contract amount of US$83,870. The construction is planned to be completed within two years from the date of the commencement of the project. Either party may assign their interest in the contract to another entity, with written consent from the other party.

On 10 November 2011, Adaro, JPI and PT Wijaya Karya (Persero) Tbk entered into a deed of novation of a contract, whereas Adaro transfers all its rights and obligations under the WIKA Contract to JPI.

s. Long-term Power Purchase Agreement for the Coal Fired Independent Power Producer ("IPP")

The Company, together with Electric Power Development Co Ltd ("JPower") and Itochu Corporation ("Itochu"), which form JPower-Adaro-Itochu Consortium and established PT Bhimasena Power Indonesia ("BPI") in July 2011, which the Company through its subsidiary, PT Adaro Power, owns participation interests of 34%, 34% and 32% respectively, to build, own and operate a coal fired power plant.

40. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

s. Long-term Power Purchase Agreement for the Coal Fired Independent Power Producer ("IPP") (continued)

On 6 October 2011, BPI and PLN signed a long-term Power Purchase Agreement ("PPA"). The PPA includes the construction of a coal fired power plant with a total capacity of 2,000 MW in the Province of Central Java (Central Java Power Plant/"CJPP") and a 25-year supply of electricity to PLN. In addition to the PPA, a Guarantee Agreement was also signed by and among the Government of the Republic of Indonesia, PT Penjaminan Infrastruktur Indonesia (Persero) and BPI, which in this case, guarantee PLN's payment obligation for the CJPP project under the PPA.

The construction is expected to begin in October 2012 and commercial operations are expected to start in late 2016.

t. MIP legal issue

On 31 January 2008, PT Tambang Batubara Bukit Asam (Persero), Tbk. ("the Plaintiff") filed a lawsuit of "Tort" on (i) Lahat Regent, (ii) Head of Mines and Energy Department of Lahat Regency, (iii) Head of Mines and Energy Development Department of the Provincial Government of South Sumatera qq. South Sumatera Governor, (iv) PT Mustika Indah Permai, (v) PT Bukit Bara Alam, (vi) PT Muara Alam Sejahtera, (vii) PT Bara Alam Utama, and (viii) PT Bumi Merapi Energi ("the Defendants"), through District Court of Lahat in civil case No. 04/Pdt.G/2008/PN.LT. On 12 August 2008, the case was resolved by a decision that in principal declared that the District Court of Lahat is not authorised by its jurisdiction to adjudicate the case. The Plaintiff further appealed to the High Court of Palembang and on 16 December 2008 the High Court of Palembang issued decision No. 78/PDT/2008/PT.PLG on the appeal. For the decision of the High Court of Palembang, the Defendants has filed a cassation and the Supreme Court issued Cassation decision No. 2157K/PDT/2009 on 28 January 2010.

Further to the Cassation decision, a Judicial Review has been filed to the Supreme Court, that is recorded under case register No. 405 PK/PDT/2011. The Judicial Review that was requested by (i) PT Bumi Merapi Energi, (ii) PT Bara Alam Utama, (iii) PT Mustika Indah Permai, (iv) PT Bukit Bara Alam, (v) PT Muara Alam Sejahtera, (vi) Lahat Regent, and (vii) Head of Mines and Energy Department of Lahat Regency, was decided by the Supreme Court on 10 November 2011 and received on 20 March 2012 through Announcement for Judicial Review Decision No: 405 PK/PDT/2011 No: 04/Pdt.G/2008/PN.LT with the decision to grant the judicial review request of the Requestors of the Judicial Review and to revoke the decision of the Supreme Court No. 2157 K/Pdt/2009 on 28 January 2010, and to declare that the District Court of Lahat is not authorised to adjudicate case No. 04/Pdt.G/2009/PN.LT.

With the issuance of Supreme Court Decision No. 405 PK/PDT/2011 that granted the Judicial Review's request and in favor of the Judicial Review Requestors, and considering that case No. 04/Pdt.G/2008/PN.LT jo. No. 78/PDT/2008/PT.PLG jo. No. 2157K/PDT/2011 has obtained a final and binding decision ("inkracht van gewijsde") and that the Judicial Review made the final decision that no further appeal can be made to this decision, the Management is of the opinion that the decision of the Supreme Court on the Judicial Review case No. 405 PK/PDT/2011 was the final and binding decision and shall be obeyed by the disputing parties, therefore it can be the legal reference for all parties concerned.

In addition, letter from Lahat Regent to Director General of Mineral and Coal No. 540/244/Pertamb.II/2012 dated 20 March 2012, concerning the Correction on IUP Reconciliation Announcement in Lahat Regency, as forwarded to the Defendants, declared that on 10 October 2011 the Supreme Court made a decision on Administrative Court Judicial Review case No. 109 PK/TUN/2011 which granted the Judicial Review request of Lahat Regent with the following decision: grant the Judicial Review request from the Judicial Review Requestor (Lahat Regent); revoke Supreme Court decision No: 326 K/TUN/2006 dated 10 May 2007; and fully reject the lawsuit of the Plaintiff (PT Tambang Batubara Bukit Asam (Persero), Tbk.).

As such, the lawsuit of PT Tambang Batubara Bukit Asam (Persero), Tbk. to the Lahat Regent in Administrative Case No.06/G.TUN/2005/PTUN-PLG jo. No.100/BDG/2005/PT.TUN-MDN jo. No.326 K/TUN/2006 jo. No.109 PK/TUN/2011 has been fully rejected and the case has obtained a final and binding decision ("inkracht van gewijsde"). Therefore Lahat Regent Decision No. 540/29/KEP/PERTAMBEN/2005 dated 24 January 2005, for the Determination of the Status of the Former Exploitation Mining Rights Area (KW.97.PP0350) and Exploitation Mining Rights (KW.DP.16.03.04.01.03) of PT Tambang Batubara Bukit Asam (Persero), Tbk., that confirms the authority of the Lahat Regency Government in managing the license of the mining area inside the area of Lahat Regency, and its implementations or further actions, including the process of IUP issuance is lawful, and it is therefore the legal reference for all parties concerned.

(Expressed in thousand US Dollars, unless otherwise stated)

41. RECLAMATION GUARANTEE

On 29 May 2008, the Minister of Energy and Mineral Resources announced a new regulation regarding mine reclamation and mine closure, as detailed in Ministerial Regulation No. 18/2008. It is stated that a company is required to provide mine reclamation and mine closure guarantees which may be in the form of a time deposit, bank guarantee or insurance, all of which with a duration corresponding to the reclamation schedule. The mine reclamation guarantee may also be in the form of an accounting reserve, if the company either is a publicly listed company or has paid-up capital of at least US$25,000 as stated in the audited financial statements. If in the form of a time deposit, the mine closure guarantee may be placed in Rupiah or US$ funds, with a state owned bank in Indonesia on behalf of the Minister of Energy and Mineral Resources, Governor or Mayor qq of the relevant company with a duration corresponding to the mine closure schedule.

Based on the Decree of the DGoMCG No. 882/37.06/DJB/2010 dated 26 March 2010 and No. 1153/30/DJB/2011 dated 11 March 2011, Adaro is required to provide a Reclamation Guarantee in the form of performance bonds. As at the statement of financial position date, Adaro had placed reclamation guarantees in the form of performance bonds amounting to Rp 47.1 billion (31 December 2010: Rp 46.2 billion).

On 20 December 2010, the Government of Indonesia released an implementing regulation for Mining Law No.4/2009, i.e. Government Regulation No.78/2010 (“GR No.78”) that deals with reclamations and post-mining activities for both IUP-Exploration and IUP-Production Operation holders. This regulation updates Ministerial Regulation No.18/2008 issued by the Minister of Energy and Mineral Resources on 29 May 2008.

An IUP-Exploration holder, among other requirements, must include a reclamation plan in its exploration work plan and budget and provide a reclamation guarantee in the form of a time deposit placed at a state-owned bank.

An IUP-Production Operation holder, among other requirements, must prepare (1) a five-year reclamation plan; (2) a post-mining plan; (3) provide a reclamation guarantee which may be in the form of a joint account or time deposit placed at a state-owned bank, a bank guarantee, or an accounting provision (if eligible); and (4) provide a post-mine guarantee in the form of a time deposit at a state-owned bank.

The requirement to provide a reclamation guarantee and a post-mine guarantee does not release the IUP holder from the requirement to perform reclamation and post-mine activities.

The transitional provisions in GR No. 78 make it clear that CCA holders are also required to comply with this regulation.

In 2009, Adaro submitted its mine closure plan to the MoEMR. Adaro is still discussing the mine closure plan with MoEMR. The form of the guarantee for the mine closure will be decided once MoEMR has approved Adaro’s mine closure plan.

42. FINANCIAL ASSETS AND LIABILITIES

The information given below relates to the Group’s financial assets and liabilities by categories:

	Total	Loans and receivables	Hedging derivatives	Investment in equity with no quoted market price
Financial assets				
31 December 2011				
Cash and cash equivalents	558,872	558,872	-	-
Trade receivables	471,342	471,342	-	-
Recoverable taxes	96,950	96,950	-	-
Other receivables	13,528	13,528	-	-
Loans to third parties	36,542	36,542	-	-
Loan to a related party	15,508	15,508	-	-
Derivative assets	666	-	666	-
Restricted cash and time deposits	941	941	-	-
Investment in equity securities	65,708	-	-	65,708
Other current assets	2,222	2,222	-	-
Other non-current assets	13,881	13,881	-	-
Total financial assets	1,276,160	1,209,786	666	65,708

(Expressed in thousand US Dollars, unless otherwise stated)

42. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets	Total	Loans and receivables	Hedging derivatives	Investment in equity with no quoted market price
31 December 2010*				
Cash and cash equivalents	607,271	607,271	-	-
Trade receivables	275,426	275,426	-	-
Recoverable taxes	78,412	78,412	-	-
Other receivables	3,110	3,110	-	-
Restricted cash and time deposits	1,294	1,294	-	-
Other current assets	155	155	-	-
Other non-current assets	8,113	8,113	-	-
Total financial assets	973,781	973,781	-	-
1 January 2010*				
Cash and cash equivalents	1,199,427	1,199,427	-	-
Trade receivables	306,645	306,645	-	-
Recoverable taxes	69,503	69,503	-	-
Other receivables	2,251	2,251	-	-
Restricted cash and time deposits	1,009	1,009	-	-
Other current assets	2,422	2,422	-	-
Other non-current assets	5,944	5,944	-	-
Total financial assets	1,587,201	1,587,201	-	-

Financial liabilities	Total	Fair value through profit or loss	Hedging derivatives	Other financial liabilities at amortised cost
31 December 2011				
Trade payables	388,342	-	-	388,342
Accrued expenses	39,192	-	-	39,192
Royalties payable	132,429	-	-	132,429
Derivative liabilities	5,482	-	5,482	-
Other liabilities	7,306	-	-	7,306
Amounts due to a related party	500	-	-	500
Finance lease payables	75,246	-	-	75,246
Long-term bank loans	1,242,029	-	-	1,242,029
Senior Notes	787,292	-	-	787,292
Total financial liabilities	2,677,818	-	5,482	2,672,336
31 December 2010*				
Trade payables	268,394	-	-	268,394
Accrued expenses	82,080	-	-	82,080
Royalties payable	75,906	-	-	75,906
Derivative liabilities	16,231	2,628	13,603	-
Other liabilities	2,092	-	-	2,092
Amounts due to a related party	500	-	-	500
Finance lease payables	88,761	-	-	88,761
Long-term bank loans	717,336	-	-	717,336
Senior Notes	786,148	-	-	786,148
Total financial liabilities	2,037,448	2,628	13,603	2,021,217

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

42. FINANCIAL ASSETS AND LIABILITIES (continued)

	Total	Fair value through profit or loss	Hedging derivatives	Other financial liabilities at amortised cost
Financial liabilities				
1 January 2010*				
Trade payables	230,650	-	-	230,650
Accrued expenses	32,145	-	-	32,145
Short-term bank loan	20,000	-	-	20,000
Royalties payable	78,515	-	-	78,515
Derivative liabilities	17,837	-	17,837	-
Other liabilities	3,248	-	-	3,248
Amounts due to a related party	500	-	-	500
Finance lease payables	86,336	-	-	86,336
Long-term bank loans	784,183	-	-	784,183
Senior Notes	785,090	-	-	785,090
Total financial liabilities	2,038,504	-	17,837	2,020,667

43. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates, commodity prices and interest rates. The objectives of the Group's risk management are to identify, measure, monitor and manage basic risks in order to safeguard the Group's long term business continuity and to minimise potential adverse effects on the financial performance of the Group.

a. Market risk

(i) Foreign exchange risk

The financing and the majority of revenue and operating expenditures of the operating subsidiaries of the Company are denominated in US Dollars, which indirectly represents a natural hedge on exposure to the fluctuation in foreign exchange rates.

However, the Group is exposed to foreign exchange risk arising from Rupiah dividend payments to the shareholders and other operation expenses. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk, the Group use forward contracts, transacted only with reputable financial institutions.

(ii) Price risk

The Group faces commodity price risk because coal is a commodity product traded in the world coal markets. Prices for Adaro's coal ("Envirocoal") are based on global coal prices, which tend to be highly cyclical and subject to significant fluctuations. As a commodity product, global coal prices are principally dependent on the supply and demand dynamics of coal in the world export market. The Group did not engage in spot coal trading and has not entered into long-term coal pricing agreements to hedge its exposure to fluctuations in the coal price but may do so in the future. Instead, the Group entered into one-year fixed price coal contracts with some of its customers to safeguard a portion of its revenue for each year.

The Group also faces commodity price risk relating to purchases of fuel necessary to run its coal mining operations. The Group enters into fuel hedge contracts to hedge against the fluctuation in fuel prices for part of the estimated annual fuel usage. Besides this, for mining services provided to its customers, to manage the price risk, the Group entered into long-term contracts with its customers (maximum five years) which also allows price adjustments when the fuel price increases.

* As restated (refer to Note 3)

(Expressed in thousand US Dollars, unless otherwise stated)

43. FINANCIAL RISK MANAGEMENT (continued)

a. Market risk (continued)

(iii) Interest rate risk

In order to reduce the risks caused by fluctuations in interest rates which increase the uncertainty of the cash flow for interest payments in the future, the Group entered into an interest rate swap contract, under which the Group will pay a fixed interest rate and receive payments at a floating interest rate.

The following table represents a breakdown of the Group's financial assets and liabilities on which interest rates have an impact:

	31 December 2011					
	Floating rate		Fixed rate			
	Less than one year	More than one year	Less than one year	More than one year	Non-interest bearing	Total
Financial assets						
Cash and cash equivalents	451,750	-	107,015	-	107	558,872
Trade receivables	-	-	-	-	471,342	471,342
Other receivables	-	-	-	-	13,528	13,528
Loans to third parties	16,542	-	20,000	-	-	36,542
Loan to a related party	-	-	15,508	-	-	15,508
Derivative assets	-	-	-	-	666	666
Restricted cash and time deposits	140	-	-	801	-	941
Recoverable taxes	-	-	-	-	96,950	96,950
Investment in equity securities	-	-	-	-	65,708	65,708
Other current assets	-	-	-	-	2,222	2,222
Other non-current assets	-	-	-	-	13,881	13,881
Total financial assets	468,432	-	142,523	801	664,404	1,276,160

	31 December 2011					
	Floating rate		Fixed rate			
	Less than one year	More than one year	Less than one year	More than one year	Non-interest bearing	Total
Financial liabilities						
Trade payables	-	-	-	-	388,342	388,342
Accrued expenses	-	-	-	-	39,192	39,192
Royalties payable	-	-	-	-	132,429	132,429
Derivative liabilities	-	-	-	-	5,482	5,482
Other liabilities	-	-	-	-	7,306	7,306
Amounts due to a related party	-	-	-	-	500	500
Finance lease payables	35,695	39,551	-	-	-	75,246
Long-term bank loans	102,549	1,139,480	-	-	-	1,242,029
Senior Notes	-	-	-	787,292	-	787,292
Total financial liabilities	138,244	1,179,031	-	787,292	573,251	2,677,818

b. Credit risk

As at 31 December 2011, total maximum exposure from credit risk was US$1,194,242. Credit risk arises from cash in banks, time deposits, trade receivables, other receivables, derivative assets, recoverable taxes, loans to third parties, loan to a related party and restricted cash and time deposits.

As at 31 December 2011, the balance of trade receivables that had been overdue for more than 30 days amounted to US$22,053, which represented 4.7% of total trade receivables (31 December 2010: US$6,546, which represented 2.4% of total trade receivables). The Group does not hold collateral as security for any trade receivables.

43. FINANCIAL RISK MANAGEMENT (continued)

b. Credit risk (continued)

Management is confident in its ability to continue to control and maintain minimal exposure to credit risk, since the Group has clear policies on the selection of customers, legally binding agreements in place for coal sales transactions and mining services and other services rendered and historically low levels of bad debts. The Group's general policies for coal sales and rendering services to new and existing customers are as follows:

- Selecting customers (mostly blue chip power plant companies) with a strong financial condition and a good reputation.
- Acceptance of new customers and sales of coal and rendering service are approved by authorised personnel according to the Group's delegation of authority policy.

c. Liquidity risk

Liquidity risk is defined as a risk that arises in situations where the cash inflow from short-term revenue is not enough to cover the cash outflow of short-term expenditure. To manage its liquidity risk, the Group monitors its level of cash and cash equivalents and maintains these at a level deemed adequate to finance the Group's operational activities and to mitigate the effect of fluctuation in cash flows. The Group's management also regularly monitor projected and actual cash flows, including their loan maturity profiles and continuously assess the financial markets for opportunities to raise funds. In addition, the Group has a stand-by loan facility which can be withdrawn upon request to fund its operations when needed.

d. Fair value

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable and willing parties in an arm's length transaction.

The table below describes the carrying amounts and fair value of financial assets and liabilities that are not presented by the Group at fair value:

	Carrying amount	Fair value
Finance lease payables	75,246	74,575
Long-term bank loans	1,242,029	1,256,165
Senior Notes	787,292	878,184

The fair value of finance lease payables and long-term bank loans is measured using discounted cash flows based on the interest rate on the latest finance lease payable and the latest bank loan facility entered by the Group. The fair value of Senior Notes is estimated using the quoted market price as at 31 December 2011.

The carrying amount of other financial assets and liabilities are approximate to their fair values because of the short-term nature of the financial instruments.

e. Capital risk management

In managing capital, the Group safeguards its ability to continue as a going concern and to maximise benefits to the shareholders and other stakeholders.

The Group actively and regularly reviews and manages its capital to ensure the optimal capital structure and return to the shareholders, taking into consideration the efficiency of capital use based on operating cash flows and capital expenditures and also consideration of future capital needs.

The Group also seeks to maintain a balance between the level of borrowings and equity position to ensure the optimal capital structure and return. There were no changes in the Group's approach to capital management during the year.

44. SUBSEQUENT EVENTS

Acquisition of additional 48.98% interest in AEI

On 12 March 2012, AMT and PT Industri Terminal Batubara ("ITB") signed sales and purchase agreement and share transfer deeds, whereby AMT will purchase 48.98% interest in AEI from ITB for Rp 2.1 billion.

Corporate Identity

Name of Corporation
PT Adaro Energy Tbk

Founded
July 28, 2004

Authorized Capital
Rp 8,000 billion

Issued and Fully Paid Capital
Rp 3,198.60 billion

Ownership

PT Adaro Strategic Investments	43.91%
Garibaldi Thohir	6.15%
Public*	49.94%

*includes the remaining ownership held by key shareholders.

Line of Business
Integrated coal mining through subsidiaries

Address
Jl. H.R. Rasuna Said, Blok X-5, Kav. 1-2
Jakarta 12950
Indonesia
Tel.: 6221 – 5211265
Fax.: 6221 – 57944687
Email: investor.relations@ptadaro.com

For more information please visit our website
www.adaro.com

Key Personnel and Business Unit

PT Adaro Energy, Tbk ("AE") and Adaro Indonesia ("AI")	
Board of Commissioners	
Edwin Soeryadjaya	President Commissioner (AE, AI)
Theodore Permadi Rachmat	Vice President Commissioner (AE, AI)
Ir. Subianto	Commissioner (AE, AI)
Lim Soon Huat	Commissioner
Ir. Palgunadi T. Setyawan	Independent Commissioner
Raden Pardede	Independent Commissioner
Board of Directors	
Garibaldi Thohir	President Director & Chief Executive Officer (AE, AI)
Christian Ariano Rachmat	Vice President Director & Deputy CEO (AE, AI)
Sandiaga Salahuddin Uno	Director, General Affairs (AE, AI)
Andre Johannes Mamuaya	Director, Corporate Affairs (AE, AI)
David Tendian	Director & Chief Financial Officer (AE, AI)
Chia Ah Hoo	Director & Chief Operations Officer (AE, AI)
Indra Aman	Director & Chief Legal Officer (AE)

Adaro Indonesia	
Edwin Tsang	Chief Marketing Officer (AI)

SIS	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Tjahyono Imawan	Vice President Commissioner
Kardinal A. Karim	Commissioner
Ir. Budiardjo Sosrosukarto	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Ir. Anis Sulistiadi	President Director
Budi Rachman	Vice President Director and Director of Operations
Bimantoro Adisanyoto	Director of HRGA
Christina Hiu	Director of Finance
Ateng Kurnia	Plant Director

OML/MBP/HBI	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Pepen Handianto Danuatmadja	President Commissioner (HBI & MBP)
Board of Directors (other than members from PT Adaro Energy Tbk)	
Pepen Handianto Danuatmadja	President Director (OML)
Goh Khoon Teen Paul	Director (OML)
Yim Foon Kuan	President Director (HBI & MBP)
Chin Sik Cheon	Director (HBI, MBP, and OML)
Susanti	Director (HBI & MBP)

MSW	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Erry Firmansyah	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Joseph Francis Chong	President Director
Fakhrol Azmi Bin Harun	Director

SDM	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Max Tamaela	President Commissioner
Wiranata Halim	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Fakhrol Azmi Bin Harun	President Director
Ceri Wibisono	Director
Ade Mohammad Yusuf	Director
Ng Kirh Chien	Director

IBT	
Board of Directors (other than members from PT Adaro Energy Tbk)	
Adrian Lembong	Director

JPI	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
DR. Ir. Kusmayanto Kadiman	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	

IMPT	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Suprihat	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Sonny Sidjaja	President Director
Liana Chandra	Director
Wan Yazid	Director
Robert Sianipar	Director

Adaro Power	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
DR. Ir. Kusmayanto Kadiman	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Adrian Lembong	Director
Ir. Mohammad Effendi	Director
Joseph Francis Chong	Director
Ernest Kee	Director

Coaltrade Services International	
Board of Directors (other than members from PT Adaro Energy Tbk)	
Edwin Tsang	Director
Chong Siong Siang Peter	Director

Bukit Enim Energi	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Ellyus Achiruddin	Commissioner
Eldy Ellyus	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Octavianus Achiruddin	Director
H. Karman Hadinata MD	Director

Mustika Indah Permai	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Hasim Sutiono	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Ariya Somanatta	Director
Andri Wijono Sutiono	Director
Freddy Hartono	Director

Servo Meda Sejahtera	
Board of Commissioners (other than members from PT Adaro Energy Tbk)	
Setiawan Herlianto Saputro	Commissioner
Fajar Surya Bayuaji	Commissioner
Syahrul	Commissioner
Board of Directors (other than members from PT Adaro Energy Tbk)	
Fitrot Agung Pribadi	President Director
Hendra Hartono Santoso	Director
Julius Edy Wibowo	Director
Muliawati Pahala Guptha	Director
Togam Gultom	Director
Ng Kirh Chien	Director

Adaro Persada Mandiri	
Board of Directors (other than members from PT Adaro Energy Tbk)	
Ari Hariadi	Director
Luckman	Director

Management's Responsibility for Annual Report

Annual Report 2011

The Board of Commissioners and The Board of Directors of PT Adaro Energy Tbk herewith state that we are fully responsible for the contents of the Annual Report 2011 of PT Adaro Energy Tbk.

Board of Commissioners

Edwin Soeryadjaya
President Commissioner

Theodore Permadi Rachmat
Vice President Commissioner

Ir. Subianto
Commissioner

Lim Soon Huat
Commissioner

Ir. Palgunadi Tatit Setyawan
Independent Commissioner

Dr. Ir. Raden Pardede
Independent Commissioner

Board of Directors

Garibaldi Thohir
President Director &
Chief Executive Officer

Christian Ariano Rachmat
Vice President Director &
Deputy CEO

Sandiaga Salahuddin Uno
Director, General Affairs

Andre Johannes Mamuaya
Director, Corporate Affairs

David Tendian
Director & Chief Financial Officer

Chia Ah Hoo
Director & Chief Operations Officer

M. Syah Indra Aman
Director of Legal & Chief Legal Officer

Glossary

AE – PT. Adaro Energy, Tbk.

AI – PT. Adaro Indonesia.

Ash – Impurities consisting of silica, iron, alumina, and other incombustible matter that are contained in coal. Ash increases the weight of coal, adds to the cost of handling, and can affect the burning characteristics. Ash content is measured as a percent by weight of coal on a dry basis.

ASP – Average selling price.

ATA – PT. Alam Tri Abadi.

Backfill – The process of refilling a mine opening, or the waste material (e.g. sand, rock, dirt) used for that purpose.

Backlog of Coal – Uncompleted delivery of coal which can result in demmurage.

Barge loader – A facility by which coal barges are loaded.

Barging / barge – A flat bottomed boat used for carrying freight of coal, on a river.

Belt conveyor – A moving endless/looped belt that rides on rollers and on which coal or other materials can be carried for various distances.

Baltic Freight Index (BFI) – An index reflecting a freight costs on composite number of routes, issued on a daily basis.

Bituminous coal – A coal which is high in carbonaceous matter, often with well-defined bands of bright and dull material, and having between 15 and 50% volatile matter. It is a middle rank coal (between sub-bituminous and anthracite) formed by additional pressure and heat on lignite. Its moisture content is usually less than 20%. The heat content of bituminous coal ranges from 5,500 to 7,000 kcal/kg.

Black coal – A general term for coal of either sub-bituminous, bituminous or anthracite rank.

Blasting – Detonation of explosive charge in a mine or elsewhere to assist in the breaking of hard rock.

Borehole – Any drill-hole, usually associated with a diamond drill or an oil well drill.

Briquet – A block of compressed coal, used as fuel; also a slab or block of artificial stone.

Brown coal – A low-rank coal which is brown, brownish-black, but rarely black. It commonly retains the structures of the original wood. It is high in moisture, low in heat value and breaks up upon drying.

Brownfield – An exploration or development project located within an existing mineral province which can share infrastructure and management with an existing operation.

Bulldozer – A highly versatile piece of earth excavating and moving equipment especially useful in land clearing and levelling work, in stripping topsoil, in road building and ramp building and in floor or bench cleanup and gathering operations.

Calorific value / Heat Value – A coal sample's energy content measured as the heat released on complete combustion in air or oxygen, usually expressed in kilo calorie per kilogram or kcal/kg.

Capesize vessel – Vessels capable of carrying 120,000 tonnes to 180,000 tonnes when fully loaded (a vessel which is too large to transit the Panama Canal and thus has to sail via Cape of Good Hope from Pacific to Atlantic and vice versa).

Carbon Content – The amount of carbon in coal.

Cash costs – Cash costs include site costs for all mining (excluding deferred development costs), processing and administration, but are exclusive of royalties, production taxes, amortisation and rehabilitation, as well as corporate adminstration, capital and exploration costs.

CCA (Coal Cooperation Agreement) – Coal Cooperation Agreement with the Indonesian Government, giving Adaro a 30-year right to mine coal within its concession area.

CCoW (Coal Contract of Work) – A contract between the Government of the Republic of Indonesia and an Indonesian incorporated company for coal mining, also recognised as PKP2B in its Indonesian abbreviation.

C&F (Cost and Freight) – Method of selling cargo where seller pays for loading costs and ocean freight.

CIF (Cost, Insurance, Freight) – A type of sale in which the buyer of the product agrees to pay a unit price that includes the F.O.B value of the product at the point of origin plus all costs of insurance and transportation.

Charterer – A person or corporation who hires a vessel for the carriage of goods (either a time charter or voyage charter, or leases the vessel for their own management and control, a bareboat/demise charter).

Coal – A readily combustible black or brownish rock whose composition, including inherent moisture, consists of more than 50% by weight and more than 70% by volume of carbonaceous material. It is formed from plant remains that have been compacted, hardened, chemically altered and metamorphosed by heat and pressure over geologic time.

Coalbed methane (CBM) – A generic term for the methane originating in coal seams that can be drained from surface boreholes before mining takes place. Also called coal seam methane or coal mine methane.

Coal blending – The process of mixing coals of different quality in predetermined and controlled quantities to give a uniform feed or product.

Coal enhancement technology – Removing water / moisture by utilising heat and pressure to produce an upgraded coal.

Coal hauling – The transport of coal from mine site to a crushing terminal, or to a customer.

Coal liquefaction – The process of converting coal into a synthetic fuel.

Coal scrubber – A pollution-control device primarily installed on coal-fired electricity plants to remove sulphur dioxide (SOx) emissions. Coal scrubbers use limestone to remove sulphur dioxide from the emissions stream.

Coal seams / coal bed – A bed or stratum of coal; generally applied to large deposits of coal.

Coking coal – Coal which are suitable for coke making and used in the production of metallurgical coke and steel.

Conveyor – A means of transporting coal consisting of an endless belt being driven by a motor drum system over a structure roller assembly (see belt conveyor).

Cored hole – A borehole put down by a drill that takes a sample of the rock.

Crusher – A machine for crushing rock or other materials.

CTI – Coaltrade Services International Pte. Ltd.

CV – Calorific Value basis either GAD, NAR, or GAR.

Demurrage – Financial compensation paid by charterer to the vessel for delays after the laytime has expired at the load/discharge port.

Despatch – Financial reward paid by the owner to the charterer if the load/discharge operations are completed in advance of expiry of laytime. Usually paid at half the demmurage rate.

Dewater – To remove water.

Dip – The grade of the coal seam. It is usually expressed as I in X in a certain direction.

Dredging – Excavation activity or operation usually carried out at least partly underwater, in shallow seas or fresh water areas with the purpose of gathering up bottom sediments and disposing of them at a different location.

Drill – Any cutting tool or form of apparatus using energy in any one of several forms to produce a circular hole in rock, metal, wood, or other material.

Drilling rig – A steel structure mounted over a borehole to support the drill pipe and other equipment that is lowered and raised during drilling operations.

Dry coal – Coal which has no moisture associated with the sample.

EPC – Engineering, Procurement and Construction.

Envirocoal – Trademark of Adaro's coal which is environmentally friendly, with low sulphur content of 0.1%, ash content between 1-2%, and a nitrogen level of 0.9%. Because of the ultra low levels of these pollutants, Envirocoal can be burned in power stations without any emissions control equipment and still meet stringent international emission standards.

Excavator/shovel/wheel Loader – Equipment used for loading soil/coal onto the hauling equipment.

Exploitation – The process of economic recovery or removal of the developed mineral body.

Exploration - The search for mineral deposits and the work done to prove or establish the extent of a mineral deposit.

Free On Board (FOB) – This is the price paid for coal at the mining operation site. It excludes freight or shipping and insurance costs.

Floating crane – A vessel that is specialized in lifting heavy loads. The floating crane transships coal from barges on to ships which then transport it to power stations or other customers.

Floating Loading Facility (FLF) – Also known as floating transhipper. It uses two cranes and a conveyor system to achieve a high loading rate.

Flue gas desulphurization – Technology used for removing sulphur dioxide (SO2) from the exhaust flue gases in power plants that burn coal or oil to produce steam for the steam turbines that drive their electricity generators.

Force majeure – Circumstances beyond reasonable control of the parties. Typically, force majeure clauses cover natural disasters or other 'Act of God', or war.

Formation – A large body of rock characterized by homogenity of its composition and texture.

Gad – Gross air dried.

Gar – Gross as received.

Geared vessel - A ship with on board cranes.

Gearless – A ship without means on board for the loading/unloading of cargo.

Geological – The science that deals with the earth's physical structure and substance, its history, and the processes that act on it.

Geotechnical – The branch of civil engineering concerned with the study and modification of soil and rocks.

Geothermal energy – Energy generated by converting hot water or steam from deep beneath the Earth's surface into electricity.

GlobalCOAL – A global marketplace facilitator for trading coal and coal related services, information and instruments. GlobalCOAL defined a range of standardised coal quality specifications, which was imbedded in its Standard Coal Trading Agreement. It developed an online trading platform which enables market participants to trade standardised coal contracts. It also created a methodology for coal price index calculation, which led to the establishment of the NEWC Index as the leading benchmark for coal price in Asia-Pacific.

Grabs – A mechanical device for clutching, lifting and moving things, esp. materials in bulk.

Greenfield – The development or exploration located outside the area of influence of existing mine operations/infrastructure.

Handymax – Inexact term, but normally taken to mean a vessel of about 40-60,000 dwt.

Handysize – Inexact term, but normally taken to mean a vessel of about 10-40,000 dwt.

Hard coking coal – Coals which make hard coke when carbonised in the coke oven.

Haulage – The carrying in trucks of supplies coal and waste.

HBI – PT. Harapan Bahtera Internusa.

Hydrological – The branch of science concerned with the properties of the earth's water, esp. its movement in relation to land.

IBT – PT. Indonesia Bulk Terminal.

IFC – International Finance Corporation.

Indicated coal resources – Part of coal deposit for which quality and quantity can be estimated with a reasonable level of confidence, as defined in the JORC Code. Indicated Resources have a lower level of geological confidence than that applied to Measured Resources.

Inferred coal resources – Coal in unexplored extensions of the demonstrated resources for which estimates of the quality and size are based on geologic evidence and projection. Quantitative estimates are based largely on broad knowledge of the geologic character of the deposit and for which there are few, if any, samples or measurements. The estimates are based on an assumed continuity or repletion of which there is geologic evidence; this evidence may include comparison with deposits of similar type.

In-situ – Total reserves of coal in a seam. Term used by geologist for coal that exists but is not necessarily mineable.

In-Pit Crusher-Conveyor (IPCC) system – It is an in-pit conveyor and crushing system which transports overburden to the dumping area.

Jetty – A landing stage or small pier at which boats can dock or be moored.

JORC Code – Widely accepted standard for reporting mineral resources and ore reserves established by the Australasian Joint Ore Reserves Committee. This code sets out the principles and guidelines which should be followed in the preparation of an expert report concerning mineral resources and reserves.

JPI – PT. Jasapower Indonesia.

JPU – Japanese Power Utilities.

Laytime – Refers to the period of time agreed between the parties in the charterparty, during which the owner will make and keep the ship available for loading/discharging without payment additional to the freight.

Lignite – A brownish-black coal in which the alteration of vegetal material has proceeded further than in peat but not so far as sub-bituminous coal.

Loader – A machine for loading coal and rock.

Low-rank coal: Coal that contains 70%-80% carbon, with high moisture content (>35%), and low calorific value (<5100 kcal/kg adb).

LTI – Lost Time Injury. It refers to a work injury disease where the injured party has at least one complete day or shift off work.

LTIFR – Loss Time Injury Frequency Rate. It refers to the number of lost time injuries multiplied by one million divided by the number of manhours worked in the reporting period.

MBP – PT. Maritime Barito Perkasa.

Measured coal resources – Part of the coal deposit for which quality and quantity can be estimated with a high level of confidence, as defined in the JORC Code.

Metallurgical Coal – Coking coal and pulverized coal consumed in making steel.

Methane (CH 4) – A gaseous compound of carbon and hydrogen naturally emitted from coal that can be explosive when mixed with air or oxygen between certain limits, it is the most common gas found in coal mines.

Metric ton – A unit of weight equal to 2,204.6 pounds.

Mine drainage – Refers to drainage from sources related to mining.

Mine-mouth power plant – A coal burning power-generating plant built near a coal mine.

Moisture content: Quantity of water/moisture in coals or other minerals.

MSW – PT. Makmur Sejahtera Wisesa.

Newcastle Coal Price – The price of coal which is coming from Newcastle, Australia.

Nitrogen Oxides (NoX) – Formed when nitrogen (N2) combines with oxygen (O2) in the burning of fossil fuels, from the natural degradation of vegetation, and from the use of chemical fertilizers.

OLC – Overland conveyor.

OML – Orchard Maritime Logistics Pte. Ltd.

Open-cut / open-pit – Surface working in which the working area is kept open to the sky.

Open-cut / open-pit mining – A form of operation designed to extract minerals that lie near the surface. Waste, or overburden, is first removed, and the mineral is broken and loaded, as in a stone quarry.

Open hole – A borehole free of any obstructing object or material and from which no core is taken.

Out-Pit Crusher-Conveyor (OPCC) system – It is an out-pit conveyor and crushing system which transports overburden from the edge of the mine to the overburden dumping area.

Overburden – Any material (including layers of dirt and rock) that overlies a deposit of coal. Overburden is removed prior to surface mining and replaced after the coal is taken from the seam.

Overburden ratio – The amount of overburden that must be removed to excavate a given quantity of coal.

Panamax vessel – Vessel capable of carrying between 50,000 tonnes and 80,000 tonnes when fully loaded (technically the maximum size a vessel can transit the Panama Canal – a restriction of 32.2 M beam).

Peat – Peat is a dark brown or black deposit, formed in marshes and swamps from the dead, and partly decomposed remains of the marsh vegetation. It is one of the earliest stages of coal formation.

Pit – Any mine, quarry, or excavation area worked by the open-cut method to obtain material of value.

Proven reserves – As indicated by the JORC Code, it is the economically mine able part of an indicated, and in some circumstances, measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Probable reserves – Similar to proved reserves, but with lower level of confidence, as the number of intersections of the coal seams by pits trenches and boreholes in the sampling is less than that conducted in arriving at the proved reserves (as defined in the JORC Code).

Ramp – A slope or inclined plane for connecting two different levels, and used for haulage.

Reclamation – The restoration of land and environmental values to a surface mine site after the coal is extracted. Reclamation operations are usually underway as soon as the coal has been removed from a mine site. The process includes restoring the land to its approximate original appearance by restoring topsoil and planting native grasses and ground covers.

Recoverable reserves of coal – An estimate of the amount of coal that can be recovered (mined) from the accessible reserves of teh demonstrated reserve base.

Reserve – The portion of the identified coal resource that can be economically mined with the current technology at the time of determination. Reserve can be divided into Proven Reserve and Probable Reserve.

Resource – Naturally occuring concentrations or deposits of coal in the Earth's crust, in such forms and amounts that economic extraction is potentially feasible.

Richards Bay Coal Terminal (RCBT) – A large export coal terminal located in South Africa, with a design capacity of 96 million tonnes per year. Richards Bay coal price refers to the FOB price of coal from South Africa loaded at Richards Bay.

Royalty – The payment of a certain stipulated sum on the mineral produced to the Government / mineral owner under the mineral lease.

Run of Mine (ROM) – Usually the typical quality of coal that is extracted, prior to any act of benefication such as washing, crushing or screening. The term is used loosely and can be applied on a pit by pit basis and is typically also used to refer to the raw stockpile areas – the ROM area.

S – Sulphur can form sulphur dioxide during coal combustion.

Scrubbers – Air pollution control devices used to remove particulate and/or gaseous pollutants from exhaust streams.

SDM – PT. Sarana Daya Mandiri.

Seaborne coal: Coal that is marketed outside the mining area and is transported by sea to the customer.

Seam – Layer or bed (of coal).

Self-propelled barge – Powered waterway vessel which can be used to carry heavy bulk items such as coal.

Semi-soft coal – A type of coking coal that can be blended with a hard coking coal to produce an acceptable hard coke.

Silt – A fine-grained sediment having a particle size intermediate between that of fine sand and clay.

SIS – PT. Saptaindra Sejati.

Soft coking coal – Coals which make soft or weak coke when coked alone in a coke oven.

Steaming Coal – Coal used to provide heat for steam raising as part of the electricity generation or industrial process.

Strata / Stratum – A layer or a series of layers of rock in the ground.

Stratigraphy – The branch of geology concerned with the order and relative position of strata and their relationship to the geological time scale. It is also the analysis of the order and position of layers of archaeological remains.

Stripping – Removal of vegetation and topsoil.

Stripping Costs – Costs associated with overburden removal.

Stripping Ratio – The amount of overburden that must be removed to gain access to a unit amount of coal.

Sub-bituminous coal – A black coal that ranks between lignite and bituminous coal with moisture content between 20% and 40% of inherent moisture by weight, and heat content ranging between 4,000 and 5,500 kcal/kg.

Sulphur – One of the elements present in varying quantities in coal that contributes to environmental degradation when coal is burned. EIA classifies coal, in terms of pounds of sulphur per million Btu as low (less than or equal to 0.60 pounds of sulphur), medium (between 0.61 and 1.67 pounds of sulphur), and high (greater than or equal to 1.68 pounds of sulphur). When coal is sampled, sulphur content is measured as a percent by weight of coal on an "as received" or "dry" (moisture-free) basis.

Supercritical Power Plant – A supercritical power plant is a thermal electricity generating station that uses steam at extremely high temperature and pressure to generate electricity with improved efficiency. Above 374°C and 22.064 Mpa (the "critical" point of water), water simply exists as super-heated steam, which can be used to drive the turbines of a generator more efficiently than steam at a lower subcritical temperature.

Surface mine – A mine in which the coal lies near the surface and can be extracted by removing the covering layers of rock and soil.

Quarry – An open pit from which stones, rocks and other materials are excavated

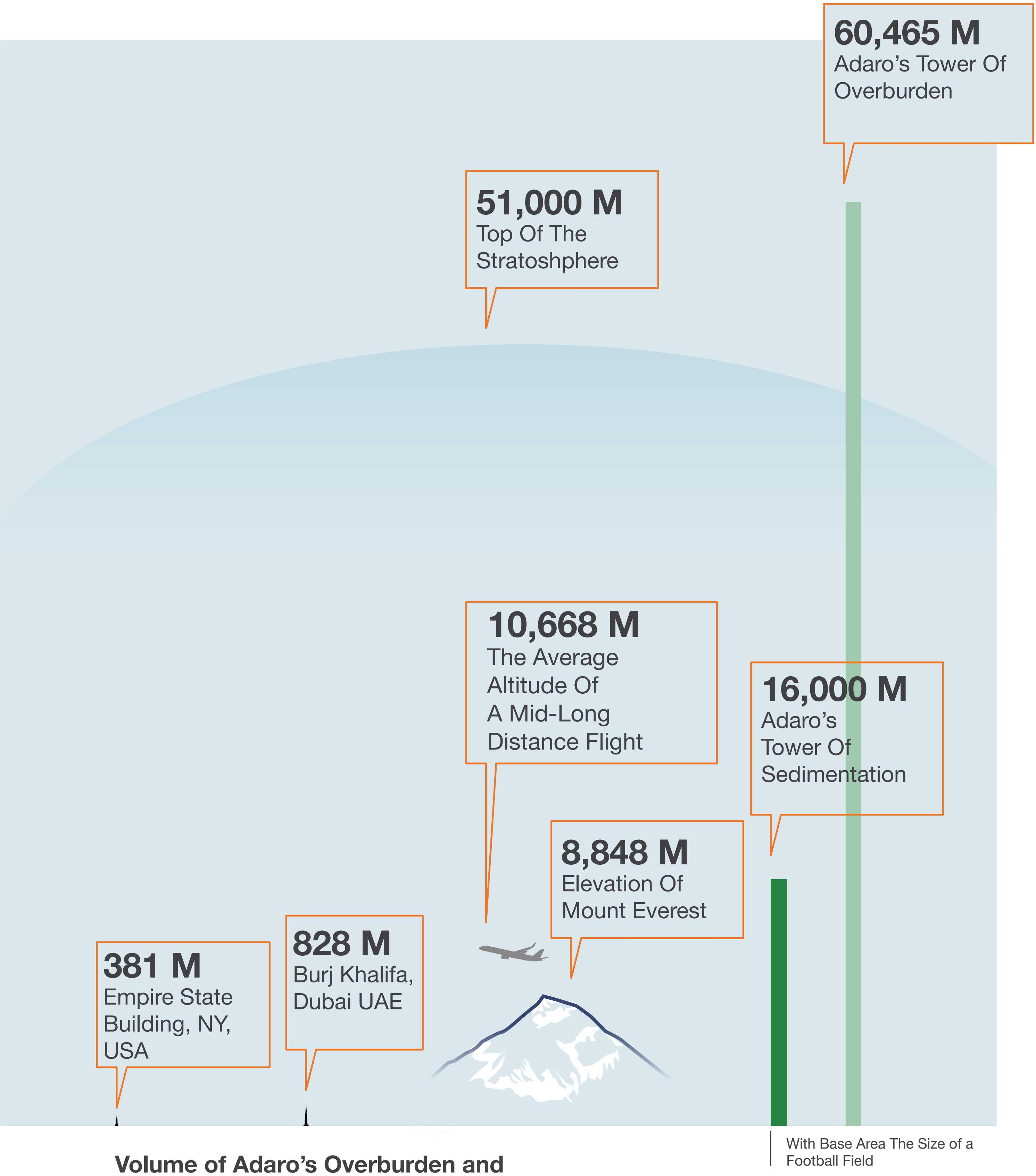
Thermal Coal – Coal that is used for the generation of heat for steam raising in power stations and other general industry application. These coals generally do not exhibit any coking properties and therefore would not make coke in a conventional coke oven.

Transhipment – Transfer of coal from one ship to another.

Topographic - Relating to the arrangement or accurate representation of the physical features of an area.

Value Added Tax (VAT) – Tax levied on the difference between a commodity's price before taxes and its cost of production.

Volatile Matter – Those products, exclusive of moisture, given off by a material as gas or vapour. It is the percentage of coal which is lost as volatile matter (gases) when coal is incinerated using standard conditions.



Volume of Adaro's Overburden and Sedimentation Removal in 2011

Through careful planning, engineering and execution we have developed our mine to become the largest single coal mine in the southern hemisphere. This has all been done with careful consideration for the local communities and the environment in which we operate. With this comparison, you can see the huge amount of overburden we had to move in 2011.

Annual Report 2011

TOP NEWS With more than 20 years of uninterrupted production growth, we have become the largest single site coal mine in the southern hemisphere.

EDITOR'S TOP READ Exclusive interviews with Adaro Energy's Board of Directors

UNBEATABLE INSIGHTS 12 reasons why you should consider investing in Adaro Energy

FINANCIAL HIGHLIGHT Adaro Energy's net income increased 124% to US$552 million in 2011

FACT Adaro Energy made a record contribution to nation building, incurring corporate income tax of US$450.5 million and royalties of US$405.4 million

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PT Adaro Energy, Tbk.
Menara Karya 23rd Floor
Jl. H.R. Rasuna Said Blok X-Kav. 1-2 Jakarta 12950
Indonesia
Tel. +62-21 5211265
Fax. +62-21 57944687
www.adaro.com
IDX: ADRO

ADARO ENERGY