

## NEWS RELEASE FROM ADARO ENERGY

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### ADARO ENERGY'S NET PROFIT INCREASES 109%

**Jakarta, November 28<sup>th</sup>, 2008** – PT Adaro Energy Tbk (IDX - ADRO) is pleased to announce reviewed consolidated net profit for the first nine months of 2008 increased 109% to Rp686 billion from the Rp329 billion for the first nine months of 2007. The significant increase is mostly due to higher achieved selling prices of coal as well as increased production. The increase in net income was also made possible by a relatively smaller 38% increase of cost of revenue. Adaro Energy's operating income, not affected by non-recurring expenses, rose 78% to Rp2,719 billion. EBITDA increased 86% to Rp2,868 billion from Rp1,538 billion in 2007 and the EBITDA margin increased from 18% to 23%.

#### Summary of Nine Month 2008 Performance

	<b>9M08</b>	<b>9M07</b>	<b>% change</b>
<b>Production Volume (Mt)</b>	28,745	27,202	6%
<b>Sales Volume (Mt)</b>	30,942	28,393	9%
<b>Net Revenue (Bn IDR)</b>	12,386	8,415	47%
<b>Cost of Revenue (Bn IDR)</b>	9,237	6,715	38%
<b>Operating Income (Bn IDR)</b>	2,719	1,526	78%
<b>Net Income (Bn IDR)</b>	686	329	109%
<b>EBITDA (Bn IDR)</b>	2,868	1,538	86%
<b>Return On Invested Capital</b>	7.1%	3.0%	4%
<b>Total Assets (Bn IDR)</b>	31,569	14,807	113%
<b>Cash and Cash Equivalentents (Bn IDR)</b>	2,537	1,434	77%
<b>Total Interest Bearing Debt (Bn IDR)</b>	8,032	8,578	- 6%
<b>Cost of USD Bank Loans</b>	3.89% - 5.74%	5.09% - 16.9%	
<b>Stockholders' Equity (Bn IDR)</b>	14,071	352	39x
<b>Net Debt to Equity</b>	0.42	22.51	

Adaro Energy's President Director, Mr. Garibaldi Thohir said:

**“We are pleased with our performance in the first nine months of 2008. By hitting our production and sales targets and by keeping cost increases to a minimum we have boosted returns, increased margins and delivered significant value creation. We are poised and ready to increase our volumes next year. As well, our strong balance sheet, good cash position and strong cash flows leave us well positioned to manage the risks associated with this ongoing financial crisis.”**

### **Net Sales**

Due to continued strong demand, combined sales volumes, which include 1.2 million tonnes of third party coal trading, increased by 9% to 30.9 million tonnes. Despite seasonally difficult weather conditions at the beginning of the year, production volumes increased 6% to 28.7 million tonnes. Although high rains caused delays and an unusual demurrage cost at the beginning of the year, Adaro Energy's 9M08 output was not reduced by the unseasonably wet weather in South and East Kalimantan, which resulted in higher than average rainfall at the mining area. High rain fall hampered the production of other coal mining operations during the beginning of the year.

Due to increased average achieved selling prices and higher comparative volumes, during the first nine months of 2008, Adaro Energy's reviewed consolidated total revenues rose 47% to Rp12,386 billion or US\$1,340 million. Up until January 2008, Adaro Energy only had minority stakes in IBT and CTI. As such their results are not consolidated in the 9M07 consolidated performance figures. Adaro Energy remained on track to meet its targets for 2008.

Adaro Energy accounts for three business segments: Coal mining and Trading, Mining Services and Others. Compared to the same period in 2007, during 9M08, the combined revenues from coal mining and trading, which is substantially all from Adaro Energy, Adaro Indonesia and Coaltrade, rose 43% to US\$1,237 million (Rp11,436 billion), and accounted for 92% of Adaro Energy's total revenues. Adaro Indonesia generated coal revenues of US\$1,131 million (Rp10,457 billion), of which US\$181 million (Rp1,673 billion) were revenues from sales to Coaltrade, its sister company in Singapore. Therefore, after elimination for inter-company transactions, Adaro Indonesia's revenues amounted to US\$950 million (Rp8,783 billion). By conducting related as well as third party trading activities, Coaltrade's revenues were US\$272 million (Rp2,517 billion) during 9M08.

Mining services, which are conducted by the company's mining contactor SIS, generated revenues (after elimination of inter-company transactions) of Rp784 billion, a 78% increase, due to higher services fees and increased volumes.

Other revenues of Rp165 billion, resulted mostly from the activities of Adaro Energy's port facility and coal terminal operation, IBT.

Adaro Energy's combined average achieved selling price (ASP) increased due to higher demand and some supply constraints in the market for seaborne thermal coal.

## **Revenue Information Per Subsidiary**

### *Adaro Indonesia*

During the third quarter of 2008 Adaro Indonesia increased overburden removal by 26% to 46.32 million bank (in situ) cubic meters (bcm), and increased coal production 10% to 10.5M tonnes, resulting in a 6% increase in 9M08 coal production to 28.7M tonnes. Similar to production, sales volumes in the 3Q08 increased 14% over the same period last year to 10.9M tonnes, as the 9M08 sales figure rose 7% to 29.7M tonnes. In 3Q08, Adaro Indonesia produced coal at a rate of 42M tonnes per year, the bottom end of the production range targeted for 2009.

Revenues in both 3Q08 and 9M08 were above last year and above the respective targets. Sales revenues in 3Q08 increased 48% to US\$436 million (Rp4,027 billion), while in 9M08 sales revenues increased 32% to US\$1,131 million (Rp10,457 billion).

### *Coaltrade*

During 9M08 Coaltrade revenues were US\$272 million (Rp2,517 billion), a 10% increase compared to the same period last year. Coaltrade sold 6.2 million tonnes of coal in 9M08, of which 0.87 million tonnes was third party coal. In 2007, Coaltrade sold 7.4 million tonnes of coal.

### *IBT*

During the first nine months of 2008, IBT revenues decreased 29% to US\$29 million (Rp270 billion), which after elimination for interrelated transactions amounted to Rp95 billion. This drop in IBT's revenue has been more than offset by increased efficiencies achieved by Adaro Indonesia through loading more coal at the Taboneo anchorage.

### *SIS*

During 9M08, SIS revenues increased 28% to Rp1,266 billion (US\$137 million), which after elimination for interrelated transactions amounted to Rp784 billion (US\$85 million).

## **Cost of Revenue**

During the first nine months of 2008 Adaro Energy's cost of revenue increased 38% to Rp9,237 billion, due mostly to increased production volumes and higher mining costs per tonne.

### *Coal Mining and Trading*

The cost of coal mining and trading increased 31% to Rp8,309 billion. These costs include the excavation, hauling, crushing, barging, ship loading and marketing costs of Adaro Indonesia and a small amount of third party coal.

Mining costs increased 32% to Rp3,912 billion due to the 34% increase in overburden removal to 120 million bcm (bank cubic meters) and the 6% increase in coal production to 28.7m tonnes. Adaro Energy's main activity is coal mining, which is conducted by Adaro Indonesia at the Tutupan mine in South Kalimantan. Adaro Indonesia employs four mining contractors to carry out excavations from the mine as well as to haul the coal 75km along the company's privately-held sealed road to the Kelanis river facility. Mining costs account for the mining and hauling of

coal to Kelanis. Adaro's contractors are paid per tonne for the overburden they remove and the coal that they extract.

PT Pamapersada Nusantara ("PAMA"), owned by PT United Tractors Tbk, is responsible for nearly half of Adaro Indonesia's coal production volumes. PT Bukit Makmur Mandiri Utama ("BUMA") and the Adaro Energy's subsidiary PT Saptaindra Sejati ("SIS") are each responsible for 20% respectively. PT Rahman Abdijaya ("RAJ"), an affiliated party, conducts around 10% of the mining operations. Adaro has increased annual production every year since 1992. The keys to meeting annual production targets include the continuity and stability of services from the management team in Kalimantan, the technical capability of the established mining team, the continuous improvement programs held jointly by Adaro and its contractors and the long standing, stable and mutually beneficial partnerships with Adaro's contractors. The approach will help in achieving Adaro's production targets next year and the years beyond.

#### *Coal Processing*

At Kelanis, Adaro Indonesia crushes and loads the coal onto barges for transportation along the Barito river. The cost of crushing the coal at Kelanis is accounted for as coal processing, which in 9M08 increased 6% to Rp573 billion, inline with the increase in coal production.

#### *Total Production Costs*

As a consequence of higher mining costs, Adaro Energy's total production costs increased 28% to Rp4,486 billion.

#### *Freight and Handling*

From Kelanis coal is barged 240km down the Barito river for later loading onto vessels for export at the Taboneo anchorage or the port facility run by IBT. Domestic deliveries are barged directly to various domestic locations. These costs, known as freight and handling costs, increased 8% to Rp1,993 billion in line with higher coal production. Coal transportation from Kelanis is partly carried out by affiliated parties, such that 24% or Rp479 billion of the total cost was attributed to affiliated parties. This arrangement may help to ensure good prices and service from the non-affiliated parties. As part of the company's plans to further integrate and control the operations, in the future Adaro Energy may acquire some of these affiliated coal transportation companies.

In October 2008, Adaro Energy successfully completed a trial-run on the new channel that was dredged at the mouth of the Barito river, near Banjarmasin, South Kalimantan. A crucial step in Adaro Energy's efficiency program and overall expansion plans, the dredging is ahead of schedule, with full operations expected to commence in January 2009.

#### *Royalties to Government*

Royalties increased 47% in 9M08 to Rp928 billion due to higher coal revenues from Adaro Indonesia. According to the 1982 Coal Cooperation Agreement (CCA), the permit under which Adaro Indonesia operates, and the joint sales agreement, the company must pay a royalty of 13.5% of coal revenues after subtracting the cost of transporting the coal beyond the final processing facility currently located at the Kelanis river facility, as well as other agreed upon costs. Adaro's calculation of this net sales price is subject to audit by the Government.

Adaro's royalty payments are offset by the amount of Value Added Tax (VAT) that the company must pay on goods and services purchased by Adaro. Under the terms of the CCA, Adaro Indonesia pays a high income tax rate of 45% and is not subject to any other taxes or levies other than what has been agreed in the CCA. The CCA provides that if Adaro were to pay these taxes or levies, the Government will reimburse these payments throughout the duration of the mining operations. In 1984, the government introduced the VAT, and until 2000 Adaro Indonesia was able to offset the VAT it had to pay on good and services with the VAT it collected when selling coal, and for any VAT payments not offset, the government would reimburse Adaro. Starting from 2001 the government decreed that coal was no longer subject to VAT. As a consequence Adaro Indonesia was no longer able to offset its VAT payments and so began to offset the royalties owed to the government by the amount of VAT that was meant to have been reimbursed. Until September 30<sup>th</sup>, 2008 Adaro Indonesia has offset VAT reimbursements against royalty payments totaling US\$200 million or Rp1,848 billion.

#### *Purchase of Coal*

Adaro Energy's trading company, Coaltrade Services International trades coal purchased from third parties, provides coal blends and Envirocoal sourced directly from Adaro Indonesia. Coaltrade sold 6.2 million tonnes of coal in 9M08, of which 0.86 million tonnes was third party coal. In 2007, Coaltrade sold 7.4 million tonnes of coal of which 1.6 million tonnes was third party coal. Coal purchases increased 194% to Rp586 billion after Coaltrade was consolidated in January 2008, as well as due to increased volumes and higher prices.

#### *Amortization of Mining Properties*

The amortization of mining properties in 9M08 increased by 17 times to Rp101 billion. The huge increase is attributed mostly to the increase of the asset value of mining properties in relation to the acquisition of the subsidiary Adaro Indonesia, that was paid for by using a large portion of the proceeds from the July 16<sup>th</sup>, 2008 Initial Public Offering. Due to the large difference between the book value of the acquired company and the acquisition value, the asset value of Adaro Energy's mining properties increased to Rp10,196 billion. This amount is to be amortized using the unit-of-production method, which links the amount of amortization with future economic benefit, until the expected end of production.

#### *Mining Services*

Mining services increased 97% to Rp734 billion due mostly to higher costs for consumables, which increased 92% to Rp319 billion. Most of mining services are for consumables, which are mostly mining explosives. Related to the consolidation in 2008, employee costs increased 104% to Rp100 billion while repairs and maintenance increased 100% to Rp102 billion.

#### *Significant Suppliers*

The three significant suppliers were all third parties and each had transactions of more than 10% of total consolidated purchases, and together accounted for 25% of Adaro Energy's cost of revenues. The largest, PT Pamapersada Nusantara, is Adaro Indonesia's largest mining contractor. Transactions with PAMA decreased 18% to Rp1,157 billion. Transactions with PT Batuah Abadi Lines, which provides coal transportation services to certain port destinations, increased 25% to Rp682 billion, while transactions with PT Bukit Makmur Mandiri Utama,

which provides coal mining and transportation services within Adaro Indonesia's mine area, fell 13% to Rp464 billion. The decrease in 9M08 with PAMA and Bukit Makmur occurred as the 9M07 amounts included the fuel expenses. Adaro Energy, as a cost saving measure, and to ensure budgeted margins are achieved, began to better manage fuel prices in 2008 by procuring a substantial portion of the required fuel for the entire Adaro Energy group and contractors.

### **Gross Profit and Margin**

Adaro Energy's gross profit increased 85% to Rp3,148 billion and the gross margin increased from 20% to 25%.

### **Operating Expenses**

Adaro Energy's operating expenses increased 146% to Rp429 billion due to higher sales commissions and employee costs. Operating expenses accounted for 4% of the total combined cost of revenues and operating expenses, up from 2.5% in 9M07.

#### *Selling and Marketing*

Selling and marketing expenses increased 153% to Rp311 billion. Sales commissions increased 116% to Rp225 billion on increased volumes and prices. Other selling and marketing expenses increased 347% to Rp85 billion.

#### *General and Administration*

General and administration expenses increased 127% to Rp118 billion due to higher employee costs and other G&A expenses. Employee costs increased 136% to Rp59 billion while other G&A expenses increased 144% to Rp56 billion.

### **Operating Income and Margin**

Adaro Energy's operating income increased 78% to Rp2,719 billion and the operating margin increased from 18% to 22%.

### **Other Expenses**

Adaro Energy's Other Expenses increased 1.5% to Rp476 billion. A significant reduction in interest expense and finance charges due to the refinancing of existing borrowings at a lower interest rate was not enough to offset the significant jump in amortization of goodwill, nor offset the significant reduction in interest income, as income from loans to related parties were eliminated as the related parties were acquired by and consolidated to Adaro Energy following the IPO. Other income also included Rp20 billion of foreign exchange gain as a slightly stronger Rupiah reduced the value of the company's US dollar borrowings.

#### *Interest Expenses and Finance Charges*

In 9M08, Adaro Energy's interest expenses and finance charges decreased 51% to Rp452 billion. The main reason for the reduction is the refinancing of long term borrowings at a lower interest rate. In December 2007, Adaro Energy refinanced bank loans, a mezzanine facility and a corporate bond with an unsecured, 5 year, US\$750 million syndicated loan led by DBS Bank Ltd, SMBC, Standard Chartered Bank, MUFJ, and UOB (DBS Syndicated Loan). In March 2008, Adaro Energy locked in this low interest expense by swapping the USD-LIBOR portion of the syndicated term loan to a fixed rate, resulting in an interest rate below 4.5%. By the end of

2008, Adaro Energy will have US\$920 million of gross interest bearing debt (not including total lease payables for SIS of Rp818 billion). These include the US\$600 million remaining of the DBS Syndicated Loan, US\$80 million from a revolving short term loan facility provided by DBS, ANZ, SCB and UOB (DBS Syndicated Short term Loan), which incurs a similar charge as the DBS Syndicated Loan and US\$240 million drawn down from a 5 year, US\$300 million Senior Credit Facility (SIS Senior Credit Facility), which costs approximately 5.5%. For 2009, by approximating a cost of debt of 5%, without any further draw downs or new borrowings, Adaro Energy's interest expense would remain approximately US\$46 million.

Deferred finance charges represent costs that were incurred to obtain long-term borrowings. These include the bank loans and mezzanine facility that financed the leveraged buyout in June 2005 and subsequent refinancing. To lower interest expenses Adaro Energy issued a lower cost corporate bond in 2005 and together with other loans refinanced its borrowings in December 2005, December 2006 and March and December 2007. Associated with the December 2007 refinancing, which fully repaid the mezzanine facility and fully redeemed the corporate bond, the amortization of deferred finance charges decreased 88% to Rp26 billion.

#### *Interest Income*

Interest income fell 91% to Rp40 billion as interest income from loans to related parties fell 97.5% to Rp10 billion. Loans to parties fell as Adaro Energy completed internal acquisitions of related parties using the proceeds from the IPO. By consolidating these parties, Adaro Energy eliminated internal borrowings.

#### *Gain from Sales of Subsidiaries*

Prior to and following the IPO, Adaro Energy has been acquiring and disposing of entities under common control so as to simplify and consolidate its corporate structure. Due to these activities Adaro Energy realized a gain of Rp98 billion from the sale of subsidiaries.

#### *Gain from Sale of Available-For-Sale Investments*

In December 2007, Adaro Energy appointed PT Recapital Asset Management to manage a fund of Rp1,728 billion by investing in mutual funds, bonds, etc. In 9M08, Adaro Energy and its subsidiaries made partial redemptions of Rp653 billion, realizing a gain amounting to Rp41 billion.

#### *Amortization of Goodwill*

The amortization of goodwill increased 81 times to Rp242 billion. The increase is linked to the increase of goodwill on the balance sheet to Rp8,519 billion from Rp12 billion. Adaro Energy's goodwill increased to reflect the acquisition activities carried out by Adaro Energy using the proceeds from the IPO, and the large differences between the acquisition price and the book value of the various subsidiaries which were acquired.

#### **Income Tax Expense**

In 9M08, Adaro Energy's income tax expense increased 100% to Rp1,044 billion in line with higher sales prices and volumes. Adaro Energy pays annual income tax at a rate of 30%. However, Adaro Indonesia, which conducts the mining and holds the concession, must, under the terms of the CCA, pay annual income tax at a rate of 45%. Adaro Energy's consolidated

effective tax rate in 9M08 was 46.5% due to some non-deductible items, such as the amortization of goodwill as well as losses reported by the subsidiaries SIS and MSW.

### **Pre-Acquisition Income**

Pre-acquisition income represents incomes attributable to the minority shareholders of subsidiaries prior to the acquisition of these subsidiaries by Adaro Energy with the proceeds of the IPO on July 16<sup>th</sup>, 2008. As such Adaro Energy's net income is reduced by the share of subsidiaries' incomes that Adaro Energy did not own, amounting to Rp163 billion.

### **Net Income**

Adaro Energy's net income increased 109% to Rp686 billion and the net margin increased from 4% to 5.5%.

Earnings per Share (EPS) was Rp29 for the first nine months of 2008. For 9M07, EPS was Rp229, however, while taking into the 10,000:1 stock split effective December 2007, this is prior to the increase capital stock made during December 2007, January 2008 and during the IPO.

To get an idea of Adaro Energy's earnings which are inherent to the activities of the business it is useful to look at net income after adding back the Rp163 billion of pre-acquisition income and the Rp356 billion one time extraordinary item related to the unusual wet weather conditions in the beginning of the year which caused high demurrage costs, and reducing for the Rp41 billion gain from the partial redemption of an available for sale investments and the Rp98 billion from the sale of subsidiaries. This results in income of Rp1,066 billion, or Rp33 per share.

### **EBITDA**

Adaro Energy's EBITDA increased 86% to Rp2,868 billion from Rp1,538 billion in 2007. The EBITDA margin increased from 18% to 23%.

### **Returns**

Returns on Assets held steady at 3% while Return on Equity decreased from 125% to 7%. The reduction of ROE is mainly due to significant increase in equity from the IPO.

	<b>9M08</b>	<b>9M07</b>	<b>% Change</b>
<b>ROA</b>	2.9%	3.0%	0
<b>ROE</b>	6.5%	124.8%	-118%
<b>ROIC</b>	7.1%	3.0%	4%

### **Cost Reduction**

One of Adaro Energy's key drives to create value is to operate as efficiently as possible. Especially with the current financial crisis and slowing global economy, Adaro Energy will be particularly focused on cost reduction. Recent initiatives taken to reduce costs include the dredging of a new channel at the mouth of the Barito river, which will not only increase the capacity of the channel, but also reduce costs by reducing travel time from 3 hours to 1.5 hours and by only having to use one tug instead of two to pull the barges through the channel. Another initiative is to move a large proportion all of Adaro Indonesia's ship loading activities to the



Taboneo open anchorage transshipment area, located at the mouth of the Barito river. Currently around 8 million tonnes are loaded to customer vessels from the port facility run by IBT at Pulau Laut, which is located further away from the Barito river. Another cost saving measure, and to ensure budgeted margins are achieved, is to manage fuel prices by procuring fuel for the entire Adaro Energy group and contractors. Adaro benefits from lower prices by ordering large quantities and gains greater control over fuel efficiency. Purchasing fuel forward acts as a hedge, to ensure budgeted margins are achieved, by locking in a portion of fuel requirements.

## **Balance Sheet**

### *Total Assets*

At the end of 9M08, Adaro Energy's total assets had increased 113% to Rp31,569 billion. The increase is due to the Rp2,474 billion, or 55% increase of current assets to Rp6,988 billion due mostly to increased cash and cash equivalents and the addition of a Rp1,156 billion available-for-sale investment. The largest increase was the Rp14,288 billion, or 139% increase of non-current assets to Rp24,582 billion, due to increased fixed assets and acquisitions of subsidiaries using the IPO proceeds.

### Current Assets

#### Cash and Cash Equivalents

Adaro Energy's cash and cash equivalents increased 77% to Rp2,536 billion, or US\$270 million, due to the proceeds of the IPO as well as from operations. Of the Rp1,116 billion of cash in banks, the largest portion or Rp534 billion was held by PT Bank Sumitomo Mitsui Indonesia and Sumitomo Mitsui Banking Corp, of which Rp340 billion was held in US Dollars and Rp194 billion was held in Rupiah. The second largest portion, Rp501 billion, was held by PT Bank DBS Indonesia, of which Rp458 billion was held in US Dollars and Rp43 billion was held in Rupiah. Of the cash held in banks, 76% was US Dollars.

Adaro Energy also held a total of Rp1,269 billion of on call deposits of which Rp1,107 billion was held in US Dollars, all with the Sumitomo Mitsui Banking Corporation. Cash in banks and on call deposits accounted for 94% of cash and cash equivalents. US Dollars accounted for Rp1,952 or 77% of cash and cash equivalents.

On September 30, 2008, Adaro Energy's on call and time deposits earned 8.8% - 12% for Rupiah and 3.6% - 3.85% for US Dollars, up from 2007 when Rupiah deposits earned 4.5%-8% and US Dollars deposits earned 2.5%-4.3%.

#### Available-for-Sale Investments

In December 2007, Adaro Energy appointed PT Recapital Asset Management to manage a fund of Rp1,728 billion by investing in mutual funds, bonds, shares, etc. During 9M08, Adaro Energy made partial redemptions amounting to Rp652 billion and realized a gain of Rp41 billion. As of September 30<sup>th</sup>, 2008, the marked to market value of the investment was Rp1,156 billion.

#### Trade Receivables

Adaro Energy's trade receivables with third parties increased 12% to Rp1,399 billion. Most of the receivables were with international and domestic power companies. Trade receivables with related parties decreased 15% to Rp254 billion and PT Berau Coal remained the largest, at

Rp219 billion. None of the total trade receivables of Rp1,653 billion were considered to be doubtful and substantially all, or Rp1,597 billion, were due within 30 days. Of the total trade receivables Rp1,218 billion, or 74%, were owed in US Dollars.

#### Advances and Prepayments

Advances and prepayments increased 358% to Rp447 billion, with Rp415 billion for advances to suppliers accounting for the largest portion. Advances were made to suppliers of fuel and equipment.

#### Inventories

Inventories increased 46% to Rp260 billion, due to increased quantities of tools and supplies for the mining contractor and subsidiary SIS, which increased over five times to Rp156 billion. Meanwhile, coal inventory decreased 56% to Rp53 billion. With a coal inventory turnover of just 2 days, Adaro Energy intends to increase coal inventories to reduce the likelihood of ship loading disruptions and associated demurrage costs, due to no stockpiles of coal.

#### Prepaid Taxes

Prepaid tax increased 83% to Rp269 billion due to increases in prepayments, related to income tax article 23, to Rp121 billion. At the subsidiary level, prepayment of value added tax increased 23% to Rp100 billion.

#### Recoverable Tax

On September 30<sup>th</sup>, 2008 Adaro Energy's recoverable tax had increased 203% to Rp582 billion. This amount included Rp345 billion of Value Added Tax (VAT) that had yet to be offset against royalties owed to the Government of Indonesia. Adaro Indonesia is not subject, under the terms of its CCA, to any other taxes or levies other than what has been agreed in the CCA. Under the terms of the CCA, Adaro Indonesia pays a high income tax rate of 45%. In 1984, the government introduced the VAT, and until 2000 Adaro Indonesia was able to offset the VAT it had to pay on goods and services with the VAT it collected when selling coal. When the amount could not be entirely offset, the government reimbursed the remainder. Starting from 2001 the government decreed that coal was no longer subject to VAT. As such, since 2001, the company has reduced the amount of royalties by the amount of reimbursable VAT. The company's policy has been to offset an amount less than the total value of the VAT that must be reimbursed. The remainder of VAT which was not offset against royalties has grown to Rp345 billion. Management believes Adaro can recover their VAT in this manner and expects the outstanding balance will be recovered in full.

#### **Liquidity**

Adaro Energy's liquidity improved in 9M08, with the cash ratio increasing from 0.46 times at the end of 9M07 to 0.62 times at the end of 9M08. The current ratio also improved from 0.93 times to 1.17 times. Inventory turn over, of all inventories, not just of coal, increased to 8 days from 7 days at the end of 9M07.

Given the difficult global financial conditions Adaro Energy continues to closely monitor its liquidity and cash levels. At present Adaro Energy feels confident of being able to continue to

easily meet its short term cash requirements, from cash holdings, future cash flows and existing and new loan facilities.

### Non-Current Assets

#### Fixed Assets

Adaro Energy's fixed assets increased 85% to Rp4,922 billion by the end of 9M08. The largest increase during the first nine months of 2008 was the Rp575 billion addition for land compensation resolving an overlapping condition, when Adaro Energy paid US\$60 million for approximately 7,000 hectares of land near the mining concession for the most part to better access and so develop the Wara coal deposit. The largest change compared to the end of 9M07 was Rp1,461 billion for additional machinery, operational equipment and vehicles related to mining contractor and subsidiary SIS, of which Rp295 billion was made in 9M08. Compared to 9M07, Rp206 billion of additional infrastructure is related to the consolidation of IBT and during 9M08 Adaro Energy spent Rp52 billion on additional capacity at the Kelanis crushing and handling facility.

#### Mining Properties

Due to the large differences during the IPO-funded acquisition of subsidiaries between the book value of the acquired company and the acquisition value, the asset value of Adaro Energy's mining properties increased 87 times to Rp10,196 billion. This amount is to be amortized using the unit-of-production method, which links the amount of amortization with future economic benefit, until the expected end of production.

#### Goodwill

Similar to the acquisition of mining rights, Adaro Energy's goodwill increased to reflect the acquisition activities carried out by Adaro Energy using the proceeds from the IPO, and the large differences between the acquisition price and the book value of the various subsidiaries which were acquired. Goodwill is amortized using the straight line method over a period of 20 years. The value of goodwill increased to Rp8,519 billion from Rp12 billion.

#### Loans to Related Parties

Loans to related parties decreased 92% to Rp505 billion after the company consolidated the related parties upon completion of the IPO-funded acquisitions of subsidiaries and such loans were eliminated upon consolidation.

#### *Total Liabilities*

At the end of 9M08, Adaro Energy's total liabilities had increased Rp3,426 billion, or 24%, to Rp17,414 billion. The increase is due to the Rp1,118 billion, or 23%, increase of current liabilities to Rp5,947 billion due mostly to doubling short-term bank loans, increased third party trade payables and higher accrued expenses. The largest increase was the Rp2,308 billion, or 25% increase of non-current liabilities to Rp11,467 billion, due to increased lease payables but mostly due to a substantial increase of deferred tax liabilities.

## Current Liabilities

### Short-term Borrowings

Adaro Energy's short-term borrowings, which were all denominated in US Dollars, increased 69% to Rp750 billion. Short-term bank loans increased 104% to Rp750 billion as Adaro took on US\$80 million of new debt to finance working capital. As well, two short-term bank loans from 9M07 between Adaro Energy's subsidiary SIS and PT Bank Ekspor Indonesia and PT Bank Niaga, were refinanced in August 2008 with the US\$300 million SIS Senior Credit Facility, and a small loan with PT Bank DBS Indonesia was repaid April 2008. The Rp750 billion short-term syndicated loan was provided in February 2008 by several banks with DBS Bank Ltd acting as the facility agent (DBS Syndicated Short term Loan). In 2008, Adaro made a full drawdown on this facility, which expires February 2009 and has similar terms as the long-term syndicated bank loan led by DBS Bank Ltd. Adaro Energy may seek to refinance the revolving loan facility prior to February 2009. On September 30<sup>th</sup>, 2008 the interest rates on Adaro Energy's short-term bank loans were 3.7% - 5.0% down from the 7.5%-8.69% of September 30<sup>th</sup>, 2007.

### Trade Payables

Adaro Energy's third party trade payables increased 30% to Rp1,985 billion. Related party trade payables increased 68% to Rp266 billion. Substantially all of the payables were due in 30 days, 83% were in US Dollars and 16% were in Rupiah. Most of the trade payables arose from purchases of spare parts, maintenance services, purchase of coal and mining services. The largest third party payable of Rp669 billion was with Adaro Indonesia's largest mining contractor, PAMA. The largest related party payable of Rp135 billion was with Orchard Maritime Logistics Pte Ltd for barging services, followed by Rp72 billion to PT Rahman Abdijaya, one of Adaro Indonesia's four mining contractors. Most of the Rupiah denominated payables were for fuel purchases and a small amount for mining and barging services.

### Taxes Payable

Adaro Energy's taxes payable decreased by 21% to Rp907 billion as corporate income tax payable at the subsidiary level decreased 20% to Rp873 billion.

### Accrued Expenses

At the end of 9M08, Adaro Energy's accrued expenses had increased 99% to Rp656 billion. The largest increase was for freight, which increased 21 times to Rp277 billion, followed by other accrued expenses which increased 134% to Rp253 billion. Accrued expenses included a new item, the share issuance cost of Rp100 billion. Accrued interest meanwhile decreased 87% to Rp27 billion.

### Current Maturities of Long-Term Borrowings

Due mostly to a 124% increase of lease payables to Rp258 billion and a 24% increase of bank loans, current maturities of long-term borrowings, due within one year, increased 42% to Rp906 billion.

### Royalties Payable

Government royalties payable, net of VAT to be reimbursed, decreased 20% to Rp462 billion. The decrease is due to adjustments made following a government audit of Adaro's royalties which prompted Adaro to pay some of the royalties owed. Adaro Indonesia calculates royalties

of 13.5% of coal revenues after subtracting the cost of transporting the coal beyond the final processing facility currently located at the Kelanis river facility, as well as other agreed upon costs. The Kelanis crushing and barge loading facility is located where the haul road from the mine meets the Barito river. Since 1999, Adaro has adopted a sales-based cash royalty method in accordance with the joint sales agreement, which satisfies the Government's entitlement of 13.5% of production.

#### Non-Current Liabilities

##### Long-Term Borrowings Net of Current Maturities

Since the leveraged buyout of 2005, the level of borrowings attributed to what is today Adaro Energy have consistently and regularly been refinanced and repaid to reduce interest rates and the total amount of outstanding loans. This policy of reducing gearing and borrowing costs will continue.

At the end of 9M08, Adaro Energy had reduced long-term borrowing net of current maturities by Rp325 billion, or 4% to Rp7,944 billion. Not including lease payables Adaro Energy's interest bearing long term debt decreased 8% to Rp7,384 billion. Although not a significant reduction in total long-term borrowings, two new facilities since the end of 9M07, the December 2007 syndicated loan, led by DBS Bank Ltd and the August 2008 Senior Credit Facility provided by a syndicate of banks, served to reduce the cost of debt. Substantially all denominated in US Dollars, the interest rates on September 30<sup>th</sup>, 2008 on the US Dollar long-term bank loans decreased from 5.09% - 16.9% to 3.89% - 5.74%.

The non-current portion of Adaro Energy's lease payables increased 163% to Rp560 billion, due to a 193% increase in lease payables to PT Komatsu Astra Finance for mining equipment and a new lease for Rp23 billion with PT Caterpillar Finance Indonesia for mining equipment. The future minimum payments of the non-current lease payables are not later than 5 years.

In December 2007, Adaro Energy subsidiaries Adaro Indonesia and Coaltrade borrowed US\$750 million from a syndicate of international banks (SMBC, Standard Chartered Bank, MUFJ, and UOB) led by DBS Bank Ltd with a maturity date of December 2012, US\$550 million was borrowed by Adaro Indonesia and US\$200 was borrowed by Coaltrade (DBS Syndicated Loan). Consisting of a US\$650 million term loan facility and a US\$100 million revolving loan facility, the borrowings, were used to refinance the US\$239 million (Rp2,183 billion) outstanding loan from a mezzanine credit facility led by Goldman Sachs Credit Partners, the US\$144 million (Rp1,315 billion) outstanding loan from a syndicate of banks, and the Rp3,631 billion outstanding amount from the 5-year, Adaro Finance BV. US\$400 million 144-A Notes, with maturity date of December 7, 2010. The cost of the DBS Syndicated Loan was much lower than the combined interest expense of the bank loans (USD-LIBOR + 2.00%), mezzanine facility (11.25%) and the Notes (8.5%). For the early settlement of the abovementioned syndicated mezzanine facility, syndicated loan and Notes, Adaro Energy paid finance charges of Rp548 billion. As well as lowering borrowing costs, the DBS Syndicated Loan further improved Adaro Energy's financial structure as it is unsecured.

Of the US\$750 million DBS Syndicated Loan, by the end of 9M08, Adaro Energy had an outstanding balance of US\$612.5 million, which will be further reduced to US\$600 million by

the end of 2008. Of the US\$150 million repaid in 2008, US\$100 million was repaid from the IPO proceeds. The term loan facility is payable quarterly with US\$50 million to be paid in each of 2009 and 2010, US\$160 million in 2011 and US\$240 million in 2012. The US\$100 million revolving loan facility is due in December 2010 but can be extended to December 2012. In March 2008, Adaro Energy swapped the USD-LIBOR portion of the term loan to a fixed rate, resulting in a low cost fixed interest rate below 4.50%.

In August 2008, Adaro Energy's subsidiary SIS entered into a 5 year, Senior Credit Facility for US\$300 million provided by a syndicate of banks (SIS Senior Credit Facility). The facility was used to refinance US\$240 million owed in higher cost loan facilities with six domestic banks and two other lenders. The loan's collateral includes all trade receivables owned by SIS and fixed assets owned by SIS.

#### Deferred Tax Liabilities

At the end of 9M08, Adaro Energy's deferred tax liabilities had increased 541% to Rp3,034 billion. The increase is attributed to the temporary differences arising between the tax bases of assets in relation to the acquisition of subsidiaries and their values for financial reporting purposes. Due to the difference in the acquisition price and the book value of the subsidiary, Adaro Energy booked the difference as mining properties which creates a timing difference between the tax bases asset and financial reporting asset. The amortization of mining rights is hence not tax deductible, and the associated deferred tax benefit needs to be recognized (reduction of deferred tax liabilities) so that the effective tax rate (under financial reporting bases) will not materially differ with the actual tax rate.

#### Accrued Stripping Costs

Adaro Energy's accrued stripping costs rose 15% to Rp440 billion, in line with an increase in the actual stripping ratio. In 9M08, Adaro Indonesia increased overburden removal by 34% to 120 million bank (in situ) cubic meters (bcm). Adaro Indonesia's strip ratio, which is measured as bcm of overburden per tonne of coal in situ, increased in 9M08 as planned, as Adaro began to excavate from deeper areas of the pit. The planned stripping ratio, budgeted at 4.25, remained well below the average for Indonesian coal mines. However the actual average stripping ratio increased from 3.28 in 9M07 to 4.17 in 9M08, therefore increasing accrued stripping costs.

As per common mining industry practice, Adaro Energy uses annual planned stripping ratios in recognizing production costs. As the actual stripping ratios in 9M07 and 9M08 were less than the planned stripping ratio, the differences were recorded in the balance sheet as accrued stripping costs. This accounting treatment reduces volatility in Adaro's results of operations.

#### *Total Stockholders' Equity*

By the end of 9M08 Adaro Energy's total equity had increased 40 times to Rp14 trillion. Adaro Energy publicly listed its shares on the Indonesian stock exchange on July 16<sup>th</sup>, 2008, at a price of Rp1,100 per share, raising approximately Rp12 trillion or US\$1.3 billion, which was used mostly for the acquisitions of subsidiaries and US\$100 million for debt reduction. At the end of September 30<sup>th</sup>, 2008, Adaro Energy has authorized share capital of 80 billion shares, up from 300,000 shares at the end of 9M07. After the IPO, the total of issued and fully paid shares increased to 32 billion shares with a par value of Rp100 from 143,286 shares with a par value of

Rp1 million at the end of 9M07. As such the authorized share capital increased 22 times to Rp3,199 billion. Additional paid in capital, or the excess of IPO proceeds over the par value less the estimated share issuance costs of Rp505 billion amounted to Rp10,634 billion.

#### Difference in Value from Restructuring Transactions of Entities Under Common Control

Similar to the accounting for goodwill and mining properties, which increased substantially due to the IPO-funded acquisitions of subsidiaries, whereby the difference of the acquisition price and the book value is accounted for as goodwill or mining properties, where there was such a difference in value when restructuring entities under common control, that difference is accounted for as an increase or a decrease in equity. Due to this accounting treatment, equity was reduced by Rp276 billion at the end of 9M08, compared to an increase of Rp360 billion at the end of 9M07.

#### **Financial Structure**

Adaro Energy is focused on debt reduction and on preparing the balance sheet for when the company will be ready to make the next debt-financed growth investment. Since the highly leveraged acquisition of what has become Adaro Energy, via a leveraged buyout, in 2005, the company has regularly and successfully refinanced to reduce the principal, reduce interest rates and remove collateral obligations of interest bearing borrowings. As shown in the table below, Adaro Energy's gearing was at a low-moderate level by the end of 9M08.

As the company is currently in cash preservation mode, and until the full impact of the current financial crisis and subsequent recovery can be better assessed, the financial aspects of Adaro Energy's expansion plans have been put on hold.

Adaro Energy will continue to reduce its debt as well as ensure that existing and new loan facilities will be available when and if the company requires them.

	<b>9M08</b>	<b>9M07</b>
<b>Net Debt to Ebitda</b>	1.37x	3.86x
<b>Net Debt to Equity</b>	0.42x	22.51x

#### **Cash Flows**

##### *Cash Flows from Ordinary Operating Activities*

Adaro Energy's cash flows from ordinary operating activities (which do not include a Rp647 billion payment for unusual demurrage, which is accounted for as an extraordinary item), decreased 31% to Rp1,447 billion as payments to suppliers outpaced the increase in customer receipts. Receipts from customers increased 47% to Rp12,301 billion in line with higher achieved selling prices and increased sales volumes. However, due to increased mining services fees, fuel and equipment costs, payments to suppliers increased 55% to Rp8,051 billion. In line with a larger work force, which increased 40% to 3,947 employees (mostly employed by Adaro Energy's mining contractor SIS), payments to employees increased 97% to Rp342 billion. Due to the consolidation of subsidiaries and the elimination of loans to subsidiaries, receipts of interest income decreased significantly to Rp31 billion. In line with higher sales revenue (net of costs of transporting/marketing coal beyond the Kelanis river facility), payments of royalties,

net of VAT to be reimbursed, increased 58% to Rp1,073 billion. Payments of income taxes increased 220% to Rp864 billion, due to increased income.

Adaro Energy made a payment of Rp647 billion for demurrage, which are costs associated with vessels that are delayed while waiting to be loaded with coal. This demurrage was extraordinary given the unusual severe weather conditions in the first quarter of 2008 that caused the demurrage and in the unusually high charges. As such this demurrage cost is accounted for as an extraordinary item.

#### *Cash Flows Used in Investing Activities*

Net cash flows used in investing activities surged 1,115% to Rp10,787 billion due to payments made for the acquisition of subsidiaries. Adaro Energy's made payments for fixed assets in the first nine months of 2008 amounting to Rp1,092 billion, a 182% increase over 9M07. The payments were for land compensation resolving an overlapping condition near the mining concession in order, for the most part, to better access and so develop the Wara coal deposit, for machinery, operational equipment and vehicles and for new crushing equipment at the Kelanis crushing and barge loading facility. During 2008, Adaro Energy received proceeds of Rp694 billion from the sale of available-for-sale investments. Adaro Energy made partial redemptions of Rp652 billion on an investment fund, which realized a gain of Rp41 billion. Due to the consolidation of subsidiaries, receipts from loans to related parties dropped 91% to Rp46 billion. Due to the IPO-funded acquisition of subsidiaries, Adaro Energy made payments of Rp346 billion for the purchase of additional interest in subsidiaries and had net cash outflow of Rp9,941 billion for the acquisition of subsidiaries.

#### *Cash Flows from Financing Activities*

In 9M08, net cash flows from financing activities increased to Rp11,685 billion from net cash used in financing activities of Rp552 billion during 9M07. The increase is attributed to the Rp11,848 billion (US\$1.3 billion), net of share issuance cost, raised during the IPO. Receipts from third parties loans increased 50% to Rp245 billion. All of these third parties loans were repaid as reflected in repayments of third parties loans, which increased 171% to Rp415 billion. Receipts from bank loans increased 260% to Rp3,467 billion as Adaro Energy's subsidiary SIS drew US\$240 million in August 2008 from a US\$300 million SIS Senior Credit Facility, mostly to refinance existing debt. The Rp3,467 billion also included the US\$80 million DBS Syndicated Short term Loan withdrawn by Adaro Energy for its working capital. Payments of bank loans increased 139% to Rp3,308 billion as Adaro Energy fully repaid existing debt held by SIS in the amount of US\$208 million, as well as scheduled repayments amounting to US\$37.5 million. Adaro Energy also used US\$100 million of the IPO proceeds to repay a portion of outstanding bank loans.

#### **Capital Expenditure and Free Cash Flows**

Due to increased EBITDA from higher achieved selling prices and increased sales volumes, Adaro Energy remained free cash flow positive in 9M08, despite a substantial increase in tax payments and capital expenditures. In 9M08, Adaro's capital expenditures increased 183% to Rp1,091 billion for, amongst others, the US\$60 million or Rp575 billion for land compensation resolving and overlapping condition to allow access and for the most part to enable the development of the Wara pit, the Rp295 billion of additional machinery, operational equipment



and vehicles for mining contractor and subsidiary SIS and the Rp52 billion in additions for the Kelanis crushing and handling facility. Despite the 86% increase in EBITDA to Rp2,868 billion, due to the increase in capital expenditures, increased tax payments and changes in working capital, Adaro Energy's free cash flow decreased 59% to Rp396 billion.

	9M08	9M07	% Change
<b>EBITDA</b>	2,868,347	1,538,368	86%
<b>Tax – current</b>	(1,100,583)	(591,625)	86%
<b>Changes in Working Capital (Uses)/Sources</b>	(279,398)	401,987	-170%
<b>Capital Expenditures</b>	(1,091,916)	(385,920)	183%
<b>Free Cash Flow</b>	396,450	962,809	-59%

### Subsidiary Information

*Subsidiary Performance (in millions of Rupiah, without elimination for inter-company transactions)*

	Adaro	IBT	CTI	SIS	MSW
<b>Revenue</b>	10,456,876	269,643	2,516,696	1,266,433	-
<b>Cost of Revenue</b>	(8,506,564)	(178,561)	(2,137,124)	(1,184,161)	-
<b>Gross Profit</b>	1,950,313	91,082	389,116	82,272	-
<b>Operating Income (Loss)</b>	1,688,147	91,082	306,025	(9,723)	(4,011)
<b>Net Income (Loss)</b>	962,260	72,693	273,824	(116,675)	(4,953)
<b>Total Assets</b>	11,724,923	1,649,701	2,217,590	4,226,117	228,390
<b>Interest bearing debt</b>	4,972,413	232,986	1,528,416	3,068,339	
<b>Capital Expenditures</b>	742,611	8,225	-	878,977	47,787

*Key Adaro Energy Subsidiaries (100% owned by Adaro Energy, unless otherwise indicated):*

1. PT Adaro Indonesia (“AI”): coal mining
2. PT Saptaindra Sejati (“SIS”): mining contractor (85.92%)
3. Coaltrade Services International Pte Ltd (“Coaltrade” or “CTI”): coal trading and marketing agents
4. PT Indonesia Bulk Terminal (“IBT”): coal terminal operation, port facilities
5. PT Makmur Sejahtera Wisesa (“MSW”): mine mouth power plant (99.59%)
6. PT Sarana Daya Mandiri (“SDM”): water toll and dredging of the Barito river delta (51%)

## Company Information

Adaro Energy's Vision: To be the largest and most efficient integrated coal mining and energy company in Southeast Asia.

Adaro Energy is currently Indonesia's second largest thermal coal producer, operates the largest single coal mine in Indonesia, and is a significant supplier to the global seaborne thermal coal market. The company is vertically integrated either directly or indirectly controlling all aspects of its business from exploration through to marketing. With a present capacity of approximately 40Mt per year, the company is executing plans to double production capacity to 80Mt per year. The company has approximately 2.8 billion tonnes of coal reserves and resources and is integrated from exploration through to marketing.

The company's subsidiary, PT Adaro Indonesia commenced mining in 1992 from a coal resource area in the Tanjung district of Indonesia's South Kalimantan Province. Adaro operates under a first generation Coal Cooperation Agreement, or "CCA", with the Government of Indonesia, which is valid until 2022 with rights to extend by mutual consent.

### Shareholders:

Name	% Held
PT Saratoga Investama Sedaya	14.93%
PT Triputra Investindo Arya	13.34%
PT Persada Capital Investama	11.01%
Garibaldi Thohir (President Director)	7.80%
PT Trinugraha Thohir	7.80%
Edwin Soeryadjaya (President Commissioner)	4.30%
Theodore Permadi Rachmat (Vice President Commissioner)	2.27%
Sandiaga Salahuddin Uno (Director)	2.07%
Ir. Subianto (Commissioner)	1.30%
Public	35.18%

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